VASILY STRELA

The Global Head of FICC Quantitative Strategies, RBC Capital Markets, talks about market developments, regulation and technology.

What is your role at RBC Capital Markets?

As the Global Head of FICC Quantitative Strategies at RBC Capital Markets, I am responsible for running the Fixed Income (rates, credit, muni, FX, mortgages) & Commodities quantitative teams. My team provides quant support to the business, which involves looking at new ways to enhance and adapt our models to current market conditions i.e. new algorithms and how to apply them to the business.

Over the course of the past 12 months, what do you consider to be the most significant market developments?

In terms of market developments, the start of the Secured Overnight Financing Rate (SOFR) index in mid-2018 has the potential to be a game changer as it influences all product types and may create new trading patterns. [SOFR is a measure of the cost of borrowing cash overnight collateralised by treasury securities]. This new market standard is in its infancy, but I do think it has potential to disrupt. SOFR is widely designed to replace the London Interbank Offered Rate (LIBOR). The market is pretty nervous, so I do expect that there will be some important developments which will create new discount indices and will require significant adjustments to models.

As for technology, we are living in very interesting times. Technology outside of banks has advanced greatly. Banks are slower to adopt the latest developments. The FinTech community does not currently have enough expertise to enter the institutional market properly, so what will happen in the coming years will be a merging of new technology and the know-how from banks. This will actually be a huge market change. In the near future, banks will have no choice but to adopt new technology as old technology is becoming too pricey and difficult to manage. However, it is not an easy choice because you cannot change systems and processes overnight. I think there will be a lot of hybrid activity in this space involving FinTech and institutional technology.

Lower costs is one of the key benefits of adopting new, more efficient technology. It also makes the industry more competitive. People are already talking about FinTech because they understand that it is fast approaching and can be a substantial competitive advantage, although I have not seen any significant players embrace new technology so far. Going forward, systems as well as processes will become more consolidated across the industry. I do not believe owning particular sets of processes or models is a competitive advantage anymore because everyone is doing the same thing. What I expect is the merging of technology/FinTech and institutional finance.

Big data is a huge talking point and we are investing time and resources in this area. It is a reasonably young field of expertise and a lot of activity goes on, so we are investing to try to be as proactive as possible from a quant and tech perspective. This involves consolidating our data sets, making them more accessible and efficient and applying quant know-how.

Brexit is another contentious talking point. After a knee jerk reaction, I do not think it will have a drastic impact on the industry. Short-term, it creates volatility in the market because of uncertainty, but long-term I think it will not change things too much.

How is the regulatory landscape impacting the markets you operate in?

Regulation has certainly been a big driver of quant-related activity over the past 10 years since the crisis. It has stabilised lately as a lot of work has been done, people are less nervous and are now in the mode of implementing.

FRTB is a big task for us to fulfil, so we have been expanding resources on this. It is clear what we need to do, but it is more of a technology question – how to make the technology efficient enough that it doesn't cost too much, both for implementation and running cost. Technology is one of the hurdles when it comes to complying with new regulations and, as a result, regulation drives a lot of technology development. The delay in FRTB and regulation has alleviated the pressure on IT resources, but I do not expect key regulation, such as CCAR and FRTB, to be rolled back for large institutions. Regulation will always be an industry challenge. However, not to the same degree the industry experienced five years ago.

Vasily Strela, Global Head of FICC Quantitative Strategies at RBC Capital Markets

Looking ahead, what developments in quantitative finance do you anticipate and how do you ensure you are prepared to address the developments?

The biggest developments in the quant space include big data and the convergence of technology across the industry. Quant finance is heavily connected to technology more so than ever before. This is because the market has become more complex, more automatic and the state of technology allows us to carry out more complicated quant work.

AI and robotics also helps increase the value of quant finance. The more robotics, the more quants will be needed to create the new technology and to effectively operate it once it has been created. New technology brings the desire and necessity to build more, with older task being automated. I am quite bullish on the outlook for quants. Robotics and AI are complimentary to quant finance and I am optimistic about technology and quants.

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