

## **Message from New York**

There were two high-profile events taking place in New York during the week of September 19. The first was the 77<sup>th</sup> session of the UN General Assembly, an annual gathering in which New York's already congested roads are made even more impassable by a flurry of gas guzzling, armoured plated SUVs ferrying around world leaders.

The second, and more carbon friendly gathering, was The Network Forum (TNF) Americas Meeting. So what were the main discussion points at the latter?

### **First Russia, then what?**

While the industry's response to COVID-19 dominated conversations at previous TNF Meetings, it has now been superseded by Russia's invasion of Ukraine. Prompted by Western sanctions, certain sub-custodians in Russia were forced to exit the market incredibly quickly, forcing network managers to hurriedly implement contingency plans.

The nature and scope of the sanctions being imposed were also incredibly fluid, meaning network teams had to constantly keep an eye on what was going on, with many leaning on local partners for up-to-date information. Nonetheless, the events in Ukraine have highlighted the central role of network management during crises - along with the importance of cross-collaboration across businesses.

However, one of the most pointed comments from TNF came from a network manager who acknowledged that while people knew some sort of a conflict in the region was brewing (both the US and UK intelligence services had warned of massive Russian troop build ups on Ukraine's borders ahead of the invasion), the industry appeared to be in denial that anything would actually happen. When Russian troops did eventually invade, he says custodians were caught off guard.

Despite this, few custodians appear to be drafting up any contingency plans or even thinking about how they would deal with one particularly potent geopolitical risk that may occur in the future, namely the possibility of a conflict between the US and China over Taiwan. In fact, a TNF audience poll on geopolitical risks revealed that not a single person believed the ongoing US-Chinese tensions to be a concern.

Having navigated two crises in less than two years, it might be prudent for custodian banks to start developing contingency plans for any serious deterioration in the already uneasy US-China relationship.

### **Network managers brush up on cyber**

Cyber-security has been a recurrent theme at TNF for a long time – arguably, ever since the Bank of Bangladesh was spectacularly hacked in 2016. The topic was high on the agenda during TNF Americas with 26% of respondents telling a TNF poll that cyber-security was the biggest factor driving changes in their due diligence processes.

With more people working from home, cyber-risks have amplified. In response, one expert stresses it is vital for banks to conduct real-time cyber-risk monitoring, and scrutinise providers' own supply

chains for vulnerabilities. He adds that while sub-custodians could have robust cyber safeguards in place, this might not be the case at their third or even fourth party suppliers.

While network managers need to have a rudimentary understanding of the cyber-risks facing their providers, few would expect them to be technical experts in this field. Instead, network managers should engage closely with IT risk teams and cyber SMEs during the due diligence process.

## **What now for the Americas?**

The biggest post-trade change underway right now in the Americas is the US' (and Canada's) ongoing transition to a T+1 trade settlement cycle, a process speakers said would be significantly more challenging than the country's previous switchover from T+3 to T+2 back in 2017.

One speaker noted that banks have repeatedly told politicians that they cannot handle any further capital requirements, adding that any initiative (i.e. like settlement compression) which helps them reduce their capital requirements should be actively embraced.

Despite the potential balance sheet capital benefits, T+1 could exacerbate market fragmentation especially if other countries do not follow suit, while others warn it might force some institutions into pre-funding their trades.

While there is talk of adopting T+0, it is clear the industry's priority now is on getting T+1's implementation right.

Moving further south, the news about LATAM markets is less positive. A survey at TNF revealed that 83% of attendees felt LATAM had not taken the right steps to become more competitive, while a further 76% noted infrastructure changes in the region were having little impact on competitiveness.

One of the recurrent criticisms of the region is that its regulations and tax rules are notoriously byzantine, and this deters inward investment. As a result, 79% of TNF attendees said complex regulations and tax rules were the main things preventing growth in the LATAM region.

## **TNF in Q4 2022**

The final quarter of 2022 is poised to be a busy one for TNF, with the TNF's Middle East Meeting taking place in Abu Dhabi on October 17-18, followed by the Asia Meeting in Singapore on November 14-15.