

**ORDER, TRACK AND RECEIVE:
THE FUTURE OF SECURITIES POST-TRADE**
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Welcome



Dear TNF Friends,

Having just returned from our first engaging and enjoyable event in Tokyo for the Japanese Market, we are now looking ahead to Q4 2019 and beyond; and with that it seems that the world is in a very different place than this time last year. Political risk is high on the agenda with market sensitive events happening in all the regions in which we operate: the ramifications of the US/China Trade war are now being felt, the Brexit saga has reached fever pitch in the UK and hourly updates by the media are part of everyday life - indeed political instability seems to be present in almost every region on the planet. In short, globalisation genuinely seems like an alien concept with all the doom and gloom currently surrounding us.

And yet, at the 3 Meetings we have held this year already (Africa in Cape Town, the Annual in Athens and Japan in Tokyo), we had some very interesting and upbeat discussions about the future shape of the industry and innovations that are injecting new life into the world of securities services. Also, and most importantly, at these meetings we had the feeling that we remain amongst friends in this close-knit community of The Network Forum, which we feel makes all the current pessimism bearable!

In this edition, we have a deep dive into some of the core issues that impact us all. Dominic Hobson's overview of the highlights that emerged in Athens this summer identifies key trends of which we all need to be aware. We have an industry first with key findings from our 3 closed door Network Manager only meetings – invaluable insight that is shared with us through the reports by Alan Cameron, John Gubert and Bruce Lawrence. Regional focuses on Latin America, Africa

and Middle East also give us some local flavour. And finally, maintaining the human aspect - which is inherent within TNF - we are delighted to share with you Bryan Murphy of Citi's exploits in the snowy wastelands at the bottom of the South Atlantic: "A Scot In The Antarctic".

Happy reading and see you on the road!

Andrew Barman
Managing Director
THE NETWORK FORUM



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Data – Two Sticks And A Carrot

Data overload

With 2.5 quintillion bytes of data created globally every day*, how data should be managed is clearly a growing concern for most industries. In the post-trade environment, regulation has only served to generate more data, rather than dealing with the existing problem. MiFID II timestamps, KYC, AML and the latest iteration of CSDR, are just a handful of suggestions from the regulators that have added to the rising tide. In contrast, the only regulation trying to regulate data so far has been GDPR.

Outdated legacy systems have been a problem for the industry for several years now, but the growth of the 'data problem' is shining a big spotlight on the issue. The old technology systems – many of which are still in operation today – we're simply not built to handle the level of data and scale of operations the industry processes in today's world.

*Source: Forbes article May 2018

So far, big-data strategies and technologies have only been adopted by a handful of top-tier banks and hedge funds in very specific areas such as analytics for trading and quantitative research, both of which sit in the front-office and are tied to revenue-generating opportunities. Today, firms are finally realising that they need to invest in innovation and revenue growth to capture unique data-driven initiatives that can help generate alpha from post trade initiatives. **So what could it look like?**

The Stick - Cybersecurity and Data Privacy

The regulatory approach to cybersecurity has mostly followed two distinct paths. For market participants, the focus has been on ensuring the security and confidentiality of client data. The challenge regulators face is that cybersecurity regulation will most likely conflict with existing data privacy laws. On the one hand, governments are keen to pass information-sharing legislation that grants them unwarranted access to private information on the grounds of limiting the impact of cyberterrorism. On the other hand, the global nature of financial markets means that extraterritoriality issues will arise: firms simply do not want to provide their data to non-domestic regulators.

In this environment, cyber protection measures are too vast a problem for institutions to go it alone. Cyber risks are piling up, going beyond hackers and organised crime to nation or state-wide theft of intellectual property and potential terrorist plots. Firms state that although budgets and initiatives are aligned with their fears, they must still recognise that resources cannot cover everything, everywhere.

The Other Stick - The CSDR Case

In its simplest form, CSDR aims to provide all participants of a CSD in the European Union with the ability to have a transparent view of their activity through segregation, and to ensure that parties are not penalised for poor settlement performance, through a settlement discipline regime and mandatory buy in regime.

The penalties that each participant would be liable for under a CSDR settlement or mandatory buy in event could very quickly erase or reverse the P&L associated with a trade.

Whilst settlement of trades should be the easiest part of our industry, it is not without its inefficiencies. At the annual meeting in Athens, we learned that global failed trade are estimated at 2%, resulting in costs and losses of up to \$3 billion. Key reasons cited across the marketplace suggest disparate systems and poor SSI management as key culprits in poor settlement efficiencies.

The disconnect between front office and the middle/back office across the value chain will be felt financially and reputationally if these silos we have created continue to go unchecked.

CSDR is likely to fuse these separate engines into one, but perhaps not until financial penalties distributed to poor settlement performers have been felt.

The Carrot – also CSDR

As our industry moves toward fintech solutions, we are seeking out new solutions in the form of machine learning, artificial intelligence and distributed ledger technologies.

KYC – 'Know your customer', 'know your counterparty' and 'know your costs'. Every failed trade will have a cost. Many firms acting as agent may find themselves in a commercial arrangement that simply does not allow for trade fails costs to be recouped. A solid review of data points through analytical technology and *what if* scenario planning tools

that calculate the delta of settlement discipline versus borrowing costs will allow *would-be* penalty victims to assess whether the costs of failing can be avoided through proactive borrowing thus avoiding a mandatory buy which would represent another layer of penalty.

Data processing power and data analytics can be leveraged to know our worst counterparties, creating a *handle with care* alert or perhaps a more extreme *do not do business with* recommendation. Fail scenarios can be recorded and reconciled, set against market events that may range from seasonality of fails to actions and reactions to otherwise unconnected world events. Fail predictive tools can be fed into with route cause analysis of failed trades, by instrument, by counterpart, by value, by season, by trader etc.

This smart use of data pools that already exist in our middle and back office can improve settlement efficiency, market reputation, save money and even become a chargeable service.

Data is changing life as we know it. Smart use of data is today possible thanks to new technologies that might finally find the problem to the solution they offered.

Mark John

Director, Clearing and Collateral Management EMEA, BNY Mellon



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LATAM: Challenges And Opportunities In A Context Of Exponential Growth

When looking at where best to capitalize their savings, international investors tend to analyze the economic and political stability of a given country/region, in order to evaluate their risk/return ratio, but also – no less importantly – what they may expect in the short to medium term. I believe we are not far from reality if we say that LATAM is where there is vast room for growth in the years to come.

According to Forbes, the Latin America GDP is expected to improve in 2020, growing at 2.6% instead of the 2% expected this year. That's better than Asia-Pacific growth rates, which are flat at 5.3%.

If we look at what is being done in some of these countries in order to face the various challenges brought by years of political and social turmoil, we can easily conclude that LATAM is definitely changing the page – and this is very true for several of the region's securities markets.

What is being done?

In Argentina, the CSD has acquired NASDAQ technology in order to enhance its post-trading operational and processing capacity and, simultaneously, to enable DvP.

Concurrently, market actors are watching closely the presidential election process, whose results, in October, will very probably have influence on the attractiveness of the market for international investors. Soon to be seen.

The Chilean government is elaborating a tax reform in order to make some changes to the previous one, implemented in 2017. There is no tentative date for its implementation and negotiations will have to take place, since the government does not have majority in the Congress. If approved, though, such reform should have positive impact on issuers and investors, both local and non-residents alike.

In Brazil, the most recent enhancement was the change of the settlement cycle for equity instruments to T+2, which was implemented at the end of May 2019 and represents a relevant step in the efforts to further harmonize the market with international standards.

From a regulatory standpoint, a most significant topic relates to the request from the Brazilian tax authorities to receive information on the beneficial owners and board of directors of some foreign

investment structures, mainly unregulated funds and trusts. The deadline for the provision of this additional information was reached at the end of June 2019. Even though this legal requirement has been especially challenging to attain, the overall market success rate in obtaining the required details is approximately 90%.

Mexico does not fall short of their neighbors' willingness to improve things.

We have recently witnessed the implementation of tax exemption on interest payments derived from corporate debt issued by resident entities. Residents in countries whom Mexico signed a DTT with, can take advantage of such incentive. This way, the Mexican authorities wish to attract more investment from non-resident entities into local corporates.

Colombia is a prominent example of how to deal with challenges and create opportunities. The government has decided to implement the so-called Capital Markets Mission, composed of a team of experts representing the different players. The results of their work, published in August 2019, comprise a set of recommendations and measures for the promotion of the securities markets, creating grounds for a progressively efficient industry and, consequently, for the increase in the number of issuers and further attraction of local and non-resident investors.

Can we say that Latin America has come to age? We believe so. All market changes in the region are oriented towards providing trust to issuers and investors. Hence, our commitment to continuously invest in LATAM. The future will very probably prove us right.

Hugo Rocha

Head of Global Sales &
Relationship Management
Santander Securities Services



 **Santander Securities Services**

Order, Track And Receive: The Future Of Securities Post-Trade

In an ever changing post-trade space, Deutsche Bank's Global Head of Securities Services Michaela Ludbrook and her team assess how new technologies, combined with geographical reach and component-based services, make a difference in custody provision and create more value for clients.

Picture this: you have just ordered a taxi on a ride-hailing app. While waiting for your ride, you download a TV series, recommended by an internet streaming channel based on what you have previously watched, and order a new pair of shoes from your favourite online shoe shop, which will arrive the next day. If the vast amounts of data powering these services can provide tailored and personal insights to customers near real time, then could they also apply to securities services to effect the same level of speed, efficiency and transparency for investors? After some exploration, we believe the answer is yes.

However, mimicry of the current state of our personal lives in our business lives is not only dependent on the newer technologies that make this desired state possible, but also

on their relevance in geographic markets across multiple service capabilities, in addressing clients' need for efficiency, transparency, speed and cost reduction.

Simply put, the ongoing structural margin compression in the securities post-trade industry reflects the industry's pressure to reduce fee levels and the increasing regulatory and market requirements for asset protection and market stability. A divergence in the direct relationship between what is paid, and the asset protection received, needs solutions that would ensure a more sustainable future in post-trade. One of them potentially lies in bringing post-trade services closer to trade, using technology and component-based services to create value for counterparts in securities transactions, by helping them to perform better and to keep costs low for end investors.

Three recent projects show how these objectives can be met to address regulatory change and create these outcomes. First is the provision of real time data and settlement analytics to clients, equipping them with a risk view of their settlement horizon including a view of trades at risk of penalty and buy-in. With the Central Securities Depository Regulation's (CSDR) next important Settlement Discipline Regime milestone coming in September 2020 such insights can be delivered real time by Deutsche Bank as a valuable information conduit sitting between the CSDs, their clients and their trading parties. These insights, provided intraday, make use of client level data aggregated at a market level (in the CSDR markets where Deutsche Bank is present) and presented on a

dashboard to enable clients to anticipate where they may potentially be failing to settle on time (within market cut off time) and empower them to make choices to remedy their actions.

The second project centres on the exploration of smart contracts in a digitised asset environment. Using distributed ledger technology (DLT) to digitise assets, securities services, which is currently delivered through a set of hierarchical processes of custody and settlement, could be assimilated into smart contracts, with nodes representing the lifecycle of the security and its ownership. Within those nodes, to make the process quicker and more efficient, custody services could be brought into the securities lifecycle earlier. For example, by programming asset servicing calculations and other rules into DLT-based securities³, this shifts the activity right up to the issuance set-up stage where coding happens. This creates the potential for new operating and business models where more efficiencies could be realised. Since codes in a DLT-based bond can include calls on investor-awareness rules, compliance-awareness rules as well as asset lifecycle rules, the issuance set-up stage would become a new value creation point.

Third is a successfully piloted solution in which Deutsche Bank has used DLT to further automate custodial services. The solution addresses the transparency requirements within many custodial services, such as around the tax processing of asset holdings at an ultimate beneficial owner level, and streamlines complex data and reconciliation processes for both the bank and its clients. The solution allows for sharing of this information to authorised counterparts, removing duplication and, at the same time, permitting access to the beneficiary details to the relevant party only. The first implementation of the solution will help reform the shareholder information disclosure in Europe for global and sub-custodians, as set out in the Shareholder Rights Directive II, followed by tax processing automation and further product build-out.

These projects show how the industry could replicate the state of online retail platforms, where securities are ordered, tracked and received to address the need for transparency, efficiency,

speed and cost-reduction. In the same way that customers prefer the choice provided by popular delivery platforms, clients favour tailor-made services and solutions provided by custodians, allowing them to plug and play services such as custody, asset servicing, lending, borrowing and asset optimisation.

For more details on how Deutsche Bank is combining service, geographic reach, market knowledge and new technologies to create better outcomes for securities services clients, visit db.com/flow

Michaela Ludbrook
Global Head of Securities Services,
Deutsche Bank



Deutsche Bank 

³Based on a 2019 DLT bond prototype from Deutsche Bank Securities Services

Shareholder Rights Directive – It's Time For Asia-Pacific Firms To Act

Back in June 2019, the European Union (EU) announced its first deadline for member states to implement components of the Shareholder Rights Directive II (SRD II) into national laws. Most importantly, all different member states will establish their own related laws and legal definitions based on the overall Directive.

For financial intermediaries in APAC, the scope of the Directive is more far-reaching than most realise and will impact a variety of intermediaries across the region. This is important to investors considering that in March the European Commission (EC) found that between 2007 and 2017 **investors across China, Hong Kong and Macau controlled 1.6% (over EUR 280 billion) of EU company assets**. During the same period, investors in **Australia and New Zealand controlled 3% (over half a trillion) of all EU company assets**.

The countdown has thus begun for APAC intermediaries and asset owners who either serve EU shareholders or hold shares in EU equities to know exactly how shareholder rights will change and what will be required to ensure full compliance in less than 12 months' time.

Wide-ranging action

Two core groups within the APAC financial community stand to be most affected – **intermediaries and asset owners**.

SRD II will introduce three critical regulatory concepts:

1) Shareholder identification: EU-based issuers will be entitled to obtain the identity of their shareholders, requiring APAC intermediaries holding shares in them to provide shareholder disclosure within 24 hours of receiving a request.

2) Agenda distribution and voting: APAC intermediaries must support the distribution of meeting agendas within stricter timeframes, reconcile votes on a daily basis, and process votes "without delay", or face penalties.

3) Vote confirmation: APAC intermediaries will need to support all aspects of vote confirmation throughout the chain, including the timely electronic confirmation of receipt, dissemination of post-meeting results and vote tabulations.

Timely action

Strengthened shareholder rights mean that intermediaries must adapt quickly to new requirements on how data is passed along the investor communications chain. The implementation of electronic proxy voting systems will become an increasingly urgent priority with many seeking to optimise the proxy lifecycle.

An upside to SRD II is the opportunity for greater engagement between APAC investors and issuers in EU markets than ever before. Likewise, European-listed companies will now be able to identify APAC shareholders.

The EC has left each country to transpose the directive into local legislation and several markets have yet to complete this process. However, with less than 12 months remaining, now is the time for APAC intermediaries to begin preparing for SRD II.

Demi Derem
General Manager
Investor Communication Solutions International
Broadridge Financial Solutions



The way ahead for Network Management, Due Diligence, Client Onboarding and Lifecycle Management

MYRIAD: Network Management

MYRIAD lets you move away from manual and often fragmented ways of working.

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MYRIAD delivers automation and organisation of routine but critical tasks in network management and can be configured to give all levels of staff appropriate views and functionality through strict permission controls.

CODUDE: Due Diligence

CODUDE is MGTL's response to the market need for a tool to combat the increasing burden of regular Due Diligence.

CODUDE encapsulates the phrase 'Collaborative Due Diligence' and, as the name therefore suggests, it brings together different stakeholders - Requester and Responder - to carry out the function in one place.

The platform is designed to support the bilateral exchange of information, with and for multiple counterparties.

Embus: Client Onboarding

Client Onboarding and Lifecycle Management continue to be major challenges for Banks and Financial Institutions.

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The functionality within Embus allows you to manage your relationships from prospect to fully onboarded client more effectively than ever before.

The key benefits of MGTL's business systems



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A Scot In The Antarctic



It's all too easy to get caught up in the trivialities of modern-day life, but it's hard not to have a very healthy sense of perspective when your ship is being tossed around in a Force 10 storm in the Drake Passage, rolling 22 degrees side-to-side as you cross 1000km of the Southern Ocean on your way to Antarctica.

This journey was the culmination of my mission to complete the 4Deserts Race Series. Each race is a 250km self-supported foot-race through some of the most challenging environments on earth. In order to qualify for Antarctica, competitors need to have finished at least three other 250kms races and I had completed the Atacama in 2013, Gobi in 2016, and Namib Desert in 2017. This was the final hurdle.

We set out from Ushuaia on the southern tip of Patagonian Argentina on 23rd November on the 1000km journey to the South Shetland Islands in the northern most tip of Antarctica.

The Drake is the roughest stretch of water in the world. Waves of up to 10m are not uncommon. Anything not nailed down to the

ship is thrown around and there was a plentiful supply of sick bags on hand for those unfortunate enough to be struck down by sea-sickness. We crossed the passage in the M.V. Plancius, a 3,200 tonnes former Dutch naval vessel. But it was still tossed around in Force 10 winds (12 is a hurricane) like a toy boat as we were rocked by 8m swells.

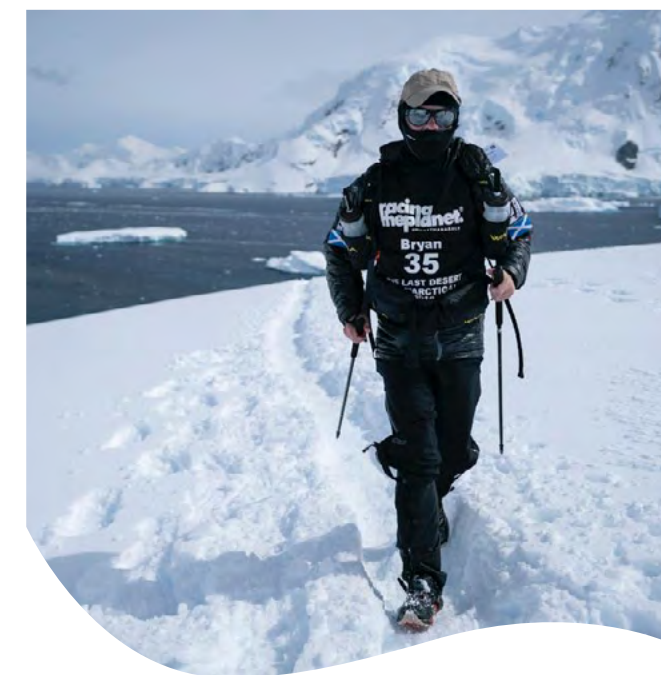


On the outbound journey we pitched to 22 degrees, while on the return leg we got the full "Drake Shake" with rolls of up to 37 degrees. It autocorrects the roll to 45 degrees, but even at 22 it feels as though the ship is about to capsize. It still beggars belief to think that Shackleton and his crew crossed the 1,300kms of the Southern Ocean in a 22ft lifeboat.

As the storms subsided, we began to pick up blue whales, killer whales and fin whales, particularly as enormous icebergs and land loomed into sight.

The 1959 Antarctic Treaty, designated the continent as "a natural reserve, devoted to peace and science". There are very strict rules about preserving the natural environment and it's not possible to land, camp or bring food, seeds or other organic material onto Antarctica for fear of contaminating the fragile eco-system.

Given restrictions on camping, the format was to sleep overnight on the ship and for competitors to be ferried by Zodiac speedboats to shore for the start of each stage. Once on land competitors would run as far as possible in the allotted time. If temperatures dropped below -20C then the stage would be curtailed as there's a much higher chance of frostbite and hypothermia. The stage would also be shortened by high winds as it would be dangerous to ferry everyone back to the ship.



Stage 1 was set on King George's Island, a base for the Uruguayan, Russian and Chinese research stations. The route was an undulating 13.3km circuit which took us from the shoreline to a highpoint at the Uruguayan base. It was set for 10 hours and began in blizzard conditions with a bone-chilling wind cutting through the field. The wind-chill was breathtaking and whipped across the island. The course had significant elevation and the exposed sections were brutally cold. The underfoot conditions varied from knee-deep snow (bad), packed snow / ice (good), slush (bad) ice water (very bad). Most of us pitched into knee-deep water at least once and one competitor unfortunately found herself waist deep in ice-water at one point.

It's impossible to stay warm when you're wet for ten hours. It seeps deep into your bones. If you stop then your body temperature drops dramatically and so you need to keep going. Nutrition took the form of gels and pre-made energy drinks. It's not enough energy for ten hours and eventually took its toll.

On a number of occasions I had to remove gloves to adjust equipment. Within seconds my hands were shaking. I knew it wasn't cold enough for frostbite but it certainly felt like it. Everyone ground out Stage 1 and I managed to cover 49kms in 10 hours.

The Plancius then sailed overnight to Danco Island, for Stage 2. Danco is home to a large colony of Gentu penguins who looked somewhat bemused as 49 runners climbed up and down the 3km switchback loop to the top of a hill overlooking the bay. The snow was knee-deep for most of the day, which made for slow going and it was an uphill slog for three and a half hours. With little complaint the stage was cut short by incoming storms.



Stage 3 ran for 10 hours in the deep snow and spectacular setting of Paradise Bay. All around us we could hear the grinding and creaking of glaciers. And every so often, we would witness the real-time impact of climate change, with the deafening crash of glaciers breaking off and collapsing into the sea to form icebergs. You've never seen colours like these. Everything is imbued with an almost fluorescent blue and the sun was blindingly bright. Despite the length of the stage it was almost pleasant to run in the cold sun in the shelter of the bay.

Stage 4 at Damoy Point was our southernmost stop. The shoreline was bitterly cold and exposed, while the inland section had more respite and shelter.



This was a 10 hour stage of cutting wind and blizzards, none of which seemed to have much effect on the nearby penguins. They would criss-cross the course on their way to and from the colony and competitors would amusingly give way to let them pass. This would be our final stage as the weather forced us to depart early to get ahead of a looming storm.

I had been struggling with a chest infection for most of the week and was very happy to finish in 18th place on 156kms. The winner, Wong Ho Chung from Hong Kong, completed a remarkable 251.28kms over the four stages. Looking back almost one year later, the sheer immensity of Antarctica is still staggering. Nothing is to scale. The eerie stillness in the quiet bays, the deafening roar of the collapsing glaciers, the bone-chilling winds that cut you

in two, the blizzards, the blinding summer sunlight, the blue hue that washes over the whole alien landscape. It's our last great wilderness and unfortunately it's melting away before our eyes. As I said at the outset, it's all about perspective, and it's hard not to come away from Antarctica without a very acute sense of our own place in the world.

Bryan Murphy
APAC Head of
Financial Institutions Sales,
Citi





The State Of The Nation – Key Findings From Athens



Custody

Squeezed by falling revenues and static-to-rising costs, the global custodian banks of the future will be specialised data managers, which outsource non-core functions to other specialists.

One reason why global custodians will specialise is that central securities depositories (CSDs) are intensifying the competition for custody business by offering direct accounts and asset-servicing.

Sub-custodians, on the other hand, will continue to service global custodians not so much as gatekeepers to the national CSDs as masters of local asset servicing processes and procedures.

The need to manage local market nuances will inhibit the adoption of direct accounts by all but the largest clients of the global custodians, until the costs of maintaining multiple direct accounts falls.

Pricing of sub-custody services will be unbundled, with charges based on consumption of services rather than transaction fees and ad valorem charges on assets covering a package of services.

Unlike practice today, this model of pricing is likely to be true of emerging as well as developed markets, though emerging markets will continue to present awkward operational challenges.

The movements of emerging markets into and out of the stock market indices followed by fund managers make it difficult for sub-custodians to keep operational capacity and service levels steady.

Index providers should make more and better use of the advice of custodians on the quality of operational infrastructure and transaction volumes in emerging markets before making changes.

Despite automation and standardisation, the quality of staff and the client-provider relationship is still the main competitive differentiator, and the squeeze on costs and prices is putting this at risk.

Further consolidation of CSDs and central counterparty clearing houses (CCPs) would make an important contribution to cutting the cost of complexity, collateral, liquidity and capital.

Consolidation of sub-custodians will continue, with single market providers either withdrawing from the industry, being acquired by regional providers, or becoming specialists in a particular area.

Regulation

Neither the sell-sided nor the buy-side of the securities services industry is well prepared for the settlement discipline regime imposed by the Central Securities Depositories Regulation (CSDR).

The calculation and collection of CSDR penalties for late settlement are clear and will be administered by CSDs, but the buy-in regime for continuing late settlement remains substantially unclear.

Financial market infrastructures (including SWIFT) are developing CSDR risk mitigation services, and global custodian and investment banks are sifting to data to establish which trades are likely to fail.

The second iteration of the Shareholder Rights Directive (SRD II) affects CSDs (as agents of issuers and registrars of owners) and custodians (as providers of corporate action and proxy voting services).

CSDs also provide access to TARGET2-Securities (T2S), the pan-European settlement platform built and operated by the European Central Bank (ECB).

The benefits of T2S for custodians include single cash and securities accounts for the euro area, more efficient credit and collateralisation services, repo netting and reduced risks and capital costs.

Although T2S has reduced settlement costs by nearly €0.50 a trade, the price reduction is lower than custodians had hoped, and T2S has not lowered interface costs by consolidation of CSDs either.

The recent increases in prices by T2S reflects lower-than-anticipated settlement volumes, the extended transition to the new platform, and higher-than-expected running costs.

Regulators concerned about financial crime have switched from cash to securities, where they believe anti-money laundering (AML) and countering the financing of terrorism (CFT) is less effective.

Vulnerabilities in securities include penny stocks, free-of-payment settlement, outsourcing, centralised infrastructures and especially extended chains of intermediaries.

The International Securities Services Association (ISSA) has drawn on advice issued by the Financial Action Task Force (FATF) to publish a set of practical financial crime compliance principles.

Regulation increasingly expects securities firms to identify financial criminals, as opposed to monitoring transactions for signs that a financial crime is being committed.

In two other areas – namely, cyber-security, particularly of counterparties, and tax fraud – custodian banks are coming under regulatory pressure to improve their performance.

Technology

In crypto-asset custody, where regulation is not yet fully developed, custodian banks and CSDs confront complex opportunities rather than compliance costs.

Institutional investors will invest in crypto-assets provided they are supported by a conventional post-trade infrastructure, which is hard to provide when the regulatory status of the asset class is unsettled.

The costs of replacing (unbroken) legacy technology stymies investment in crypto-asset infrastructure, and many distributed ledger technology (DLT) projects do not progress beyond proof-of-concept.

Obstacles to technological transformation include legacy technologies, established vendor relationships and a limited grasp of the importance of customer experience. But the largest obstacle is the inability of the industry to attract technology talent, thanks to an uncongenial culture and lack of commitment to open source software.

The means to appeal to technology talent include greater diversity in age, reverse mentoring of the old by the young, flexible working hours, and imbuing employees with a sense of purpose.

The most important application of technology talent, in an industry where transaction fees and ad valorem charges are under downward pressure, is turning data into revenue and profit.

Data fuels cost-saving technologies such as Application Programming Interfaces (APIs), DLT networks, artificial intelligence (AI) and machine learning, and robotic process automation (RPA).

Data also drives new and enhanced revenue-producing services such as risk management, investment allocations and improved client experience.

Unfortunately, data in the securities services industry is not yet in a fit condition to feed cost-saving and revenue-producing technology applications.

Outsourcing to the Cloud, overcoming the false economy of extending the life of legacy technologies and collecting data indiscriminately are techniques which can overcome data management problems.

The regulatory reports being filed by clients of the industry area rich source of structured data which the industry has yet to exploit.

Another opportunity for custodian banks and CSDs lies in the custody of crypto-assets issued, traded and settled on DLT networks, which need independent custodians to attract institutional investors.

So far, crypto-asset custody has remained the preserve of specialist firms such as Vontobel and Fidelity, and start-ups such as Coinbase, rather than the traditional custodian banks. This is largely because custody of the private keys that signify ownership of a digital assets presents unique technological challenges.

Until the challenge is solved, the institutional investment that is vital to the growth of the crypto-asset markets is likely to remain limited.

Crypto-currencies, on the other hand, might displace banks from their traditional role as providers of cash management and money transmission services, particularly if their volatility abated.

However, crypto-currencies remain the medium of choice for financial criminals, limiting respectable institutional interest in supporting them as an alternative means of payment.

Cyber-attacks are so lucrative that they are more frequent than other types of risk yet, while many financial institutions have good business continuity plans, they have inadequate cyber-attack plans.

A detailed and effective cyber-attack response plan minimises the financial, regulatory and reputational risks of succumbing to a cyber-attack.

Dominic Hobson
Principal,
Hobson Cardew



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Crisis Management – An Inside View From The Network Managers Only Meeting



The Google definition of Crisis Management: “is the process by which an organisation deals with a disruptive and unexpected event that threatens to harm the organisation or its stakeholders”.

At the onset, the consensus was that “crisis management” affects us all but was not handled particularly well by the industry infrastructures (banks, agent banks, CSDs, CCPs, regulators et al.). Whilst recognising that “crisis” is a simple concept, it can become a very ugly word. A number of markets and incidents were cited including Argentina, Chile, Denmark, Egypt, Turkey and Zimbabwe, noting data incidents and breaches, and more importantly when and how to communicate with clients.

One of the main topics of discussion and debate was, and to quote Shakespeare’s Hamlet, that “something is rotten in the state of Denmark”. The overriding view was that there was not enough leadership and the expectations that the regulator would step in after the crisis were not met. None of the major banks were prepared, and after the fact admitted that they were not ready. The key takeaway was there was too much finger pointing, and what was missing was collaboration and forgetting that the industry had a collective responsibility. With a feeling that “you guys should have been more vocal”.

A memorable quote from one of our Nordic colleagues was “The day will come when your boyish charms will not save you”

It was also acknowledged that not enough people knew what they were doing at the inception of a crisis and in most cases, resources were spread too thinly – and that there was a need for an “appropriate level of knowledge” to manage a crisis including:

- **Assurances**
- **Asset safety**
- **Safety of client information**
- **Validation methods**

Also, with respect to the differentiation between developed, frontier and emerging markets - crises don’t discriminate.

One of the most important takeaway points was that in the minefield of misinformation/ communication was the need to communicate with the clients. If a bank is having a crisis, for example systems going down, or a perceived data breach – you must take ownership, put your hand up and admit you have a problem... but don’t spend 5 weeks to put it right.

On the subject of BCP contingencies - it appears that a number of members of the community still have Service Level Agreements (SLAs)

that cite Fax Agreements as the appropriate backstop if SWIFT goes down. It seems that this mode is still acceptable and being told it could be done via your desktop - but no one could actually work out where to put the paper in the fax machine! The feeling was that all roads led back to the desk of the network manager, and invariably they would have to join a queue.

Post-mortems considered root cause analysis and raised the question: should there be an industry standard? However, it was also recognised that there are fundamental differences between the banks and infrastructures.

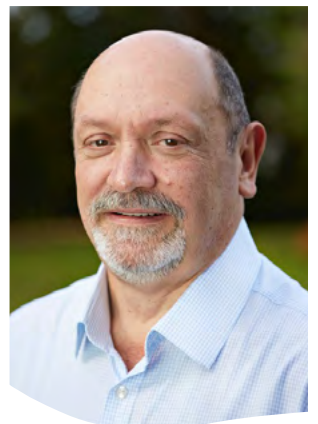
It was felt that SLAs, especially those that were getting dusty in a drawer or filing cabinet, required more attention and importantly made clearer when addressing the subject in hand. Participants agreed they were well worth re visiting as they “may not be workable but stipulated”.

Again, it was felt that consideration should be given to establishing an industry standard or at least scope a project to include time-lines to “fix and resolve” based on worst case scenarios. At the same time acknowledging that all may be handled in different ways, but at a minimum should include, but not limited to:

- **Systemic**
- **Agent bank**
- **Infrastructure**
- **Tax law**
- **FX**
- **Short-and long-term crisis**

The industry still relies on outsourcing and surveys to save on, or reduce costs, but one has to know the counterparty, do the due diligence and learn a lot through ocular inspections (if you have the budget!) A core sentiment expressed was “if you don’t go and kick the tyres it makes it very difficult to unravel a situation if you have never been there”. In summary, all the Harry Potter wands you may have in your middle drawer won’t solve all the problems.

Bruce Lawrence
Managing Director,
HBL Consultancy Services



Technology And Network Management – The Importance Of Engagement



The main focus of the technology discussions on Founders' Day centred on two issues, namely the specific role of the network manager in technology developments and how best to leverage data.

Nobody expects the network manager to sponsor or lead developments but it is important that they are seen as a valuable stakeholder in all those that are relevant to their function. The network manager is a valuable source of information around infrastructure and agent requirements. They have great insight into competitor activity as clients of their agent banks. And they need to understand how technology can reduce cost and risk and judge their agents accordingly for technology is becoming a key differentiator in this space. But it was also clear that network managers are failing to give adequate bandwidth to technology and there is a people challenge in terms of adding new skills to an already complex discipline.

Data remains a challenge and the industry need to recognise that data in itself has little value. Data has value when it serves a purpose. We need to think, in the network space, in terms of predictive analysis, a discipline which, as an example, could be used to anticipate fails ahead of the event. As the manager of multiple agents, the network manager also needs to consider benchmarking critical elements in the process across their supplier universe. Nobody, our Founder meeting believed, would be willing to pay for new data tools, although use of an API by a client enhances stickiness and, if it reduces cost or risk or both, could well allow the seller to enter pricing negotiations in a stronger position. But, until there are standards for API's and for other new initiatives such as blockchain, clients may be only willing to consider them if they are single banked. Just as years ago proprietary standards slowed down the introduction of internet banking solutions for the securities business, so the spread of new API's and other developments will be impeded by a failure to adopt universal standards that can allow the multi-banked a logical and simple interface within their own enterprise platform.

The meeting also noted that:

- Technology means automation and straight through processing with resulting greater accuracy across the different securities transaction life cycles. It will move the role of the network manager from issue resolution to strategic problem solving. That will create a further

training problem for incumbents and will impact the skills we require of the next generation of network managers. The question may be whether it is the millennials or generation x who will adapt best to this new high-tech environment.

- RPA is seen as ready now to replace low value repetitive processing. It will affect the footprint of offshored activity. But, although RPA should reduce cost of operation, most value will be extracted by the speed of impacted automated processes, for that will allow more time for exception processing or fail avoidance. And with challenges such as the impending EU Central Securities Depository or Securities Financing regulations, with their demanding penalty regimes, such speed will be a real value.

- DLT was discussed and its value in areas such as corporate action processing, by enabling the production of golden copies. However, for such a product to come to fruition, the legal profession and issuers need to be brought on board and their willing participation in a technology-based solution is far from certain. The attendees did note that corporate action challenges were not as bad as the challenge of agreeing a harmonised global or even regional approach to tax reclamation. This paper based and archaic process in almost all jurisdictions is in dire need of reform but, during the later debate on tax in the General Meeting regulatory stream, the expert advice suggested that such an event was definitely at least a generation away. DLT initiatives in flow include those at CHESS in Australia as well as the HK Stock Connect initiative. The latter is well worth close attention for it is likely that there will be fast migration of all the market and meaningful volumes.

- The meeting also noted that modern communication technologies are logical platforms to use as an alternative to some due diligence or issue specific country visits. This is especially important for network managers to consider in markets where there are logistical or security challenges.

The view was expressed that the industry is protected from new entrants because of the need for capital and the importance of trust. Perhaps that capital and trust can only come from the banking industry, although many would challenge such an assertion.

But securities services could see -functions moving to smart new entrants with new technology-based solutions. The key issue will be if the residual activity left in the banks will be adequate to maintain the financial contribution made by our sector to our parents' bottom lines, especially if such unbundling leads to material fee reduction.

In conclusion, over the Founders' Day, the key technology messages were simple. Network Managers, in this exciting change environment, need to focus more on technology and it has to be a core competence. Technology, and especially data, will be a value proposition and a differentiator for those who best leverage their enterprise platforms and apps in the network space. But standards are imperative as a fragmented technical environment will be a value destroyer.

John Gubert
Chairman,
GTL Associates



Due Diligence Closed Door Session Takeways

We had a number of lively sessions discussing Due Diligence at The Network Forum Annual Meeting (TNF) in Athens. Our discussions centred around the AFME Due Diligence Questionnaire. It might not be the most glamorous subject however it is central to the Network Manager's role!

It is entirely appropriate that DDQs are included in the TNF agenda. At an industry related conference five years ago in Dubrovnik many participants expressed their frustration with how the industry was dealing with the increasing number of DDQs sent by investment banks and global custodians to their sub-custodians. At that time each sender of DDQs had created their own document asking for much the same information as each other. The questions were often similar but not so similar as to allow standardised answers - and each sending institution asked their questions in quite a different order. Those completing the DDQs found them unclear and their structure somewhat haphazard with many questions straying into related subjects such as client servicing or commercial and legal terms. The institutions sending DDQs complained that the responses were too often slow, inaccurate and often failed to answer the questions that were being asked. Generally the answers were high level and contained too little substance.

Clearly, something had to be done. It was agreed that AFME could help as most involved in this process were members. AFME agreed to set up a task force to tackle the issue and, crucially, agreed that non-AFME members could join. The task force aimed to put together an industry standard DDQ that would be free for all to use.

It turned out to be a bigger task than had been anticipated. However, many across the industry got involved and a group consisting of global custodians, investment banks, sub-custodians and Thomas Murray was formed. Consequently the first edition of the AFME DDQ was launched for 2017. The 2018 edition was expanded to include questions for when a Global Custodian was responding and the 2019 edition included client money and CSR sections.

So the 2019 TNF Annual Meeting was an ideal opportunity to get feedback on the progress so far and to discuss the route ahead.

The bellwether test of the AFME DDQ is surely how much it is being used across the industry. At the 'Network Managers only' day of the conference a show of hands

had indicated a one hundred per cent uptake. However individual feedback suggested that eighty per cent of network managers are using it although it had been adopted by almost all the major players. Certainly usage is increasing. Most institutions have adapted their internal procedures to accommodate the AFME DDQ. Although Network Managers are convinced of the advantages of standardisation, their internal stakeholders are slower to adapt than expected.

An explanatory document to accompany the AFME DDQ would be advantageous especially if it mapped the questions to the relevant regulations, however doing this is beyond the bandwidth of the task force.

There was considerable discussion on both the quality and number of questions. Whilst most attendees were satisfied, feedback shows that Network Managers are asking circa 20% additional questions. In 2018 the task force reviewed 100s of additional questions that had been asked and decided to add only a handful of them to the AFME DDQ. They felt that most of the additional questions which were being asked were either unnecessary or were already adequately covered in the document. So why are there so many of them? The forum attendees suggested that they could be cut back however this will take time. Stopping the increase is hard enough! One network manager explained that his company has an internal rule that if they add an additional question then they make sure that they remove another.

The vexed subject of questions relating to cyber security was raised and most attendees felt that although the level of questioning in the AFME DDQ was just about right, it could not replace the one-

to-one scrutiny that was required by some organisations.

There was some debate around whether there was a need to edit the AFME DDQ for 2020. A unanimous show of hands illustrated that there was no demand for this and that it would be better to leave it unchanged and hence allow it to 'bed down'. Finally, the subject of Due Diligence visits was discussed and it was said that they remain essential however they could be held collectively. This would require superior diary management.

So it looks like we are making good progress on DDQs and that the industry is adopting the AFME DDQ. Many thanks are owed to all those who have contributed to this.

Alan Cameron

Head of Brokers Market Strategy,

BNP Paribas

Chair,

AFME DDQ Taskforce



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African Exchanges Linkage Project

How will you find out and invest into the hottest shares in Lagos or Mauritius, or subscribe to an IPO in Casablanca or Cairo? Seven leading African securities exchanges are working on the African Exchanges Linkage Project (AELP) to boost trading, investment and information links.

The participating exchanges are: Bourse Régionale des Valeurs Mobilières (BRVM, integrating eight West African markets), Casablanca Stock Exchange, The Egyptian Exchange, Johannesburg Stock Exchange, Nairobi Securities Exchange, The Nigerian Stock Exchange and Stock Exchange of Mauritius. "African Listed Securities" assets available through these exchanges include more than 1,050 companies, including many of Africa's most promising and profitable companies and some global leaders.

About AELP

The AELP is a joint initiative by the African Development Bank and the African Securities Exchanges Association (ASEA) to facilitate cross-border trading and settlement of securities across participating bourses in Africa. It also seeks to unlock Pan-African investment flows, promote innovations that support diversification needs of investors, and address the lack of depth and liquidity in Africa's financial markets. It is funded by the Korean-African Fund for Economic Cooperation (KOAPEC) through the African Development Bank.

Pierre Guislain, Vice-President, Private Sector, Infrastructure and Industrialization of the Bank, told participants at a capital-markets stakeholders' roundtable at the Bank's headquarters in April: "The partnership between us and ASEA complements the Bank's interventions towards deep and resilient capital markets in Africa. The African Exchanges Linkage Project will contribute to a wider financing pool for African corporates and SMEs and help close Africa's infrastructure deficit, estimated at US\$67-107 billion annually. Indeed, the continent needs deep, liquid and linked capital markets that will enable accelerated mobilization of domestic resources and incentivize private financing of infrastructure".

Karim Hajji, ASEA President and chief executive of the Casablanca Stock Exchange, said at the same event: "Regional integration is a high priority continental agenda. By organically linking seven exchanges in Africa which collectively have a market capitalization of over US\$1.4 trillion, the AELP will stimulate intra-

African flows and provide opportunities for investors and trading participants in over fourteen African countries. With the expected outcome of boosting liquidity in African capital markets, the AELP will unlock the powerful potential of African markets to access and redistribute domestic capital for economic development."

Sponsored access

The framework of the current phase is "sponsored access", based on a model where a stockbroker ("originating broker") in one participating exchange takes an order from a domestic client and asks a broker on another exchange to execute the trade in that market. The executing or "sponsoring broker" is responsible for ensuring compliance to the rules, settlement and practice of the market where the security is bought or sold.

AELP's model is that securities are held in the CSD where the security was traded, reducing cross-border movement of securities and streamlining settlement and clearing to comply with one market. Africa's leading custodians, which already service clients across the key markets, will continue to be central.

AELP will help achieve African goals of deeper cross-border trade and investment, as embodied in treaties and the African Continental Free Trade Agreement (AfCFTA). Stockbrokers and custodians are key partners in helping it achieve these objectives.

Tom Minney
Project Manager,
African Exchanges
Linkage Project



For more information contact tminney@african-exchanges.org or call +254 20 283 1220/+254 700 452475.

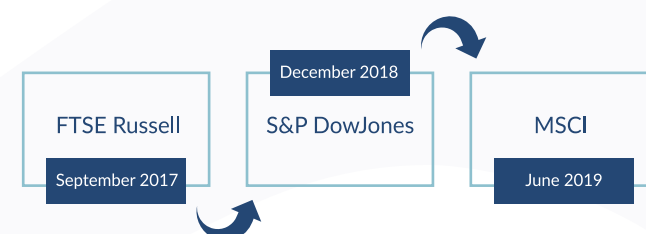
MSCI To Reclassify Kuwait To Emerging Market Status In 2020 – A Landmark Achievement

It was a proud moment for Kuwait on 25th June 2019, when MSCI, the world's largest index provider, announced reclassification of Kuwait from its "Frontier Market" status to "Emerging Market" effective May 2020. The reclassification is subject to omnibus account structures and same National Investor Number (NIN) cross trades being made available for international institutional investors before the end of November 2019. Kuwait Clearing Company (KCC) is committed to and confident of fulfilling these criteria by then due to the flexibility of its infrastructure.

The MSCI upgrade reveals the tremendous efforts put in by Kuwait Clearing Company and Boursa Kuwait under the guidance of the Capital Markets

Authority over the last few years by undertaking several Market Development Projects which were instrumental in the implementation of various regulatory and operational enhancements in the Kuwaiti market to be in line with international standards, thus making it more accessible and attractive to global investors.

Kuwait's transition to "Emerging Market" status by index providers



Benefits of reclassification of Emerging Market status

- Trigger significant inflows of foreign investment and improved liquidity
- Create greater investor confidence
- Significantly enhance the investing environment in the country

"This milestone will not only generate a deeper sense of commitment to sustain this current status by continued collective efforts to further develop the capital markets but also boost the transformation of Kuwait into a leading commercial and financial hub in the region as envisioned by his Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah in the "Kuwait Vision 2035".

Kuwait Clearing Company (KCC) established in the year 1982 is the central clearing, settlement and depository entity for the Kuwaiti securities market. It is also a member of prestigious international organizations such as IOSCO, ANNA, ICMA and AMEDA.

Back in 2016, KCC developed a long term strategy aiming to enhance the company's operations and services in alignment with IOSCO's PFMI standards, thereby supporting the CMA's market development initiatives. Since then, the company has significantly invested in its infrastructure and human resources to meet the goals set forth in its' ambitious strategy. It has played a pivotal role in the reclassification of Kuwait to an Emerging Market status by being an integral part of the several market development projects which required the redesign and implementation of the post-trade infrastructure and the introduction of related operations thereby easing the access for foreign investors to Kuwait's Capital market.

Significant changes to the post-trade infrastructure introduced by KCC during the past two years

- T+3 Settlement Cycle
- Custodian rejection facilities for foreign investors
- Risk waterfall model to deal with Fail settlements
- Simplified Account opening process
- Delivery vs Payment (DvP) model
- Buy-in Board and cash close out for security fail management
- Stock lending & borrowing
- International-style corporate actions timetable

"KCC remains committed to relentlessly pursue further enhancements in coordination with the CMA and Boursa Kuwait to develop the market infrastructure, which entails performing all post-trade operations including settlements and central securities depositories in alignment with international best practices."

Khaldoun Altabtabaie
Chief Executive Officer,
Kuwait Clearing Company

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Network Management In 2025

We are living in an ever-changing world, the impact of which is being felt by businesses on a number of different levels. Network management will not be the exception, and will likely see its remit evolve dramatically over the next few years. The traditional roles and duties of network managers (i.e. risk management, regulatory and financial crime compliance, cost management, capability assessments, delivery of market information, etc.) will not disappear altogether, but could actually assume a far greater significance.

Internal coordinators

Increasingly, network management will likely be the internal function assigned with coordinating all of the different activities between the various business streams (legal, financial and regulatory compliance, risk, credit, operations, IT/Cyber) across banks who are utilising external/internal agents. It is critical that only one party (the network manager) has full visibility and oversight of these agents. Such centralisation will help mitigate the risk of separate stakeholders within banks establishing their own bespoke network solutions, which could result in a superfluity of external agents, leading to overlaps and added costs.

Data integrators and knowledge providers

Simultaneously, network teams should also have an integral role in improving data management and quality at banks. Right now, the sheer volume of fragmented data makes it difficult for banks to process information. Owing to their unique position within their

organisations, network teams could assume charge of data aggregation and integration, thereby becoming a holistic source of knowledge for the entire business and an increasingly important participant in their banks' strategic development and implementation processes.

Management of partnerships

Technological disruption and rapidly changing market practices will create new and unique risks for network managers. As markets become increasingly interconnected and complex, the deeply engrained relationships which network managers have forged with external providers will become even more vital. It is crucial that network managers have a full front to back view of their agents if these risks are to be managed safely and effectively.

Elsewhere, some network teams may look to consolidate their providers to obtain cost-savings and a more globally consistent service. This could be done by appointing sub-custodians on a regional basis as opposed to using them simply for individual markets. However, specialist providers will likely be retained in some instances alongside traditional agent banks. It is clear we are seeing a transition in network management teams as clients increasingly prioritise value-drivers over cost-drivers when selecting their service providers.

Driving a new, dynamic due diligence model

The existing network management due diligence model is fragmented and inefficient for all individuals involved. In addition, network manager due diligences

are usually conducted in cycles (annual, bi-annual, three-yearly), meaning they do not have a real-time view of operational risk at their service providers. Consequentially, network managers are being encouraged to adopt a “continuous monitoring model” of due diligence, enabling them to obtain a real-time oversight of the operational risks across their agents.

To do this, network teams should develop data and analytical tools to produce internal control reports and manage exception handling. These will need to be enabled by APIs providing direct connectivity between network managers and agents. Likewise, distributed ledger technology (DLT) could also be deployed allowing agents to report information in real-time. Network managers may even look to leverage AI-enabled predictive analytics to help them identify trends, allowing them to pre-empt problems at their agents. Such technologies will be pivotal if the due diligence process is to shift away from the current static model to something more dynamic.

Changes in market infrastructures will drive new business models

Market infrastructures are likely to undergo a massive business model transformation as a result of new technologies. They are widely expected to engineer systems whereby custodians (or even clients) become nodes in a DLT, allowing end customers to become direct market participants. It is also probable that new tri-party models will need to be developed in order to create an integrated solution between the client, the CSD and their custodian banks. Network management teams will likely be entrusted with ensuring and validating that assets are safe-kept properly in this multi-party business structure.

The evolution of crypto-currencies

There are interesting developments happening in the cash world too, most notably the emergence of digital currencies. It is still early days but such developments could change or even completely remove the need for external settlements. Instead, these could become book transfers in a central ledger. The concept of ‘one version of the truth’ should make the reconciliation process much easier as well. These developments will likely change the way banks provide services to clients. Just like transformations elsewhere, network managers will have to evaluate their role in this new world of cash.

Data as a new asset

The industry is also likely to see an increase in organisations transforming physical documents into digital formats. This pivot towards digitalisation should not be misconstrued with dematerialisation though. Instead, providers envisage an operating environment whereby physical documents (e.g. private placements) are scanned into a digital format giving clients a joined-up view of their entire portfolios through a digital vault. Such tools will help network managers carry out their duties more effectively.

Network managers in the centre

Technological innovation and evolving risk dynamics will have a direct effect on the traditional activities of network managers. In response, the industry needs to acquire a deeper understanding about new technologies. Moreover, network managers will find themselves thrust into the centre, acting as coordinators and data aggregators across multiple business streams within banking groups. As such, network managers are expected to play a more critical role when helping banks achieve their strategic objectives.

John Van Verre
Global Head of Network Management,
HSBC



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30 JUNE - 2 JULY 2020 - BERLIN

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