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Welcome



Dear Reader,

Edward and Andrew insisted that I write the introductory letter to this, the tenth edition of The Network Forum Journal, apparently because:

- According to them the Journal is “my baby” (which is ironic, because as many of you may know I have just returned from maternity leave)
- I have just returned from maternity leave
- You have probably seen enough of them over the past 12 months (Edward and Andrew)

Normally, the boys would probably write something fairly high level about what has been happening in the industry over the last twelve months, but because I have been away they have brought me up to speed and I don't think it's necessary to repeat that here. What I can say though, is that I am absolutely delighted to be back in the world of TNF and, more importantly, back out in the world after twelve rewarding but very tiring months of baby-related activities. It really has been amazing to catch up with everyone at our Annual Meeting in London back in June, and more recently our Americas Meeting in New York City. Everyone has been so welcoming and kind (and, it would seem, very relieved that the boys are no longer responsible for organising everything without me). So, don't worry everyone – I am back!

As always, this Journal is packed full of interesting insights and key market developments. Following on from their due diligence panel at the Annual Meeting in London, Thomas Murray explores what has changed in DD in 2022 (page 12). Whilst recently in NYC, we had very insightful panels on LatAm developments which are further explored by one of our Americas Meeting Partners, CACEIS, which you will find on page 18.

Now it wouldn't be TNF without a personal touch, would it? Many of you will have attended Williams and know it is an important date in the diary twice a year where many of the industry gather together for informal drinks, catch ups and many laughs too! So, I am delighted to include a piece from Peter Shepherd, one of the original Williams Founders, to tell us how it all began and how it has now become an industry must attend event (page 24)!

It's great to be back out in the world of physical events and I am so happy that I could include pictures from the in-person events again in this Issue – you can view photos from the Americas Meeting (page 27) and Annual Meeting (pages 28-29).

As I am writing this, we are in final preparations for our Middle East Meeting (Andrew just boarded his flight!) and soon after we will be holding our Asia Meeting in Singapore in November. And so, I am very much looking forward to seeing many of you on the road and beyond.

In the meantime, I hope you enjoy this Journal and I look forward to seeing you all very soon!

Rachel Bo Shields
Head of Business Operations
The Network Forum

Theodora Bo Shields
Trainee
The Network Forum



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Financial Intermediaries: Dealing With Dual Pressures

Increased competition from newer entrants, many of whom have pushed down price in exchange for market share, has led established financial intermediaries to train their focus on cost containment in order to persevere. What's the best solution for these firms going forward?

While facing substantial cost pressures resulting from reduced margins and increased competition, financial intermediaries such as retail brokers and traditional banks must reckon with the wide range of technology solutions designed to improve the clearing-and-settlement lifecycle. This one-two punch has been particularly acute for well-established firms that may still be utilizing mainframe-based, legacy systems, and that are now looking for the most practical way to get caught up. According to data from ValueExchange, more than 8-in-10 financial intermediaries are in the market for a tech upgrade, including some 25% whose platforms have been in place for at least two decades.

Thinning out the provider ranks is one way that some intermediaries have sought to control costs. However, this approach cannot ensure that clients have all the solutions they'll need in a rapidly shifting marketplace, remarks Gary O'Brien, Global Head of Banks and Brokers, BNP Paribas Securities Services. "When we consider the evolution of data visualization, the proxy market or workflow-management, it's fair to say that the best provider for any one of those solutions may not necessarily have the expertise for all the rest. Historically, clients would have to deal with each of those issues separately, ensuring that there was proper data flow to and from all of the requisite providers."

A more practical strategy would involve a custodian serving as the platform through which the various providers could be connected, thereby giving the client direct access to all of the different data sources, rather

than having to interface with each one separately. "We see that as a significant direction as we move forward," adds O'Brien.

In the past, clients may have opted for a larger basket of providers, using one set for handling custody, another execution, and so forth, ostensibly to mitigate risk. By having too many providers, however, the odds of any one of them going bust is significantly increased. Instead, using a smaller number of providers that are globally systemic and well settled in their service offerings makes it less likely for a failure to occur, notes O'Brien.

Outsourcing for intermediaries

This in turn has propelled outsourced models like BNP Paribas Securities Services' "broker-to-custody" platform, an integrated execution, settlement and asset-servicing solution that gives clients access to a wide range of execution providers, paving the way for a lower-risk, tailored and fully automated service model that encourages straight-through processing while reducing overall trade costs.

According to O'Brien, the approach optimizes the bank's global-custody footprint, with in-house execution capabilities covering the US, EU, Asia and elsewhere. The idea is to reduce intermediaries' reliance on less strategically important sources through an enhanced operating model that lowers clients' operational overhead while providing access to newer revenue opportunities as well.

"Normally when a trade is booked, allocation instructions are sent to the broker, then subsequently to the agents, and after that settlement takes place, during which time any mismatches must also be accounted for and rectified," says O'Brien. "However, there is always inherent risk whenever you're using multiple parallel blind streams like that, and on top of that there are both operational and technical overheads resulting from the need to build out individual instruction flows downstream from the execution platform."

By contrast, the BNP Paribas model allows the broker to handle trade instructions autonomously, thereby removing the client's operational and technical costs, while at the same time mitigating the risk of trade errors due to redundant or missed communications. "This way clients are assured of consistent, on-time settlements, while any challenges affecting intermediaries using more traditional methods are greatly reduced," says O'Brien.

Such a move allows the intermediary to employ a variable rather than fixed operating model in order to further reduce cost concerns.

"If you have an in-house tech solution, you're paying a fixed cost to the IT provider, as well as internal costs related to ongoing server maintenance and general upkeep requirements," says O'Brien. "Whereas under an outsourced arrangement, you're more likely to be charged per activity, whether it be settlement to transaction, asset valuation, or data processing on the platform. That way if your activity is low, your costs will be as well. Even if your activity increases, the expense is more likely to be commensurate with the overall returns."

Encouraging T+1

Another significant benefit is the ability to boost STP, particularly as the industry works towards more widespread adoption of T+1 trade settlements.

"The US continues to move toward T+1, and with this shortening of the settlement cycle intermediaries are losing a full day between the trade and settlement dates," notes Grace Tarelho, Director, US Custody Product Manager, BNP Paribas Securities Services. "Through the broker-to-custody solution, however, the executing desk instructs the custodian directly, eliminating the standard trade-order confirmation messaging that takes place between the execution and the client, as well as the settlement instruction between the client and the custodian, resulting in a much more efficient and faster process for clients across different regions investing in the US markets."

With regulators and clearing authorities like DTCC continually pushing the industry toward a narrower settlement window, clients are increasingly looking to providers for outsourced solutions that can handle the real-time flow of information in an orderly manner.

"With broker-to-custody, we are streamlining the client's operational flows, while at the same time eliminating the need to invest heavily in different technologies," says Tarelho. "By taking this approach, clients can mitigate fails, cost and time, while we enable a seamless straight-through-process, especially in a shorter T+1 settlement cycle."



Gary O'Brien

Global Head of Banks and Brokers Segment Strategy, BNP Paribas Securities Services



Grace Tarelho

Director, US Custody Product Manager, BNP Paribas Securities Services

The Pursuit Of Liquidity In MENA Continues

In contrast to the wider global economy which is contracting, a number of Middle East and North Africa (MENA) markets are enjoying robust growth. In particular, commodity exporters in the Gulf Cooperation Council zone (GCC) have been net beneficiaries of the rising energy prices, with Saudi Arabia's gross domestic product (GDP) – for instance – poised to increase by 7.5% in 2022 – making it one of the world's fastest growing economies. Although many GCC economies are thriving at the moment, this has not lessened their market reform zeal, as they look to diversify their revenue streams beyond just oil and gas. Even within emerging MENA – countries such as Egypt – have seen healthy inflows fuelled by an uptick in intra-regional investment.

So what exactly is happening across the MENA region?

Driving ahead with change

Capital market reform in the GCC has been taking place for a long time now – sparked initially by an abrupt drop in oil prices back in 2014/5. "Over the last few years, several countries in the region have dramatically ramped up their efforts to deepen their public equity markets, by encouraging state or family-owned businesses to list on the primary markets," says Günsel Topbas, Citi's Head of Custody for EMEA Emerging Markets.

Chief among these is Saudi Arabia – which has seen a number of high-profile state businesses – including

oil giant ARAMCO and the Tadawul, the country's stock exchange, – go public as part of the government's ambitious Vision 2030 reform programme. Other regional markets are following suit. The UAE, for example, saw several leading utility companies list in 2022 including DEWA and SALIK, while the Boursa Kuwait recently standardised its listing rules to make it easier for companies to IPO.

But what are these countries doing to attract foreign inflows?

Some GCC countries have relaxed previously prescriptive rules on foreign institutions investing in domestic securities. Take Qatar, which recently scrapped its ownership limits meaning foreign investors can now hold up to 100% of the shares in most listed companies.

"Elsewhere, the UAE has adopted the FTSE Russell Sector Classification Reference Standard for all of its listed stocks, in what will facilitate greater transparency and improve the accuracy of stock research. The UAE also became the first GCC market to move its weekend to Saturday and Sunday, thereby aligning its trading days with global markets. This should help bring about greater foreign inflows," says Topbas.

In emerging MENA, Egypt's government has tried to turn the country into a more attractive investment destination, and is reportedly seeking up to \$10 billion in foreign investment, as it attempts to stimulate greater private sector participation in the economy. The country's efforts appear to be generating positive results, following the announcement that Saudi Arabia's state owned Public Investment Fund had bought minority stakes in four Egyptian companies for \$1.3 billion.

Furthermore, reforms of the post-trade ecosystem have also helped galvanise foreign investment. In the case of Saudi Arabia, it has gone to great lengths to improve its post-trade processes and infrastructure by introducing an independent custody model, adopting a T+2 settlement cycle, and developing a central counter-party clearing house (CCP).

"The Tadawul has successfully implemented major changes of Saudi Arabia's capital markets by developing post-trade infrastructure and launching Muqassa, a domestic CCP, which will clear all products traded on the main exchange, including equities, Sukuks, bonds, exchange traded funds and real estate investment trusts," comments Topbas.

Alongside these various market liberalisation measures, several GCC countries are launching new investment tools and products.

Saudi Arabia now has a functioning derivatives industry comprising of single stock futures and index futures, enabling foreign institutions to effectively hedge risk exposures in the local market. The country has also established depository receipts in addition to a regulatory framework to support securities lending and securities borrowing activities.

In 2021, it was announced that Saudi Arabia's Securities Depository Center Company (EDAA) – the local central securities depository – and Euroclear would launch a Euroclearable link enabling foreign investors to access the local Sukuk and bond markets. Similarly, Kuwait is also in the process of developing its own suite of derivatives and futures products, which will go live fairly shortly.

"All of these initiatives will be integral in helping these markets attract new investors – and with it generating greater liquidity," notes Topbas.

MENA markets look to the future

MENA economies are also looking to future proof themselves to ensure that they remain competitive and attractive for foreign investors moving forward. So how are they doing this?

Several GCC markets are capitalising on recent changes in investor behaviour. Most notably, institutions are increasingly adding new asset classes – such as digital

assets (i.e., crypto-currencies, security tokens) – into their portfolios, and this is prompting a handful of markets to develop regulations to support trading in these new instruments.

"The UAE is looking to become a global hub for digital assets and has been working hard to create an ecosystem with the specific regulations and regulators, while attracting financial institutions to operate in this space," says Topbas.

Similarly, investors are also taking an increasingly keen interest in environmental, social, and corporate governance (ESG) factors, and this is something which policymakers in MENA want to support.

Qatar Stock Exchange wants to cement its ESG credentials, having introduced ESG guidelines to promote voluntary ESG reporting by listed companies. However, Qatar Stock Exchange also notes that mandatory ESG reporting is likely to follow. Should Qatar adopt this approach, then it could help encourage more institutions with ESG or Islamic investment mandates to participate in the local market. As ESG's importance in the investment process grows, those MENA markets which establish sensible ESG regulations will be the ones that flourish.

A region on a mission to grow

Attracting liquidity is a priority for MENA markets, and many of them are doing all the right things to facilitate this. Aside from liberalising measures, a number of markets are launching a wide range of investment products, and supporting new asset classes – including digital assets and ESG. Such initiatives will be vital to attracting inward investment and shoring up market liquidity.



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The Digital Asset Revolution In Securities Post-Trade

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New digital asset ecosystems are the drivers for a complete transformation of securities post-trade, but what does this mean for the custodian and what is the best way to prepare? Deutsche Bank's Boon-Hiong Chan explains

The white paper The triple revolution in securities post-trade is a guide to how the digital asset ecosystem evolved. Convergence with traditional finance is discussed, along with the growth possibilities now available to the digital asset custodian. The entire paper can be downloaded here using the QR code:



"These new digital assets are ... gradually re-ordering the competitive dynamics"

Foundation of today's digital assets

Today's digital assets world has three rich and large ecosystems for new participants and market structures to build on:

- Cryptocurrencies
- Tokenised financial assets.
- Central bank digital currencies (CBDCs)

Bitcoin started as a disruptive payment method and a medium of value. They have been joined by stablecoins which have stepped in to adopt the latter role – although volatilities in 2022 has seen their stability questioned – while Bitcoin and other cryptocurrencies have become more asset-like. Another cryptocurrency, Ethereum, provided the foundations for the decentralised finance (DeFi) space. Utilising smart contracts as agents, it has offered innovative reinterpretations of "on-chain" borrowing, lending and market making activities.

Tokenised financial assets grew from the abstraction of key characteristics from cryptocurrency's underlying DLT. With features including programmability and concurrency, it is allowing "intermediary-lite" direct issuance by issuers to investors.

CBDCs, the third ecosystem, are national digital currencies being designed to introduce digital payment methods, programmable payments, digital central bank trust and as a future channel for monetary policies.

The digital assets custodian

As a result of the changes driven by these digital assets, the report looks forward to a future in which the digital asset custodian would perform new asset protection roles, via:

- The sub-custody model: The investor's custodian appoints a tokenised asset platform as its sub-custodian if the private keys cannot leave the platform. The platform will use APIs to update the traditional custodian's IT systems
- The account operator model: The custodian takes on an account operator role via a node to access the platform to safeguard and operate the private keys to digital assets
- The crypto-inspired model: The investor's custodian may exchange the platform's tokenised asset for a "wrapped" version that it can directly control. Acting as a digital depository receipt, the wrapped token will represent the unit of the underlying tokenised assets

The ability to interoperate investors' accessibility into the choice of permissioned platform (either on public chain or private network) opens new possibilities for a digital asset custodian. These include acting as an asset tokeniser in a depository receipt model, as a DLT platform operator on which investors would participate, as a part of digital fund services or integrated with crypto brokers.

Boon-Hiong Chan

Global Head, Fund Services
Product Management; APAC
Head, Securities Market &
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Deutsche Bank
Securities Services

Deutsche Bank 



Reimagine workflows and create a foundation for innovation with Daml

Daml, Digital Asset's core technology, sets the standard for building and running multi-party applications that connect historically fragmented software and systems. Daml helps enterprises create a foundation for future-proof business models while reducing cost and risk, eliminating manual reconciliation, providing reliable and consistent data, and accelerating innovation and time-to-market.

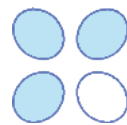
What Daml offers

With Daml, enterprises can transform disjointed data and asset silos into synchronized networks. Daml eliminates duplicate processing and manual reconciliation, provides reliable data and audit trails, and creates a foundation for more seamless workflows and robust innovation.



PRIVACY:

Unlike any other enterprise blockchain, Daml's privacy model extends to the sub-transaction level and distributes data only to entitled stakeholders, as required by data privacy regulations.



INTEROPERABILITY:

Daml can be deployed across many blockchains and traditional databases, and allows users to change their integrated blockchain without changing their code—future-proofing technology decisions.



SCALABILITY:

Daml is proven to scale to the complexity and performance demands of national financial infrastructures and mission-critical systems.

Multiple ways to access

Daml is open source at its core. To make it easily accessible to different user groups, including enterprises, ledger operators, and application developers, Daml can be accessed via a Daml Enterprise license, which includes everything needed to build, test, and deploy Daml applications to your own infrastructure, on-prem, or in the cloud.

Daml's purpose-built, smart contract programming language helps development teams avoid common mistakes and spend more time focusing on business logic. The Daml platform includes a Software Developer Kit (SDK) with everything needed to build, test, and deploy a Daml application, automate multiparty workflows, and integrate the application into enterprise environments.



Learn more and view additional case studies at digitalasset.com

De-Risking Post-Trade

The rise of tokenized and digitally-native securities, combined with smart contracts and distributed ledger technology, creates a singular opportunity. How will post-trade change, particularly clearing, settlement and safekeeping?

The ability to complete process steps at the exact same moment creates the conditions to drive efficiency and remove risk in **clearing and settlement**, lowering expenses and capital costs.

- Atomic settlement removes the delivery and payment delta. Complex transactions are broken into atomic components that settle simultaneously, with all conditions satisfied for the transaction to complete. The result? Less margin or credit, and reduced capital requirements.
- Committed (locked) settlement goes further, completely removing settlement and counterparty risk. Assets can be locked at location, eliminating market movements and deliveries, or to an intended recipient.

Technically, the only instruction that can be obeyed is to deliver the asset to the intended recipient, a move that happens automatically. Legal experts in major markets have reviewed committed settlement and confirmed its ability to evidence certainty of settlement finality and stand up in court to respective bankruptcy models. With committed settlement, the owner remains the legal owner until the transfer of the asset.

Locked assets are immobilized. Since they can be used for only one action, this removes settlement risk and decreases associated margin and capital requirements. Significant operational benefits come with eliminating duplicate settlement instructions and reducing the need for reconciliation and verification. A real-time immutable record of all transactions across all accounts at the ultimate beneficial owner level enhances auditability and regulatory compliance.

Beyond traditional data and process challenges, **safekeeping and custody** providers face specific

challenges with multiple intermediaries and sequential processes across time zones.

- Global custodians have direct, often fiduciary, liability over client assets, with associated risk and capital implications. Yet they lack direct control over those assets, which sit with the local custodian and are held in-country at the CSD/central bank.
- Even sophisticated providers have a patchwork of domestic and global systems. Assets move in and out of control with multiple cash and collateral accounts on different ledgers. Transfers aren't seamless and it's difficult to deploy cash or collateral nimbly to meet obligations.
- Between trade and settlement date, custodians step in to support clients with cash advances or intraday liquidity.

With digitization, these risks can be removed.

Assets that don't move can't be lost, eradicating penalties, liabilities and capital costs for safekeepers. The custody chain is unbroken: global custodians can delegate control over sections of the digital workflow to local custodians. Other providers can be permissioned for specific actions, creating networks of composable services with investors selecting services they require.

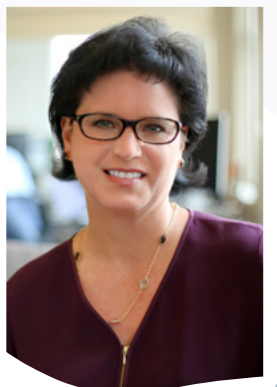
Committed settlement offers flexibility. Counterparties can agree bespoke timeframes including intraday deliveries/payments. Automated, guaranteed settlement, plus the simultaneous delivery of securities and cash, means custodians no longer need to bridge the gap with intraday liquidity or unsecured credit.

Simplified workflows and the removal of core risks shrink providers' operating and capital charges. This creates new flexibility up and down a profoundly altered post-trade value chain.

Learn more: [Digital Asset's blogs](#)

Kelly Mathieson

Chief Client Experience Officer,
Digital Asset



Digital Asset



Thinking in respect of due diligence has changed in the last three years and that change in mindset has been driven by global lockdowns and market accessibility, rather than a fundamental shift in strategy or risk appetite.

However, the change of thinking in approach to due diligence, where on site market and counterparty visits are performed less frequently, but video calls and questionnaires are conducted annually, generally appears to be accepted as meeting regulatory, risk, client and industry objectives for the time being.

But that approach lasts only as long as there are no heightened risk issues, losses or regulatory questioning. While there have been no major losses evident within the network management world in the recent past, (at the time of writing) there have been significant surprises from some service providers as to their ongoing tenure in the market. Could these surprises have been avoided by 'on site' visits?

Data is obviously a good way to establish the soundness of a business, including its viability and strategic importance to a service provider, but there are limits to what data can do in terms of overall assurance. For a sub-custodian evaluation, indicators like STP rates, enquiry turn around times, reconciliation breaks, payment timeliness etc can all be a good source of intelligence in respect of the competence and health of a provider.

But it's often the spontaneity of on-site discussions that produces the most telling of information. MIS packs reviewed regularly by management we regard as a minimum, but on-site discussions where we can see control reports, walk the floor, meet the staff responsible, and observe the working environment, says so much about the organisation's value and support for the business.

Never was this more evident than during a due diligence visit to a major provider where we observed files strewn all over the floor, cathode ray tube display screens propped up by several telephone books and printer paper packs, staff missing, and those that were there, were nervous and evasive.

Where we believe the due diligence process will land for the next few years will be an increased focus on data, including financial performance, staff turnover, third party data such as press/media, regulatory investigations, sanctions, fines, data breaches, ongoing cyber assessments, supported by comprehensive operational MIS. For low volume, low risk markets, due diligence will be performed via calls and data evaluation potentially on a two-year rolling cycle, while higher value and/or higher risk markets will be visited on site, arguably every year.

The 'Green Agenda' and energy/flight costs will have a determining effect also on the amount of travel endorsed by organisations and that may create an unintentional risk consequence. It may also mean that network managers are expected to cover many more markets on a visit than before e.g. Latin America or APAC.

Wherever the matter of on-site vs 'remote' due diligence settles in the short term, service providers will need to continually be aware of the malfeasance that consistently comes to light in businesses globally. Whether that be things like the demise of the Woodford Equity Income Fund and the assertions that Link performed its 'due diligence' role ineffectively, or Archegos, where it appears that few groups performed adequate due diligence, or La Patisserie and audit failings, to 'diesel gate'.

While post trade activity may not give rise to the same risks as the investment management world, surely it cannot be that \$300 trillion of invested assets is entrusted to an environment which is satisfied with service provider generated MIS, and an occasional zoom call.

Ross Whitehill
Chief Executive Officer
Thomas Murray



The Rise Of Global Securities Class Actions - Are You Ready To Capitalize?

Following the US' lead in securities class action activity, a changing legal landscape and more complex securities are making class actions increasingly common in over 35 jurisdictions in Europe and Asia. Investors are now looking more closely at these opportunities not only from an investment recovery perspective but also through an Environmental, Social and Governance (ESG) lens.

Global securities class action monitoring and recovery is challenging. Different jurisdictions come with different legal procedures, which require unique experience and expertise to navigate.

Three factors fueling global class action activity

1. Evolving legal landscape

Several countries and jurisdictions have passed new legislation to facilitate collective redress. Most notably, in 2020, the EU Collective Redress Directive established a legal framework for mass claims for both consumers and investors of the 27 member states.

In November 2021 we saw the first ever securities class action settlement in China, after a court found that a pharmaceutical company inflated its financials and failed to disclose material information to its investors.

2. ESG disclosure practices and regulations

To attract investors, corporations now regularly include ESG disclosures in their regulatory filings and ancillary reports, such as the corporate sustainability statement. Overstating ESG performance or material ESG failures have been the main catalyst for bringing class actions against corporations. As more corporations participate in ESG disclosure, it is likely that more litigation will follow.

Compounding these issues are the evolving regulations around ESG disclosure, which are likely to create uncertainty, and thus the potential for increased securities class action activity.

3. Increasing funding

The EU typically practices a litigation funding model where third-party investors finance the legal costs of filing and litigation in exchange for a percentage of the settlement (vs US law firms assuming upfront costs and risks). These practices reduce the risks and burden on claimants, which provides greater opportunities for investors to seek legal redress and potentially drive corporate governance changes within the corporation.

Global class action recovery is complex

In the US, the adopted model is opt-out, which means you as an investor, are deemed to be part of the class unless you actively opt-out of the settlement. Cases usually follow standard, robust, and well-defined procedures.

By contrast, outside of the US, most of the jurisdictions adopt an opt-in model, whereby you must actively opt-in to the litigation to recover your investment losses. Each jurisdiction has its own procedures for registration, with various levels of participation requirements. As a result, there is no automated process that can be followed, so the considerations for an investor are very different.

Choose a partner you can trust

Having the ability to navigate the complexities of the global landscape is vital and with that there's tremendous opportunity to capitalize on investment recovery opportunities. Outside of the US, successful registration and recovery requires not just expertise, but also local knowledge and deep strategic relationships with law firms and litigation funders who work with investors to recover losses. That's why so many financial services firms and institutional investors partner with Broadridge. Contact us to find out more about how we can help you confidently handle class actions and collective redress proceedings, worldwide.

Trip Chong
Director
Business Development
Broadridge Financial Solutions



Asset Managers Will Drive The Token Revolution And Custodians Will Follow Their Lead

Custodians have responded cautiously over the last ten years to the cryptocurrency phenomenon, waiting for clients to lead and regulation to catch up, but the economics of the asset management industry are arguing for a more adventurous approach over the next decade.

Custodian banks rarely seek to master their fate. Their collective response to the cryptocurrency phenomenon over the last ten years illustrates perfectly their ingrained preference to follow their clients rather than lead them. Internal cryptocurrency enthusiasts were disappointed and even exiled until 2021, when institutional clients and wealth and asset managers started buying Bitcoin.

Since then a string of major custodians (BNY Mellon, Citi, Northern Trust, Standard Chartered, State Street) have formed digital asset custody partnerships with specialist providers that can help them safekeep the private keys to a (narrow) range of cryptocurrencies. The caution was understandable. Continuing legal and regulatory uncertainty is a major inhibitor for regulated institutions.

The SEC has raised the stakes by putting crypto-assets on the custodial balance sheet

That uncertainty increased significantly in the spring of this year when staff at the Securities and Exchange Commission (SEC) issued an accounting bulletin that encouraged custodians of digital assets to record their value on both sides of the corporate balance sheet¹. Coinbase, the cryptocurrency exchange that provides custody services, has already changed its accounting policy.

Traditional custodian banks are understandably dismayed. Though assets-in-custody have over the

years found a variety of ways on to the balance sheet, in the shape of making customers whole for losses and in capital allocations for operational risk, the main attraction of the custody business is that it is an off-balance sheet activity in which investors pay banks fees to safekeep their assets.

On the face of it, the SEC advice was bizarre. The premise that custody of crypto-assets is inherently risky is mistaken. In an industry thick with well-equipped thieves, crypto-assets held in custody have yet to be lost. Worse, the SEC advice risked driving crypto-asset custody away from regulated, well-capitalised banks and into the embrace of unregulated, thinly capitalised technology firms.

The SEC is right that crypto-asset custody risks are different

Yet it is hard to fault the logic of the SEC. A large part of their reasoning is the self-same legal and regulatory uncertainty that deters the custodian banks. If the private keys to customer assets are lost, the balance sheet could be hit by loss of revenue and claims in litigation, bankruptcy suits and enforcement actions that are open-ended precisely because of the uncertain status of crypto-assets.

Custodians have a record of becoming the fall-back (or fall-guy) when investors lose money. In Europe, the Alternative Investment Fund Managers Directive (AIFMD) and the fifth iteration of the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V) both made custodians liable for client losses even when they do not control the assets. The Market in Crypto Assets regulation (MiCA) repeats the pattern for cryptocurrencies.

The SEC also rightly highlighted the unique technological risks associated with crypto-assets, which are absent

in the case of conventional financial assets. Whoever controls the keys controls the crypto-asset, making it much harder to distinguish between the principal (the asset owner) and the agent (the custodian bank). In that light, putting the assets on both sides of the balance sheet makes sense.

Security tokens are likely to prove a lot less familiar than custodians expect

A crucial question is whether the same logic should apply to the major crypto-asset opportunity now before custodian banks: security tokens. Unlike cryptocurrencies, security tokens are not necessarily owned and controlled by whoever controls the private keys. Lost security tokens can in principle be cancelled and replacements issued. Security tokens also fall within existing laws and regulations.

But these comforting thoughts almost certainly under-estimate the weirdness of a tokenised future. There is a temptation to see security tokens as rooted in the analogue world of corporate and fund issuers and real-estate owners. On this view, they are easily mistaken for variants of the “wrapped” conventional stocks and ETFs now available on cryptocurrency exchanges such as Bittrex.

It is as if tokenisation will consist not of innovation but migration, as conventional stocks and bonds and funds transform themselves into tokens, and physical assets such as real estate and privately managed assets such as private equity and private loans adopt tokenised form as a relatively liquid alternative to private placements. In other words, security tokens will be tokenised assets.

Tokenised assets will not be the dominant form of security token

In reality, the fastest-growing security and fund tokens will probably be more like cryptocurrencies than tokenised assets. They will not be linked to assets but exist in digital form only (like “native” cryptocurrency coins) and offer investors not capital appreciation plus dividends or coupons plus redemption proceeds but streams of value purchasable with, payable in and resolvable into tokens.

In common with the axiomatic promise of digital technology in general as expressed by the Turing Principle (anything physically possible can be simulated in a computer) all existing financial instruments, including equities, bonds, money market instruments, futures and options and complex derivatives, will be simulated by combinations of different value streams.

Tokens will be issued not onto exchanges (not even centralised cryptocurrency exchanges such as Coinbase) but on to decentralised networks of networks of nodes controlled by issuers, investors and intermediaries that work out how to add value to transfers of tokens between issuers and investors. Limited companies will give way to Decentralised Autonomous Organisations (DAOs) that reward employees and customers as well as owners.

The industry needs not greater efficiency but an entirely new modus operandi

This is the likeliest outcome. That is partly because the costs of migrating existing securities and funds would outweigh the benefits. But it is likely also because the ultimate value of tokens lies not in their ability to mimic existing securities issuance, trading, settlement and safekeeping practices at lower cost but their potential to shift the securities industry on to an entirely new operating model.

Increasingly, asset managers recognise the need for drastic change. According to data from Clearglass, the service that tracks what institutional investors pay asset managers, the average fund in the United Kingdom is already achieving cuts in fees paid that oblige managers to cut total operational costs to just over five basis points if their profit margins are not to be squeezed still further.

An operational cost ratio that low is unachievable by the prevailing methods of outsourcing, offshoring and process automation, not least because of the additional regulatory compliance costs that the drive to “operational resilience” is imposing. A radical change, which reshapes intermediaries where it does not eliminate them, is necessary. Where asset managers lead, custodians will follow.

Dominic Hobson
Co-founder of
Future of Finance



1. Securities and Exchange Commission (SEC), Staff Accounting Bulletin No. 121, 31 March 2022,

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Operational Resilience: Five Areas Of Focus For The Next Gen Network Manager

Operational resilience has been severely tested over the last three years and will continue to be for the foreseeable future. The fact that major infrastructure providers now have explicit roles in Risk, Control and Business Resilience is symptomatic of the importance of these areas.

We see five main areas of focus for Network Managers and, with possibly wider remits, Vendor and Provider or Supply Chain Managers: data, systems and people; risk and intelligence; automation and finally 'impact', in the sense that operational resilience feeds into better all-round performance.

Data is what makes this part of the Banking World go round: the unavailability of data was the single most concerning aspect of the early days of the pandemic. Paper-based records, disparate platforms and federated (so-called) 'solutions' exposed low levels of integration, security, data integrity and access control. When controlled, availability of the right data at the right time to the right people became a paramount consideration. The preservation of privacy and a verifiable audit-trail around that data are increasingly important to the value proposition.

The judgement and assessment of the data is down to people, but the availability of the data should be made possible by systems and processes. Systems that contain integrated workflows that deliver those processes, start to become very valuable. Moving away from the federated approach, which often develops inadvertently over years, where tactical solutions sit side-by-side but do not talk to each other, delivers greater security, better continuity, and easier governance.

Judgement calls around risk and relative levels of risk, extending into tolerance of risk, are fundamental considerations: are we generating the right intelligence, based on the information available? How might our ability to deliver service levels be compromised by incomplete data, 'slow' data, or data that is not instantaneously available? If we are not organised operationally, can we access that data immediately?

Most organisations have reams of information available to them, raw data at the most basic level; but not many successfully convert that information into genuine operational or commercial intelligence. Getting the correct building blocks in place is the critical starting point.

Lastly, 'impact': how resilience feeds into better performance operationally and commercially. Historically, throwing human resource at a problem might have been one approach to shoring up operational resilience. Even then, success might have been difficult to replicate when the next crisis hits. But secure, functionally robust software platforms, highly fit-for-purpose by design, are key in underpinning operational resilience going forwards. Enabling a move away from manual processing and paper-based, even excel-based record-keeping, facilitates automation and opens up value-added roles rather than more administrative ones. Operational resilience is vested in the right people having the correct data at their fingertips, whenever it is needed. Investment in third-party platforms which have a proven track record, will realise this vital outcome.

Simon Shepherd
CEO
MYRIAD Group Technologies Ltd





14 years after a multidisciplinary team was created, to assess the possibility of integrating the stock exchange markets of Colombia, Perú and Chile, their shareholders have finally approved the integration, which will be operational in the third quarter of 2023. We can now say that a New Andean Market was born.

The main objectives of the New Andean Market are: (i) the development of a regional market-place through the creation of a standardized business model, leveraged on the synergies brought by new technologies and operational flows; (ii) granting access to more than one thousand issuers, offering access to three stock indexes; and (iii) enlarging the number of counterparties, since all the stock members of those three countries will be able to access the same modern and reliable platform.

The three stock exchanges have agreed to create a new holding company, incorporated in Chile, in which the Chilean entity will hold 40%, the Colombian entity another 40% and the Peruvian entity the remaining 20%. This combination will not only include the Stock Exchanges, though. In fact, the CSDs of Colombia and Perú will be integrated, as well as the CCPs of Colombia and Chile and price vendors from Colombia and Perú. It is important to highlight that the Chilean CSD (DCV) and the Colombian Stated-owned CSD will not be included at this stage.

According to the information disclosed by Juan Andrés Camus, Chairman of the Bolsa de Valores de Santiago, "that Holding Company will be the owner of the three Stock Exchanges, which enables the implementation of the same system for clearing and settlements process, in order to be able to close deals in a simultaneous way, facilitating the next phase and making easier the interaction from any of the three countries".

On top of that, a better market capitalization is expected for the new Andean Stock Exchange, because of cost-efficiencies achieved in products and market developments, based on the fact that these efforts will be made following a single Corporate Governance and, finally, the market participants will benefit from higher diversification, based on new asset classes and investment opportunities.

Apart from the great news that the mentioned integration supposes, in terms of expected volumes and revenues, one should also look at the challenges that it might bring. The very first challenge will be the alignment of the respective regulators in the harmonization of the market regulatory framework. Secondly, the CSD platform! At this point in time, neither DECEVAL nor CAVALI have defined who will provide it, and which standards will be implemented. Thirdly, the short timeframe to accomplish the goals of the project, bearing in mind that there is no definition as of yet regarding the currency to be used in the settlement of the transactions, the market schedules and time-zone (i.e., Santiago de Chile is +/- 2 hours from Lima and Bogotá) and, finally, but no less relevant, the tax-related aspects.

Notwithstanding the fact that important efforts, advances, and results are being disclosed to the market participants, it is fair to say that the operational managements of the CSDs and its standards, will define the future of the settlement of the transactions. In the meantime, custodians that participate in the three markets – as it is the case of Santander CACEIS – will keep supporting local and foreign investors alike.

Manuel F. Suaza Muñoz
Head of Clients,
Santander CACEIS
Colombia



caceis
INVESTOR SERVICES

Achieving Cost Optimization And Transparency In Brokerage Fees And Billing Operations

As banks face mounting costs and operational pressures, trade expense management has become a key area for optimization and improvement.

While investment banks reap the rewards of a busy period in trading, healthy returns mask a costly issue at the heart of their operations. Brokerage, clearing, settlement, tri-party, custody, funding, and regulatory fees are costing them millions each year and reducing profitability, but many lack transparency into precisely where these costs are incurred.

Reliance on legacy technology is one part of the problem. When new geographies, jurisdictions and products are added to business flows through organic growth, legacy systems are often not designed to scale or automate to the expected levels. When growth is the result of M&A, replica systems are added to further complicate the overall infrastructure. The original business, its associated costs, and the systems deployed to manage it, may have been well understood, but lack of automation, and the inability to persist data through the processes mean that many firms struggle to understand the real drivers of these costs.

Addressing the trade expense issue is not just a back-office problem. An inability to get a handle on where and how these costs are incurred makes it difficult to renegotiate rates effectively or provide a seamless client service around billings and payments. In some cases, these issues affect decisions on capital allocation.

Much of the data required to help firms understand their trade expenses resides within disparate front office systems. With neither completeness nor granularity of data, there's no accurate or reliable view of what has been paid to which brokerage counterparty, giving a distorted picture of where an organisation is profitable and where it is not.

Data digitization, transparency, and workflow automation are key to revealing where costs are being consumed, but these data roadblocks are all prohibitors to moving to a fully digital platform and reaping the benefits available.

For those looking for a way forward, technology can play a part in a fully automated front-to-back solution. Among many other possibilities, AI can read digital invoices, predict trade expense performance, and optimise decision-making. Cloud technology can help reduce the cost of ownership for new services and enable rapid scaling.

However, if these technologies are to deliver promised benefits, the underlying problems with disparate legacy systems, dispersed data repositories and non-digitised data need to be addressed.

The answer lies not in a big bang replacement, but in adopting an iterative approach to reduce upfront costs and, by early delivery of measurable results, demonstrating value. Overall operating costs can also be reduced by streamlining infrastructure and processes, creating standardised workflows and centralising activities across business lines, asset classes and regions. This builds data-derived evidence from which to negotiate better rates – with brokers and with business partners – and further strengthens the business case.

Faced with increasing costs, operational inefficiencies, compliance challenges, and sub-optimal client relationships, banks are increasingly seeking out the right technology and expertise to address this opaque area of their business. Those that do are set to achieve substantial efficiency gains and cost optimization across their business.

A more detailed exploration of this topic is available in Meritsoft's survey report:

[A New Era for Trade Expense Management.](#)

Daniel Carpenter
CEO
Meritsoft,
a Cognizant company



Meritsoft
a cognizant company

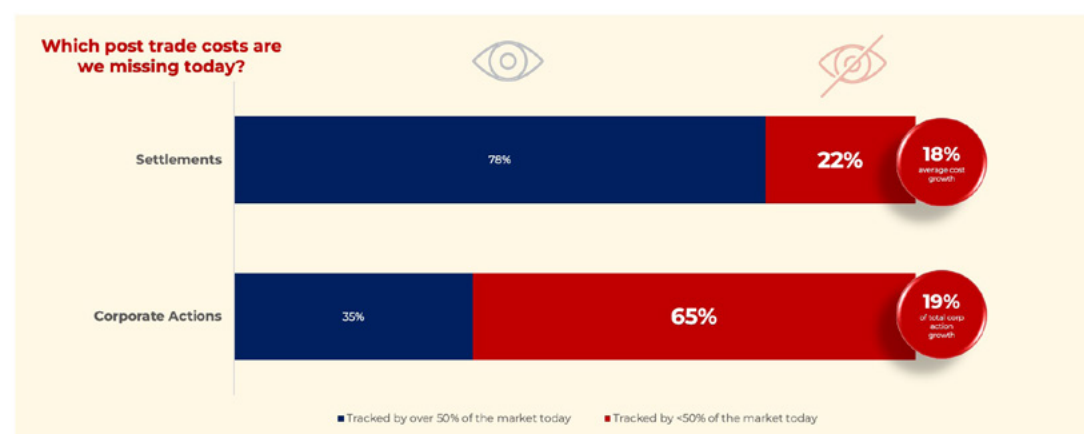
What Are Our Grey Costs Per Trade In 2022?

In April / May 2022, the ValueExchange understood its second “Grey Costs per Trade” research campaign – to provide statistical clarity on what our post-trade costs look like today and to map out how those costs are changing. As a truly global initiative (run with the support of The Network Forum as well as ACSA, ASIFMA, AFME, the DTCC, Smartstream and TMX), the campaign brings together views from market participants across all stages of the investment cycle – based on both statistical survey-based data and outputs from extensive industry working sessions.

The Key Findings from this research are available to download at <https://thevx.io/campaign/grey-costs-per-trade/> but, if you only have time to remember five points from our research, these would be:

What do we know about our trading costs?

We're partially blind to our costs today. Is poor cost visibility driving poor cost-control decisions?



1. We still don't have a clear view of our costs per trade

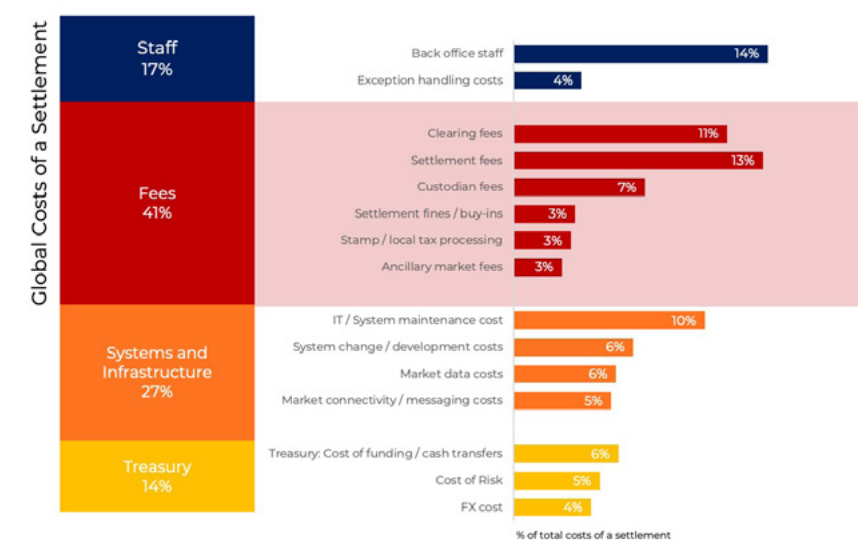
In 2020, our research highlighted that half our industry was failing to track 29% of the costs of a trade. On the basis that we can't fix what we don't see, we are carrying a hidden, 30% margin of error in the efficiency of our cost management efforts.

The story is a little more nuanced in 2022. Today, half of us is missing 22% of the costs of a settlement – as we continue to overlook the costs of exception handling and the cost of risk in our volumetrics. We have made huge progress in measuring our standard processing costs (our market fees, our unutilised people-costs and our system spend) – but our visibility diminishes quickly when the settlement fails to match.

That cost visibility continues to diminish as we move further into the back office and into the world of asset servicing – where half the market is failing to track 65% of the cost of processing a corporate action. In the highly manual world of event processing, very few of us can even agree on which costs to even track (beyond business-as-usual staffing costs, data sourcing costs and IT spend) – making benchmarking and transparent comparisons almost impossible between teams and firms. We can't reliably say what good looks like for corporate actions today.

What's in a settlement?

Fees remain an immovable settlement cost



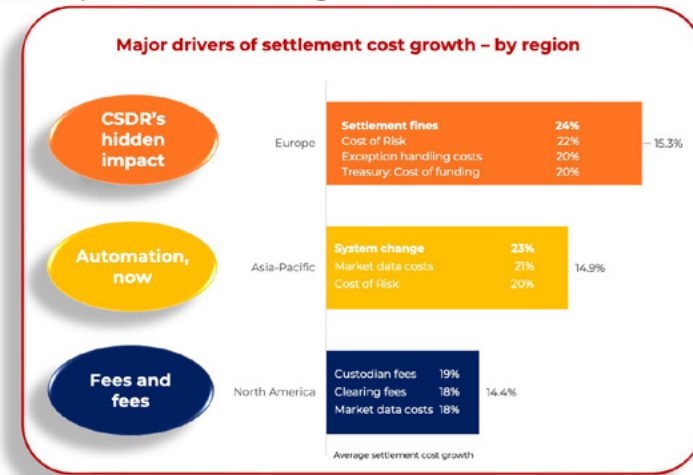
2. Costs of a Settlement: Is it all about fees?

Against this backdrop of overlooked costs, it is not surprising that we consider market and custodian fees to be the largest cost that we bear in an average settlement – ranging from 26% of a settlement in North America, to 29% in Europe and 36% in Asia-Pacific. These costs are more than double the staff and treasury costs of a settlement and clearly justify significant attention – if two-fifths of the cost to an investor in a transaction is generated by the marketplace.

Mos impacted by these fees are broker dealers – for whom fees make up 47% of their settlement costs today and for whom the cost of fees are growing by 30% year-on-year. Given their transactional business model, this rapidly escalating cost base is a great cause for concern – brokers need urgently to find ways to optimise their fee structures if they are to find a sustainable path to growth.

What's in a settlement tomorrow?

Hidden consequences of change

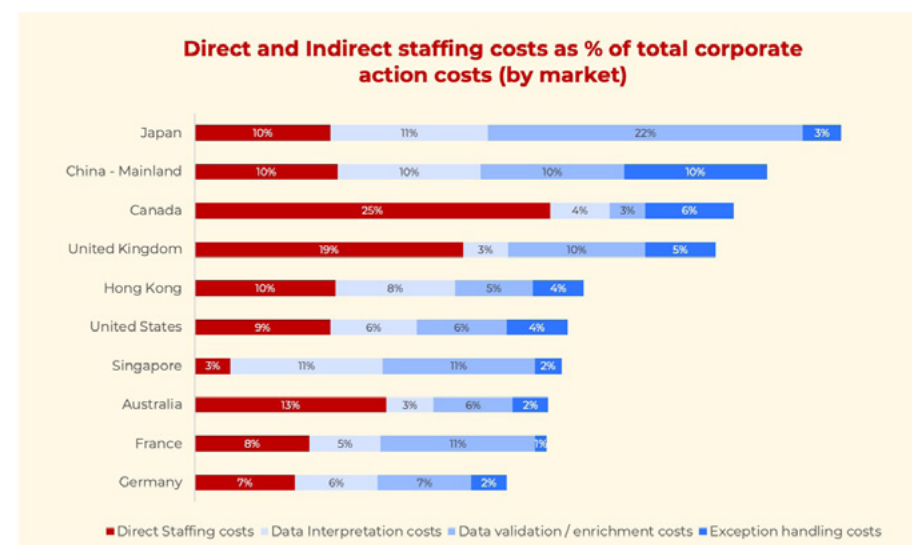


3. The full cost of settlement discipline

This urgency is especially acute in Europe, where the full impact of CSDR is becoming increasingly clear. For European market participants, the cost of settlement fines is the #1 driver of cost growth in 2022 – but what is important is that the associated costs of settlement fails are also rising at a rate of 20% or more. Beyond just the direct cost of the fail, Europeans face an escalating cost of risk, spiralling exception-handling costs and increasing costs of funding. There is much more to CSDR's impact than what we see in the latest reports and – with no fails regimes being considered in Canada and other markets – we clearly need to improve our end-to-end cost tracking for fails if we are to scale in this new regulatory environment.

What's in a corporate action today?

The hidden costs of manual processing



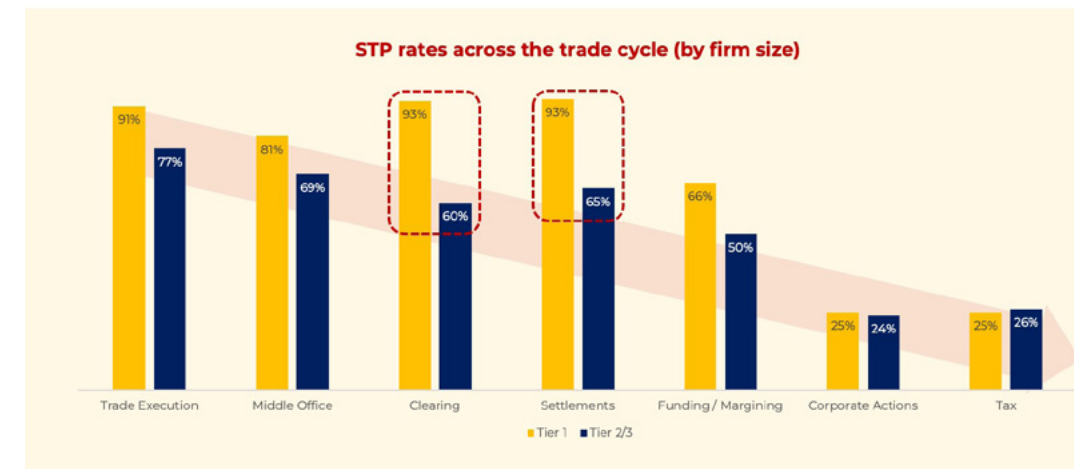
4. Corporate actions – the hidden cost of people

As our previous studies have highlighted, the central theme in corporate actions continues to be our under-estimation of our manual processing costs. At first glance, we believe that around 9% of the costs of a corporate action are due to direct staffing costs – but when we dig beyond the headlines we can see that a further 18% percent of corporate action costs are driven by people-based tasks (including data entry, validation and exception handling).

In truth, around a quarter of the costs of a corporate event is people-based today – and that disparity between visible and hidden staffing costs appears to be strongest in Asia-Pacific (where costs direct costs are around a quarter of the true, human costs of processing). Given that these same costs are growing by around 26% year-on-year, we need to be very careful to see past our direct headcount allocations and to measure the true, human costs of a corporate action.

What is driving our post-trade costs?

The cost and risk is in the mid tier



5. Mid-tier: a risk hot-spot

Finally, the disparity in STP rates globally between tier-one firms and mid-tier firms is a significant cause for concern – in the banking and brokerage space especially. Whilst the average STP rate for a settlement is 93% for tier one banks and brokers, their mid-tier equivalents struggle to reach levels of 65% in major markets. By the time we reach the world of asset servicing, STP rates are around 25% globally.

In an era of accelerated settlements (notably T+1), settlement discipline (CSDR), shareholder disclosure rules (SRD II) and the War for Talent, this underlying lack of automation in the mid-tier presents a major market risk. Whilst the average tier 1 organisation is able to meet these challenges by increasing technology investments into settlements by up to 10% year on year (and by over 20% in corporate actions), their smaller peers are unable to match these same spending levels and hence are likely to fall further behind in their automation and cost control. As this cost gap widens significantly in the years ahead, we look set to see continued consolidation and mutualisation.

Benchmark your own costs per trade today

Do these points resonate with your cost base today? Don't miss the chance to benchmark your own post-trade costs with those of your peers and industry leaders.

[Click here](#) to complete our online survey and to receive your own, personalised benchmarking scorecard from the ValueExchange.





Williams: The History

After more than thirty years since the 'birth' of this illustrious event, I have been asked to provide the background behind its history. Alas very few of the original members attend the event so the story will help those relatively new attendees.

It's really a matter of where, when, and why.



In the very early nineties folks from Northern Trust and Midland Securities Services would meet for a glass of lunch at the Williams pub. At that time Northern was located close by. Coincidentally the writer and Barclays Global Securities Services would meet socially at a bar around Leadenhall Market. A

bright spark suggested a combined meeting of minds and 'Williams' it was!

Whilst formality and "Williams" do not go together, it was decided the get together should occur on a quarterly basis to start around lunch time. The dozen or so members rapidly grew in number and for ease of bar administration it was agreed a £10 whip be introduced.



Clearly there existed good friendships in the custody business and it could be said 'Williams' was ahead of its time. For the main part, the original cast was made up of Network Managers and discussions revolved around country sub custodians in the way of travel logistics more so than service qualities. This predated any formal rating of global providers.

Word of mouth of the event spread and it was not long before many of the UK custodians joined the merry band. The interest reached overseas and international parties soon followed. Over the many years and with growing interest, numbers increased considerably. No longer the domain of Network Managers, 'Williams' welcomed sales managers and brokers, industry magazine editors and Depositories. The pub was bulging at the seams and consideration was given to a change of venue. It is difficult to say precise numbers of attendees and in particular the December event was really busy with brave souls



spilling over outside the pub weather permitting. Best guesstimates would suggest upwards of 150. After careful deliberation, traditions and cost factors meant we stayed put.

A victim of its success and the increasing cost of drinks resulted in the whip increasing to £20. More recently the format changed and a pay as you play was introduced. The advent of political correction was in part the cause of moving the event to bi-annual and a more acceptable start time of 4.00 pm. This however did not mean festivities coming to a close early and for some it was a late evening.

Many stories told and most remain untold - what happens in Williams stays in Williams. However, a few amusing anecdotes over the many years. The writer recalls one excited German sub custodian enjoyed the event so much he considered arranging a smaller gathering in Germany. He asked for the Agenda and so rather missed the point! Again in early times a UK custodian issued an RFI for the Indian market. A salient question; do all staff have access to computers? The answer was definitely yes. It was only during the on-site visit that it was identified

that staff lined up for 15 minutes or so, one after the other to permit electronic communications. In a way a precursor to STP (straight through people). A few sponsorship approaches were made over the years but all graciously declined as this was not in keeping with the impartiality and ethos of Williams.



The writer has deliberately not identified individuals as too many to mention but it would be remiss not to mention the invaluable work of my good friend and partner in crime, Paul Chapman of HornbyChapman and it is he who makes the necessary arrangements and meets the cost of the canapés in the evening.

All in all, a great success story.

Peter Shepherd





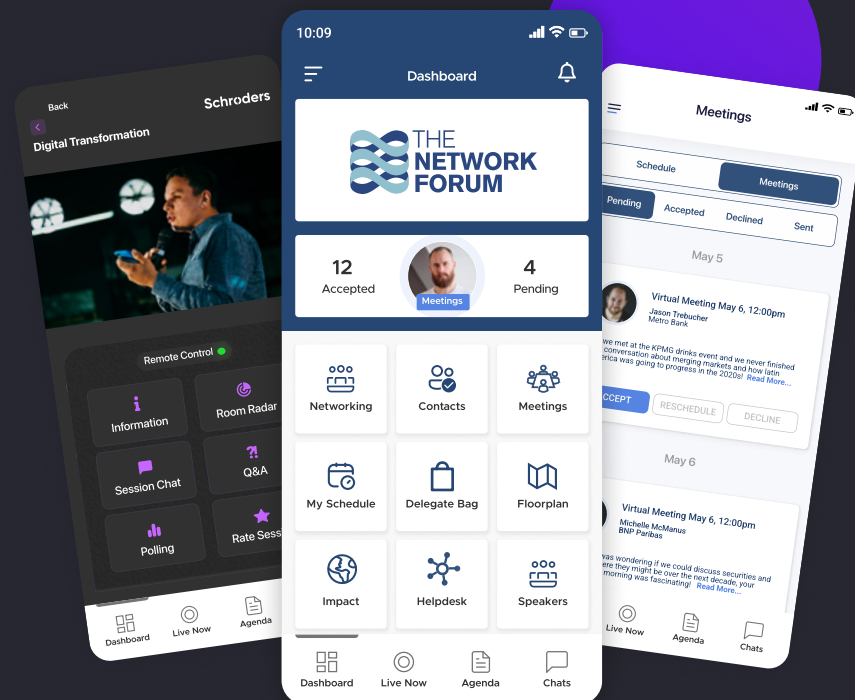
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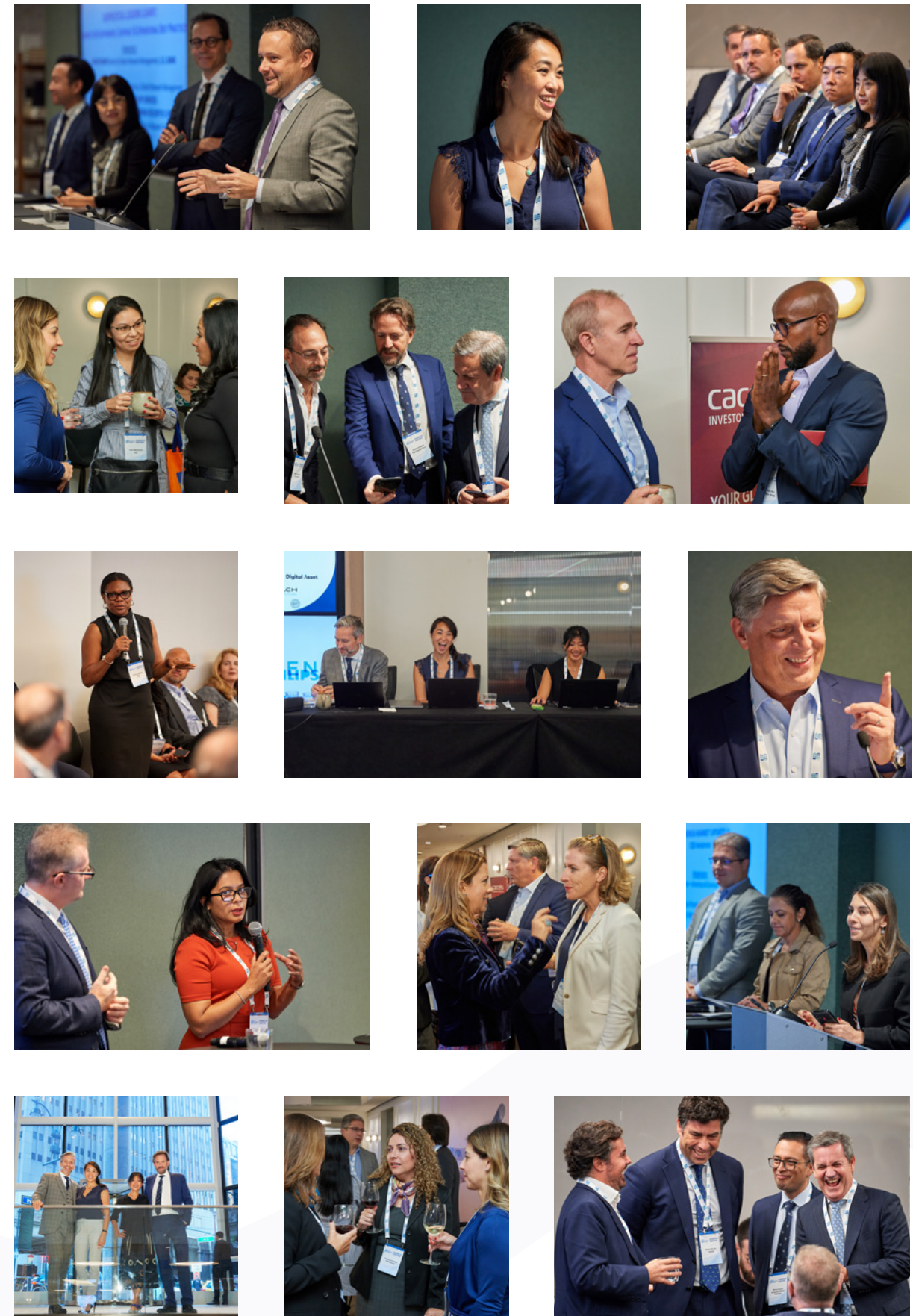
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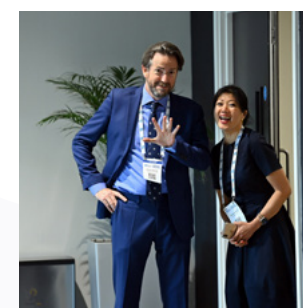
Americas Meeting 2022



Annual Meeting 2022



Annual Meeting 2022



An Ode To Reality (?)

By Rupert Booth



In the Summertime of '22,
To the great delight of me and you,
The Network Forum came back out swinging
To set the Investment Bank world singing!
At last – up close and in-the-flesh,
We got together to discuss afresh
How we keep our banking world turning,
Our kids in shoes and ourselves earning.

The past two years were just not cricket,
This return to form is just the ticket...
As we take our guard before the sticks;
The ball is bowled – it's hit for six!

Look - I know this cricket theme is boring.
Setting the uninitiated snoring,
We were at the Oval – so please allow
This wannabe Warne to take a bow.

But back to business, you'll be relieved
The show - too good to be believed -
Brought us together in person this time
Forced separation's been such a crime;
The summer sunshine set the mood
And another highlight – decent food!

Due Diligence, Big Data, API's,
Hit us right between the eyes,
The Future of Custody, Digital Assets,
There was no end to the multiple facets
That formed an agenda crammed with stuff
To challenge every financial buff.

The brilliance of the assembled exponents
Of banking ops and its many components,
Shone from panels and huddles alike -
As Mr Barman did when he took the mike.
Rachel, Anismah and Mr Jones
All worked their fingers to the bones,
In a textbook display of Disaster Recovery
At an inspired venue - what a discovery!

The party's over but there's fun,
Ahead of us – the year's not done -
Gird your loins and spur your brain
America's show is coming around again
In New York City, and wait, there's more...
We then go East to Singapore!

TNF is on it, see?
Delivering value – you will agree...
And let's be honest, since we're all mates
(As well as conference delegates)
We must be back...to work and frolic;
To miss it would be diabolic!

Right, I'm done – in fact quite knackered:
Hungover, unshaven, looking haggard...
Like many...but the show remains
Forever planted in our brains.
So enough for now and au revoir
Team TNF – you've been a star!