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Capitolis launches groundbreaking novation service in foreign exchange

*Partnership with leading institutions including Citi, HSBC, BlueCrest
and Brevan Howard*

NEW YORK, LONDON AND TEL-AVIV - 23 May, 2018 - Capitolis, the pioneering technology provider for the capital markets, announced today that it has launched a groundbreaking novation service in foreign exchange (FX). Citi, HSBC, BlueCrest and Brevan Howard, among many other market participants, have collaborated with Capitolis on this service, which is the first of its kind in FX.

Capitolis Novation automates the currently manual workflow in both FX prime broking and bilateral trading, thus providing capital efficiencies for the FX market. The service helps mitigate against costs and inefficiencies linked to the manual process of novation that banks currently employ to meet their regulatory capital requirements as well as managing client credit capacity.

With this service, Capitolis automates the novation process for all market participants, including prime brokers, executing banks, hedge funds and real money managers, for all FX instruments including options, swaps, forwards and Non-Deliverable Forwards (NDFs). The solution is currently being tested and is expected to go live in the next few weeks.

In March 2018, the company [announced](#) that it had secured funding from Sequoia Capital and Index Ventures in a seed and Series A round in which it raised \$29 million. Capitolis was founded by ex-ICAP (now NEX Group) executive Gil Mandelzis, ex-Thomson Reuters CEO Tom Glocer and Igor Teleshevksy, formerly of Traiana.

Gil Mandelzis, CEO of Capitolis said: “Over the past few months we’ve been working with major market participants on developing an industry solution for novations. We are grateful to the strong support our solution has received from prime brokers, executing banks and leading buy side firms. We are looking forward to going live with the solution in the next few weeks and will roll out significant further functionality throughout this year.”



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Sanjay Madgavkar, Global Head of FX Prime Brokerage at Citi, said: “Capitolis is focused on innovative ideas which will help prime brokers and their clients. We are delighted to be engaged in new and creative products to help the prime brokerage industry move forward in the right direction.”

Vincent Bonamy, Head of Global Intermediary Services at HSBC said: “Our key focus as a leading FX house is to provide the best level of client service possible. This partnership opens a new way to increase the quality and efficiency of our offerings in terms of transparency and automation”.

Bevan Kaminer, COO at Brevan Howard, said: “We support the efforts of Capitolis in improving standards of practice in the FX novation market, notably in terms of the efficiency savings this can bring to buy-side firms, and look forward to our continued collaboration.”

Paul Lawrence, Operations Manager at BlueCrest, said: “The Capitolis option novation solution is a positive step forward in terms of bringing a level of standardisation and efficiency to a traditionally operationally intensive process. They have been swift in designing a collaborative tool which will ultimately benefit the whole FXPB ecosystem.”

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Notes to Editors:

Foreign Exchange Prime Broking Novation

A novation is a defined legal term that refers to the practice of replacing an existing counterparty in an existing trade with a new counterparty. This practice is commonplace in interest rates trading but is not within Foreign Exchange (FX). In FX there exists a protocol defined by The International Swaps and Derivatives Association (ISDA) that parties can choose to follow, which is however, not mandatory¹.

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¹ The ISDA Novations Protocol

<https://www.isda.org/a/KfTDE/overview-of-fx-novation-and-cancellation-protocol.pdf>



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A novation occurs when a party ‘steps out’ of a trade and is replaced by a ‘stepping in’ party. For example, Bank A has bought a 10m EURUSD Put Option at 1.18 with Bank B. Bank A no longer wants this trade in their books, and wishes to step out.

Bank C wants to take the trade on to their books. Bank A (the Stepping Out Party) steps out of the trade and Bank C (the Stepping In Party) steps in.

The trade has thus been *novated* from Bank A to Bank C. Bank B (the Remaining party) will have to have approved the credit of Bank C and if they do, then Bank B now has the 10m EURUSD Put Option at 1.18 with Bank C. In some cases, Bank A may pay Bank C to step in to the trade.

About Capitolis

Capitolis is a pioneering technology provider for the global capital markets. Founded by key industry executives from banking and financial technology, Capitolis’ mission is to build new products and services to address capital markets constraints, initially in equities and foreign exchange. It will employ Capitolis’ proven expertise in finance, distribution and processing to better connect appropriate capital with the best collaborative solutions to clients all over the world. In March 2018, Capitolis [announced](#) that it had secured funding from Sequoia Capital and Index Ventures in a seed and Series A round in which it raised \$29 million. For further information, please go to our [website](#) and [LinkedIn](#).

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