

## THE MESSAGE FROM LONDON

Predicting the future is rarely straightforward, but not one person who attended the last (in-person) Network Forum (TNF) Annual Meeting in Athens could have foreseen the three years of turmoil, which subsequently followed – whether it was the pandemic itself, the imposition of arbitrary lockdowns; the destabilising war between Russia and Ukraine; open questions at the highest levels of society about the future of globalisation, or the re-emergence of double digit inflation after a 40-year hiatus. Taking place at London’s Oval Cricket Ground – the home of Surrey County Cricket – leading experts from the world of securities services provided their insights into the main trends shaping the industry.

### The Big Picture

A seasoned political analyst shared his thoughts on the ongoing Russia-Ukraine conflict. Citing recent Russian incursions into Georgia, Crimea and Syria – together with its close entanglement in the domestic politics of Belarus, Armenia and Azerbaijan, the analyst highlights President Putin is trying to build a vassal of pliant client states shielding the country from the west. However, the analyst notes this strategic buffer is not possible without a placid, cooperative Ukraine in the fold, hence the invasion. Aside from the War not going to plan along with the enormous damage being inflicted on Russia’s economy due to sanctions, the analyst says the conflict has resulted in Europe forging closer ties with the US; Germany re-investing into its military and defence; and Sweden looking to join NATO.

The analyst adds China is increasingly isolated in Asia, noting its border dispute with India, hostility towards Japan and trade dispute with Australia. The analyst doubts China will expand militarily into the South China Sea as it will have to face off too many navies. He also says the much mooted Belt and Road Initiative has stalled, especially as more recipient countries object to the initiative’s harsh debt terms and conditions. On Taiwan, he adds there could be an incursion in the next five years, although if there is no Chinese invasion of Taiwan in the next five years, then peace ought to prevail.

### The Future of Work

It is becoming increasingly clear that getting staff out of the office at the beginning of the pandemic was much easier than convincing them to return. In a backdrop dominated by labour shortages fuelled in part by the Great Resignation, employers are having to be more malleable around staff working arrangements. One provider says employees are now expected to be in for two - three days each week, adding they also have the option to work from countries which are not their principle domiciles. The pandemic, says one speaker, has provided ample evidence to employers that staff can be trusted to work from home, suggesting the post-COVID working set-up – like inflation – will not be transitory.

On hiring practices, the industry is also making positive in-roads - with a greater commitment to diversity and inclusion (D&I). One panellist notes that leading financial institutions are increasingly leveraging blind CVs – a practice whereby identifying information is omitted from a CV to conceal the applicants’ background - to eliminate any risk of unconscious bias during the recruitment process. Nonetheless, the expert continues that while the industry has made excellent progress on supporting D&I, ageism is a persistent problem - with many companies seemingly reluctant to hire older people.

### T+1: Not as simple as it seems

At present, the US, India and Canada are all in the process of adopting T+1, while a handful of emerging markets are poised to follow suit. However, the divide over whether the industry should adopt T+1 continues to dominate at TNF. On one side, T+1's supporters argue that reducing by one day the time it takes to settle a trade will help mitigate risk, enabling firms to post less margin, and better optimise their collateral, thereby freeing up liquidity. In times of volatility, they argue this flexibility will be key. Some even suggest that T+1 is nowhere near ambitious enough, arguing that distributed ledgers and central bank digital currencies (CBDCs) will usher in T+0 or instant settlement. Just as T+1 could help lessen market, counterparty and settlement risk, so too will T+0, but better, these enthusiasts argue.

In contrast, there are those who concede that while T+2 has its imperfections, T+1 is not the panacea many would have you believe. In fact, they warn T+1 could exacerbate risk and create unnecessary costs for an industry whose margins are being eroded already. Investors in Asia trading US securities, for instance, would be among the most disadvantaged due to the time-zone differences, and might need to pre-fund their trades due to challenges around FX. Additionally, the shorter settlement cycle will also result in an uptick in trade fails, an outcome which could lead to financial firms incurring penalties. On T+0, critics also note the technologies required to make it happen are not yet scalable. Expect disagreement about the feasibility of T+1 and T+0 to be a recurrent theme at upcoming TNFs.

## **Digital assets – the implications for network managers**

Since May 2022, the crypto-currency market cap has shrunk to a third of the size it once was; a handful of StableCoins have collapsed; while Coinbase, a leading crypto-custodian – in a letter to US regulators – said that investors with crypto custodied with them would be treated as general unsecured creditors in the event of insolvency. To summarise, it has been a particularly torrid time for crypto-enthusiasts.

The reality is that large institutional investors are not touching crypto-currencies – seeing the asset class as too volatile and too unregulated. As demand is limited among major investors, the vast majority of network managers – while keeping an eye on what is happening in the market – have yet to conduct any due diligences on crypto-custodians. One speaker – a notable exception to this rule – says due diligences on crypto-custodians are different to those performed on agent banks. For example, the network manager says due diligences of crypto-custodians involve reviews of their cold storage protocols and insurance policies. However, he notes crypto-custodians will not allow network managers to conduct cold storage vault visits (much to the bemusement of some network managers), adding that this is no different from agent banks restricting clients from accessing their data centres.

## **TNF – 2022 and beyond**

After two years of watching TNFs online, attendees could barely curb their enthusiasm at the prospect of being able to reacquaint with old friends, colleagues and clients. While digital communication tools were an effective stop-gap solution during COVID-19, they will never come close to replicating the same buzz as in-person events and meetings. TNF will return to New York on September 22, before heading over to Abu Dhabi on October 17-18, and then concluding in Singapore on November 14-15.