THE NETWORK FORUM JOURNAL

Connecting Financial Institutions Worldwide

Issue 6

Contents

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Welcome

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It's hard to believe 2020 is almost at a close, and at the time of writing it feels like we are reliving March all over again as a second wave of the pandemic sweeps across Europe. It is very apparent that the whole world is facing its own challenges, but there does seem to be a feeling that our friends in the East are managing to slowly get some sort of containment in order.

We at TNF have been hard at work these past few months planning The Autumn Virtual Meeting, soft launching a new TNF Training offering and collating this latest Journal. But much of our planning has also been trying to diarise next year's Meetings. We have pencilled in physical meetings for Jo'burg in March, Warsaw in June, New York in October and Singapore in November. While we can't wait to reconvene in person (that is how we all got to know each other in the first place), we need to be pragmatic and prepare for the worst. This means that if we cannot hold gatherings in person, we will continue with not only our Virtual Summer Meeting, but will also be holding Regional Focus Virtual Meetings in 2021. We feel so lucky that we have gotten to know so many of you on the road over the years – which makes the Virtual world that much easier to engage with. We recognise all your faces and there is a warmth and trust in our community that can't be beaten – so to meet in any format brings a great satisfaction to the Team at TNF.

In this, our 6th edition of the TNF Journal, we have some truly excellent and timely content shared by our Friends and Partners. We are pleased to share the highlights of the Asset Servicing Survey conducted by our friends at The ValueExchange. Some of these results will be explored at a special session at the Autumn Virtual Meeting hosted by TNF together with co-supporters of the survey ISSA and Broadridge.

Due Diligence, Digitalisation, AI and Business Transformation all receive new perspectives in this edition, and special market focus is spent on Nigeria and also Latin America – two regions that have panels of experts present at the Autumn Meeting too.

We wish you all the very best as we head towards the final weeks of this most unusual of years, and would like to raise a toast to better days to come. We miss our TNF Family – which means we miss you!

In the meantime, happy reading and stay well.

Andrew Barman

Managing Director
The Network Forum

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The Network Forum are honoured to be supported by The Founding Partners below.

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Finding Something Good In Something Bad

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We all live with sub-optimal practices. This is particularly true in our industry where the cost of failure is so high that experimentation and innovation are inherently difficult and even institutionally discouraged.

With Covid 19, the imposition of unwanted constraints has forced exploration and improvement. We should heed Winston Churchill's advice to 'never let a good crisis go to waste' and grab this opportunity to improve our productivity.

There are many examples, let me mention just three.

Homeworking

Firstly, there is homeworking. Despite research showing that homeworking is more productive than office working, our industry had been slow to embrace this. I am a late convert myself. Now it looks so obvious. Cut out the commute and spend the time saved more productively.

However, although access and controls turned out not to be show stoppers, there are a few problems with homeworking. Without safeguards, homeworking can lead to mental health issues. Even those with comfortable workspaces need to build some boundaries between their professional and private lives.

Another problem is the lack of the unplanned, unexpected, informal dialogue that is so important to innovation. Finally, transferring knowledge and skills is surely harder.

Homeworking can deliver lasting productivity gains, improve lifestyles and be a very welcome new normal only if we can support fluid, innovative interaction amongst staff.

Remote collaboration

Tied in with this is my second example. Within today's restrictions, we still need to meet, inform, discuss and canvas opinion. Annual general meetings, conferences and off-sites are important to decision making, establishing a collective purpose, disseminating information and promoting collaboration and innovation. We really cannot do without them.

Although digital representation cannot replace every aspect of physical presence, in many ways it can be superior. A digital conference might not be quite as inspirational or as much fun as a physical conference, however it allows a broader and more geographically dispersed attendance.

Many of our meetings can benefit from remote attendance.

Digital documentation

The third example is how we have circumvented the need for paper documents. Companies replaced dividend cheques with money transfer. Documents with digital signatures were accepted where previously only wet signatures would do. This even included some of the cumbersome tax reclaim and relief processes that feel like they have been passed down respectfully, and without question, from generation to generation. If we did not get rid of physical certificates, we got better at transferring them.

There has also been an environmental benefit from these three examples. We have lightened our carbon footprints with reduced travel and discovered that we did not really need many of the documents that we had been printing.

In many ways these have been a difficult few months. However, the disruption has forced us to explore alternative and more efficient ways of working. With just a little more effort we can make further improvements and bank some permanent productivity gains from this whole experience.

This is just as well. The need to have more efficient capital markets is becoming more pressing. Sometimes you can find something good in something bad.

Alan Cameron

Head of Financial Intermediaries & Corporates Client Line Advisory. BNP Paribas

BNP PARIBAS

The bank for a changing world

THE NETWORK FORUM

Driving Transformation, Together

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A collaborative approach to assessing all digital tools and deciding which ones to integrate to reduce data latency, improve transparency and improve overall client experience will enable the front office to prepare for an uncertain future, says Deutsche Bank Securities Services

As digitalisation accelerates right across the securities landscape, operating and business models will change as the way people execute tasks or the technology they use evolves. "AI, data and DLT will be crucial for future transparency around data and people being able to self-service," asserts Michaela Ludbrook, Global Head of Securities Services at Deutsche Bank.

Taking this point further during Sibos 2020, the Securities Services Product Management team shared how it is assessing all digital tools and deciding which ones to integrate. Jeslyn Tan, Head of Product Management believes this requires "an open mindset to look at what you're solving for, and increased collaboration across the industry as we look to reduce latency in processing, increase industry response times and enable transparency by getting to the same piece of data. As we look to put all attributes together, instead of single organisations doing it for themselves, we can we collectively solve them."

Samar Sen, Director, Product Management shared how digital tools are being used to deliver tangible outcomes for the business and its clients in the area of work flow automation. Using APIs, the business has used these tools to provide real-time trade settlement status updates to minimise the manual inputting of settlement instructions; the launch of Chatbot Debbie being an example of this.

"With the idea of solving for operational efficiencies, we used our Chatbot Debbie to resolve the speed and accuracy need in trade queries where we unlocked some of the data from our core system, and automatically solved some of the workflows, using platforms like Symphony," explains Sen.

Going forward, Sen says the bank's API developer portal will unleash a further menu of unbundled services. "At our core we are unbundling our services and offering them via new channels such as APIs, which allows for much tighter integration between us and our clients. This will include real time data dashboards for exception handling, billing market entry tools, corporate actions, onboarding tax and a Digital Service Manager where clients can self-service on queries and issues," he says.

In addition, Securities Services is advancing its exploration of Distributed Ledger Technology (DLT), API, AI, data analytics and machine learning to deliver client-centric securities services with several use cases in play:

- Using DLT to automate the OTC bond lifecycle with digital "money" through allocation, primary issuance to secondary market trading and post-trade activities
- A pilot using DLT to enable beneficial ownership transparency in Europe, thereby simplifying compliance with regulatory requirements by providing investor beneficiary holding information while ensuring data privacy.
- Collaborations with a global custodian bank to develop an API-based FX custody solution that automated time-sensitive FX related processes.
- Using data analytics and machine learning, delivering a data analytics model that displaying clients' cash liquidity usage and how this corresponds to Deutsche Bank's funding provision in the market. Another tool, a settlement efficiency dashboard, uses big data to provide clients and operations with performance, volume and operating metrics

Visit *https://cib.db.com/insights-and-initiatives/flow/securities-services/index.htm* for more insights in how Deutsche Bank is automating securities assets

Deutsche Bank

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TARGET2-Securities: Maximising The Opportunity

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TARGET2-Securities (T2S) has been live for a number of years now. The original intent was that T2S would provide a common platform that would deliver the borderless exchange of securities and cash across Europe on the basis of a set of harmonised rules and practices. However, it has been clear for some time that the operational efficiencies delivered by T2S are not as extensive as originally intended. This paper examines how financial institutions can maximise the benefits of T2S and the various ways the platform can be implemented depending upon an organisation's business model needs.

Soft start, but momentum building

Implementation of T2S among potential participants has to date been relatively limited. Global custodians were the first to embrace it, more recently followed by some of the regional European banks, but major financial institutions - especially broker-dealers - are only now just beginning to review their strategic T2S options.

This could be attributed to an initial wait-and-see approach until sufficient T2S benefits became apparent to justify the major changes needed to grasp them. In addition, many organisations have still been expending considerable resources and bandwidth on achieving necessary efficiencies in the wake of the 2008 financial crisis. But perhaps the single biggest factor behind the slow take-up of T2S has been the resource commitment required to address the massive regulatory changes that had to be implemented in the last few years (e.g. MiFID, CSDR and SRD II). Nevertheless, despite a slow start, a growing number of organisations are now embarking on scoping and implementing T2S projects.

Maximising the benefits

While there has undoubtedly been considerable harmonisation across Europe, a very significant number of market-specific attributes have persisted under T2S, which have unfortunately prevented a more uniform harmonisation of operational procedures across the region. However, what has been achieved still represents a major step forward and is an important advance in terms of regional integration and process efficiency.

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Interestingly, one of the biggest benefits of T2S has been the significant liquidity efficiency introduced across the region. T2S's auto-collateralisation feature achieves very substantial reductions in the intraday liquidity required to fund the settlement process. In addition, the possibility of netting cash requirements across the region, where funding is consolidated into a single account, offers major advantages to those prepared to consolidate their T2S service requirements to - ideally - a single provider.

Choosing the right T2S business model

Perhaps inevitably, given the wide range of servicing requirements across the industry, there is no single best model to choose when implementing T2S. There are a multitude of options, requiring varying levels of investment in process internalisation by market participants. These range from the traditional sub-custody model, account operator or asset servicing only arrangements, to working with an Investor CSD as a de-facto custodian, or full insourcing and direct market access.

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Generally, the biggest efficiencies arise where an organisation internalises its funding by leveraging its Eurozone Central Bank access to self-fund its T2S obligations directly in Central Bank Money. This maximises the benefits of auto-collateralisation and unlocks material savings in the capital costs associated with having to reserve for third-party credit facilities. This approach is particularly attractive to broker-dealers with their large intraday liquidity requirements.

The associated risk mitigation benefits from direct CSD membership lead some clients to choose an account operator construct, for all or some of the larger markets, where they hold their positions in their own name at the CSD(s), while engaging an agent to manage and operate those accounts on their behalf. Large global custodians, with a focus on mitigating their exposure under their regulatory asset protection regimes, are most inclined to opt for such account operator models.

Consolidation opportunities

In addition to liquidity and servicing benefits, T2S also offers the opportunity to benefit from process consolidation by appointing a pan-T2S provider, rather than maintaining agent-specific processes. Some banks have taken this a step further by combining T2S custody services with automated trade execution capabilities, also known as execution to custody (E2C). This consolidates all process steps of the entire trade lifecycle into a fully automated and seamless flow, delivered via a single provider, thereby achieving end-to-end STP. An example of this is the automatic conversion of trade confirms in FIX format into SWIFT payment messages for settlement which dispenses with the need for middle office processes. There is a natural synergy here, given that E2C consolidates and outsources everything into a single pipe from the execution perspective, which fits well with T2S consolidation.

Picking the right partner

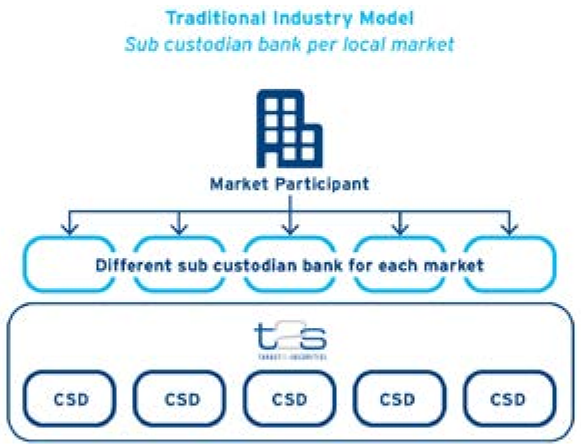
Given the major change that T2S represents, the right provider can make a very material difference to the benefits actually realised from the new platform. Perhaps the most obvious criteria here are the breadth and flexibility of the product offering: in both cases, the more the better. However, it is easy for a provider to make superficial claims about these, which on closer questioning may not stand up.

In this regard, asking the following questions will help institutions to ensure that they pick the right partner:

- Does the provider have direct (i.e. not via third parties) access to all market infrastructures?
- Does it maintain its own connectivity with issuer central security depositories?
- Does it hand off to third parties for asset servicing?
- What is the provider's legal structure?
- Can the provider tailor access models to T2S that may need to vary, market-by-market, depending on volume or client-driven dependencies?
- Are the provider's models live in production with reference clients?
- Does the provider support Central Bank funding as well as, or in conjunction with, its own Commercial Money capabilities?
- Can the provider offer seamless execution-to-custody across one fully STP platform?

Many of the potential benefits of T2S rely heavily on minimising interfaces and hand offs, so a provider that can deliver a full service from its own resources will clearly have an important edge in delivering an optimal solution.

A provider's legal structure will also have a major impact on the quality of service a sub custodian can deliver. The traditional industry model (even when dealing with a single sub custodian) involves dealing with separate legal custodial entities for each local market. This approach is sub-optimal as it sacrifices many of the potential benefits of the T2S platform.



By contrast, a sub custodian that operates as a single well-capitalised legal entity across T2S markets can deliver a number of important benefits, including:

- A vastly simplified contractual relationship
- Faster and smoother on-boarding
- Service consistency
- Improved cash pooling, with a single cash account per currency across all T2S markets
- Flexible account structuring, with options to segregate accounts by market, asset class, or client type
- Simplified due diligence and so more robust counter party risk management
- More competitive commercial terms due to volume pooling across markets
- Sharper deadlines

Conclusion

While T2S may not have delivered all the benefits originally envisaged, it still represents a major opportunity for a range of market participants. Each participant category - and individual organisations within in each category - will have differing needs and expectations in terms of both securities and cash/liquidity. This means that a provider's flexibility in enabling clients to mix and match business models on both the securities and cash/liquidity sides clearly adds important value, especially if it can deliver this within a consistent framework. By doing so, it will be maximising client organisations' T2S consolidation opportunities, but without constraining them within a rigid single business model and service proposition.

The Citi Advantage

Single Point of Entry to all major market infrastructures with dedicated operation support

Single Legal Vehicle – single contract across T2S markets resulting in streamlined due diligence and resolution planning

Open Architecture – flexible operating models which can be configured by market, client or business need

Cash Pooling – option to streamline to just one cash account per currency across all markets

Regulatory compliance – by having standardized regulatory solutions across T2S markets (e.g. CSDR, SRDII)

Reto Faber

EMEA Head of Direct Custody & Clearing
Citi

Duly Diligent: When On-Site Is Off-Limits

It is pointless to pay for on-site visits to conduct due diligence when (a) it is not permitted and (b) when superior technology can step up and do the heavy lifting at a much lower cost. When a return to self-ownership of the due diligence process is being encouraged by internal auditors and Regulators, then accessing the most versatile technology available makes a lot of sense. If the defining 'value-add' of a third-party service is the on-site visit, and that capability has been removed, then now is the time to review the technology underpinning the rest of the process – that which remains firmly under your own control.

The blow dealt to the due diligence process by COVID-19 has been cushioned so significantly by technology that it can continue almost unimpeded. It has, out of necessity, been a swift evolution, and with opinion divided as to the merits of a completely virtual process, there is no certainty as to the nature of the end product when on-site visits resume. Despite all this seismic change, there is no let-up in the need to please the Regulators, encouraging banks to avoid using third parties and take back ownership of their due diligence process. It remains crucial that Network Managers gauge the performance of their providers, to assess, and where possible, to minimise risk; whilst offices remain closed, technology offers the safest and best route to completion of the due diligence cycle.

Can all aspects of due diligence be wholly covered without a visit to the provider and the market? The answer is almost certainly not, so the alternative needs to be as robust as possible and one that preserves this year's effort into next year's cycle.

To reinforce ownership of the process and the data gathered, Banks conducting due diligence can now take back control and remove any reliance upon third parties, by using technology which automates much of the process, at the same time supporting aspects of due diligence which require 'manual' intervention such as the assessment of scored responses.

In this climate, the use of a standard questionnaire is to be welcomed; but since 80% of Banks seeking a response add their own proprietary questions, having a tool that embraces non-standard questionnaires adds dynamism and even greater value. The use of secure virtual environments like CODUDE is pushing along the due diligence process, and once the on-site visit re-emerges, the new hybrid formula will certainly be one to look forward to, however distant it may be. We at MYRIAD Group Technologies welcome our role of supporting the industry as this approach evolves and – hopefully - develops into best practice.

Ana Sancho

Global Head of Sales
MYRIAD Group Technologies Limited

myriad Group Technologies Ltd

THE NETWORK FORUM

Could Open Banking APIs Transform Post-Trade Services?

From its roots in the UK and EU, open banking has become a global phenomenon, as financial institutions open up access to their data to enable clients and approved third parties to exchange data and transact digitally via application programming interfaces (APIs). While APIs are currently more widely used in retail banking, the growing suite of open APIs available in the Securities Services post-trade space could create significant benefits, both in solving existing problems and creating new service offerings.

The trend towards open banking

While open banking started life in the UK and EU, the concept has expanded worldwide. In addition to regulatory initiatives, the trend towards open banking is becoming increasingly market-driven as market participants recognise the value of APIs as a means to exchange data and transact digitally, embed third party services, and leverage APIs as the 'pipework' on which new digital services can be built.

Consequently, open banking is not simply a regulatory or even technology issue. Rather, it reflects a new model for market participants – whether consumers or businesses – to interact and consume data and services. We have seen exponential growth in the use of APIs, particularly in emerging markets, given the ubiquity of smartphones in many of these markets, with mobile apps primarily based on APIs.

A catalyst for new technology strategies

This shift in thinking, and the growing expectation of a 24/7 instant digital experience, shapes how banks look at their enterprise-wide architecture. As we at Standard Chartered explore how to open our channels, enable and leverage distribution partnerships in different ways and with different client segments; and how we open, augment and integrate our product suite, our API strategy is a key part of this.

We are seeing growing interest from our clients in accessing our 130+ APIs on which to build their own services. Our aXess platform provides clients, partners and fintechs open access to our APIs, applications, and libraries. This has proved instrumental in supporting our clients' digital connectivity ambitions.

APIs facilitate the increasingly digital ways organisations do business, enabling them to meet demand for a frictionless, instant experience. For example, APIs power greater payment choice and convenience through QR-code-based products while users now top-up an account, access a digital service or upgrade a distributor limit instantly leveraging instant payment and instant/credit notification via APIs.

At the same time, APIs enable companies to embrace digitisation and automation in their own businesses by improving liquidity management, enhancing treasury operational efficiency, and establishing multi-bank, multi-country visibility through a single platform.

These value propositions are as relevant to institutional clients as corporations, even though the application may differ. Creating an instant, frictionless experience and full data transparency for clients is an important way to create competitive advantage. For example, a Singapore-based institution with a client in New York can use an API to avoid the impact of processing 'down time' that could disrupt the client's access to data during their working day, and instead ensure 24/7 access.

Over the past 18-24 months, we have been engaging with post-trade clients on their various problem statements and opportunities. Based on these conversations, we have co-created a suite of APIs for post-trade services to help clients increase operational efficiency, reduce manual processes, enhance data communications, and access value-added services. This includes securities transaction status reporting, holdings information and market information, as well as liquidity management and multi-bank connectivity.

For most of our institutional clients, the use of APIs complements, rather than replaces their core infrastructure and existing communication channels, such as host-to-host. Clients tend to explore the use of APIs and other technologies when embarking on a broader digitisation strategy, implementing new reporting or data requirements, or seeking to meet a particular operational objective. Wherever a client may be on their digital journey, it is important to have a vision of where their industry is headed, and what role the business will play in this. Only then should they consider what they need to achieve this. APIs may be an important 'transport layer' for bringing together data from multiple systems or stakeholders, or as the basis on which other services could be built, such as blockchain-based solutions, chatbots, data as a service or digital asset services.

A change in digital mindsets

The open banking API ecosystem continues to expand, but obstacles to its success and scalability remain, such as the lack of standardisation of API formats across banks. This could be frustrating for institutional clients with multiple banking partners. While this differentiation can help drive innovation and customer choice, standardisation is important to achieve scalability at a market level.

The connectivity opportunities that APIs offer also need to be balanced with security considerations, such as digital identities to control what data is exchanged and who can access it. Collaboration between regulators, banks and fintechs could reap considerable results in this arena. In some countries such as India, digital identity is managed at a country-level (Aardhaar) rather than bank level, which boosts speed and scalability of banking service delivery.

Open banking and APIs create new opportunities to solve problems and create new service offerings, not least in achieving instant, 24/7/365 services, and highly automated processes. Like any other technology, they are not a panacea, even though many organisations will benefit from APIs as they digitise their business models. The growth of APIs reflects a new way of thinking, co-creating and delivering digital services, not simply a new technology. Walls are being broken down across industries as they learn from and collaborate with each other. This mindset is valuable for exploring and delivering on the potential of APIs as well as the adoption of other digital technologies that may also play a complementary or even transformational role in the future.

Read how to ready your organisation for open banking APIs: **https://www.sc.com/en/feature/are-you-open-for-api-business/**

Standard Chartered

Capacity, Scalability And Agility: The New Principles Of Corporate Actions In 2020

61% of firms in our industry have paid out more than US$2 million in corporate actions compensation in the last 24 months - according to the latest ValueExchange / Broadridge "Asset Servicing Innovation" survey (run in cooperation with The Network Forum, ISSA, ASIFMA and Global Custodian).

In an era of extreme cost control and risk governance, few areas of our businesses are allowed to sustain such huge losses without very serious scrutiny. Yet somehow there is a collective fatigue around the corporate actions space. We've seen the big numbers many times before and yet we've managed to survive this far – so why would we put corporate actions at the top of our investments list now?

The answer: because 2020 has seen the world of corporate actions change significantly.

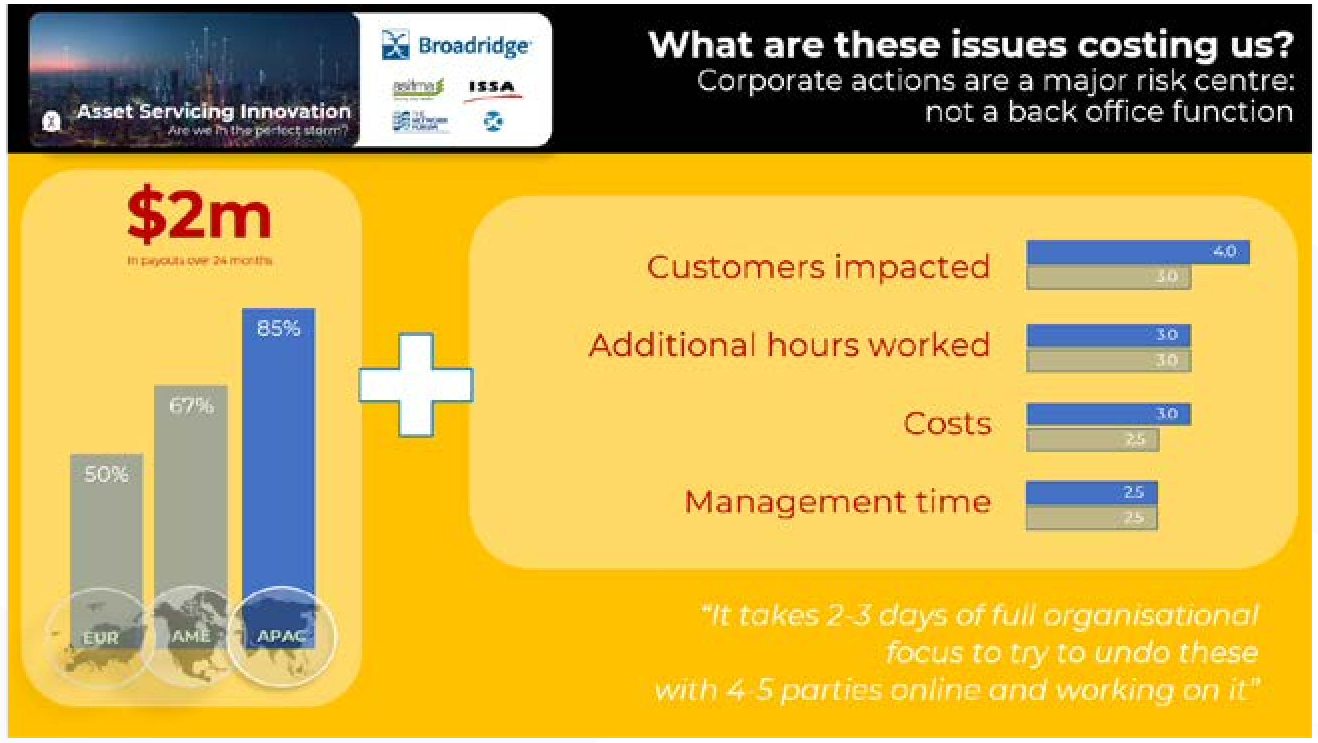
"This year's COVID-19 pandemic has combined with regulatory triggers (such as SRD II, SFTR and UMR) to create a 'perfect storm' of pressures on a part of our industry according to Mike Thrower of Broadridge. With new technologies and new standards now readily available, the corporate actions industry has more opportunity than ever to transform.

But how are we reacting to that transformation? After decades of inaction, are we now transforming as fast and fundamentally as our shareholders would expect to remove these exposures? And what is the right level of response? Can't we just hire more people like we did last time?

A new look at old truths

First let's recap on what we think we know about corporate actions.

A. Your corporate actions are a multi-million dollar risk centre



Calculating the costs of our corporate action risk is a dark art but it is clear that the total costs we each carry far exceeds the FTE costs of those processing our events in an offshore centre.

First come the payouts. Over US$2m in our survey but, anecdotally more likely to be in the range of US$5m to US$10m annually (particularly in Europe and North America).

Second come the extensive, hidden costs. Our survey found that each corporate action error triggers significant customer revenue impact (cited by 80% of respondents); additional hours worked (cited by 60% of respondents); increased costs (60%) and each failure draws on senior management time (50%).

"It takes 2-3 days of full organisational focus to try to undo these with 4-5 parties online and working on it – often including the CEO".

B. It's a long way from the front to the back office

There are many weak links in our corporate action infrastructures – but one of the biggest challenges that we face is agreeing on what matters. Whilst CEOs believe that around 95% of their corporate actions are processed automatically (supported no doubt by Sales and Relationship managers – who believe in around 90% automation); those in back offices and operations believe their automation to be closer to 40% of corporate action flows. It's hard to agree on how to fix a problem when we don't all acknowledge that it exists.

C. There is no single corporate actions problem

This variance in perceptions is easy to understand. In Europe and North America, mandatory events are perceived to be around 65% automated. In these regions it is the optional and voluntary events that cause an STP drag, owing to system limitations and the continued existence in the US of paper-based procedures. Asia faces a different set of challenges however: with much lower levels of automation in mandatory and optional events – due to significant obstacles in automating connectivity to local depositories.

Yet further downstream, all regions do share a common view of the consequences of poor data and inconsistent automation in their workflows - with cash forecasting, tax claims and client servicing all rated as the least optimal areas of the corporate actions lifecycle. In the absence of reliable data and instructions, we are all caught in a cycle of excessive re-validation and oversight – which slows us down and diminishes our efficiency from front to back.

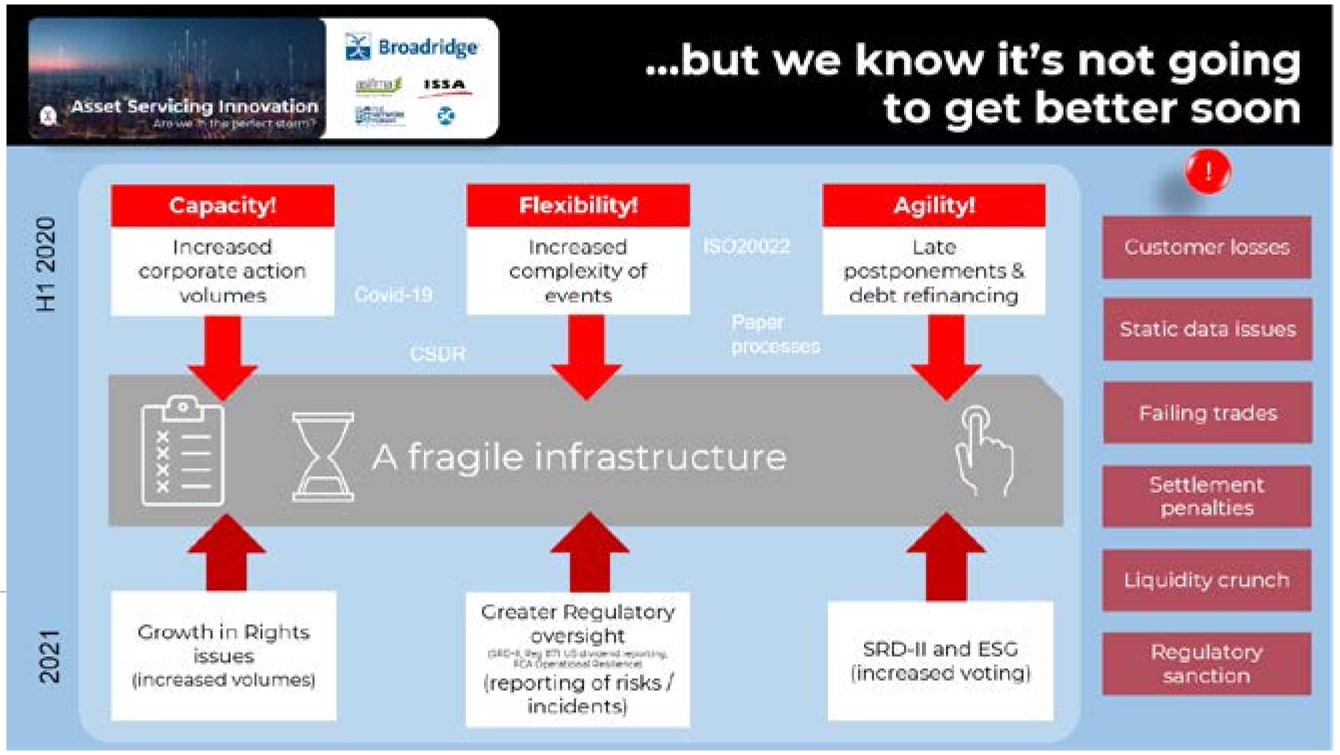
The changing shape of corporate actions

Few of these factors are new to us and so are unlikely, on their own, to trigger a major shift towards transformational automation.

Yet 2020 has changed that. The increased volume of corporate events this year (amidst the considerations of working from home, etc.), the increased complexity of those events and then the late postponement of those same events during COVID have introduced 3 new design criteria for our corporate actions infrastructures: capacity, scalability and agility.

As the shape and behaviour of corporate action flows has changed, this year has shown us that we need to find new solutions that will free up additional capacity; give us the scalability to keep step with increasingly complex events; and give us the agility to manage when dividends behave unexpectedly.

Capacity, scalability and agility are new challenges in the corporate actions world and so it is no surprise that this changing shape of corporate actions is the leading concern for market participants across both North America and Asia – both today and in the year ahead (although Europeans continue to wrestle with near-term regulatory pressures such as SRD II and ISO20022 as a consequence).

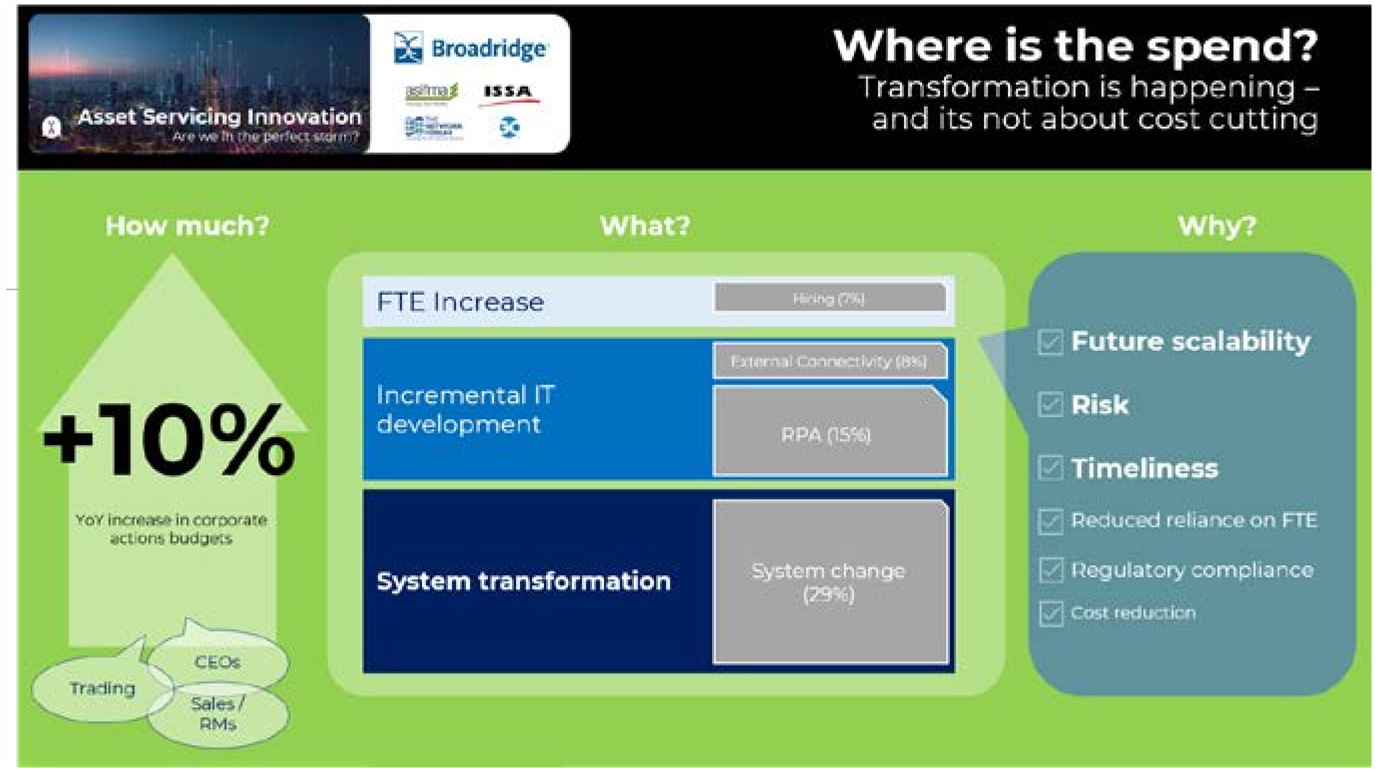


Can we get by just a little longer?

In a rare moment of alignment, CEOs, COOs, Product managers and even back office staff all agree that the leading solution to today's challenges is system transformation. Whilst increased hiring has historically helped by making more people available to process more (of the same) events –that tactic doesn't work in a world where events are behaving unexpectedly and when the reporting deadlines are increasingly tight.

For 55% of us, system transformation means changing new platforms for old systems for new – bringing in or building new technologies that can reduce risk by automating manual interactions (leveraging machine-learning or potentially DLT); accommodate the changing requirements of ISO20022, SRD II and CSDR; and help us to deal with events such as digital dividends (as we saw with Overstock in the US this year).

Yet this is not the only answer. The use of Robotics / RPA remains the primary course of action for 26% of the market – especially in Asia, where is it considered a solution for everything from event sourcing to customer servicing and cash flow management.



The business case for change

As the world of corporate actions processing has changed, so too has the business case that supports its evolution. What has been, for the last decade, a headcount arbitrage exercise (where we have moved our processes to cheaper locations) now needs to be seen as a self-funding, future-proofing project: ensuring survival in the face of a changing market and, more importantly, delivering tangible benefits in client revenues, income earnings (from elective events), new product development, capacity management, liquidity management….and of course avoiding more payouts.

This year, organisations are set to increase their corporate action budgets by around 10% – in what is hopefully an acknowledgement by all levels of stakeholder that this multi-million dollar risk problem not only exists but is growing more acute. There remain many major dependencies (both internal and external) in the path towards automation – but for the first time in many years corporate actions may be at the centre of our attention.

This survey has been conducted in cooperation with leading industry players and associations in order to help drive meaningful change in our markets. If you would like to explore over 200,000 data points from our survey then please contact us at info@thevalueexchange.co – and if you'd like to get involved in the industry discussion then please contact Broadridge, ISSA or ASIFMA.

Are Remote Due Diligences The Way Forward?

Remote due diligences have become the norm in the pandemic. But they are not the way forward for the longer term, albeit the processes currently in play will become the contingency arrangements of the future for the almost inevitable next pandemic.

Firms can technically outsource much of their due diligence and most firms value the standardised due diligence processes that have been introduced. But with billions at risk, markets becoming more specialised, firms moving from silo-based network management to combined cash, derivatives and securities oversight, standardised processes do not match their total needs.

A few decades ago, network management was quite an amateurish task. The network managers had as much focus on out of hours activities as on business issues. Their line of sight was on equities, basic operational issues, market practice and cost of service rather than risk, technology or service quality.

For most of the larger firms, their business model is now an amalgam of the standard and the unique, with their management of the latter providing their real value added. It is the firm specific areas that are difficult to outsource. Risk is also an issue for risk appetite and tolerance varies by firm or by activity; it is difficult to see it as a generic function. Technology, especially delivery, is also bespoke and as dependent on the buyer infrastructure as that of the seller. Service quality is judgemental and needs not only the hard data around accuracy or timing, but also the softer issues around commitment, governance, control and knowledge.

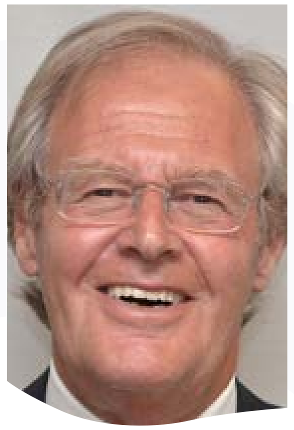
Pricing cannot be boiled down to a single figure per item. It is a function of relationship, scale over complexity and more. And pricing cannot be divorced from service quality or risk. What premium does one pay and in which markets is this critical? OECD ones may be more standardised over a wide range of service, but the bulk of markets and a not insignificant share of the risk profile of a fund, trading book or portfolio are non-OECD.

Due diligence also includes sight of regulators and market infrastructures in serviced markets. The interaction between supplier and their local market peers is critical to observe, as indeed is the interaction between those suppliers and their staff, peers and seniors within their firms. These are all judgemental issues, with judgements being a function of the Network Manager's expertise. Delegation is not a viable option.

In the longer term, we will be influenced by the changes forced on us by the pandemic. Due diligence standardisation will cover wider swathes of our business, but never the totality of a complex relationship. Communication technology will be enhanced and will make remote monitoring more effective, reducing the quantum of on-site visits. But soft issues, unique features of a firm's product range and the need for strong interpersonal relationships that can resolve those inevitable crises, which a daily transaction relationship will always produce, militates against any concept of total delegation of the network management function.

John Gubert

Chairman
GTL Associates



The Time Has Come For Custodians To Embrace Digital IDs

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Dozens of FinTechs babbling about digital IDs have not helped custodians appreciate how they can cut client on-boarding and verification costs dramatically, allow more business to be done, facilitate compliance with customer due diligence requirements and help prepare the industry for a future in which the clients, not the banks, control the data.

Digital identity (digital ID) is a technology which has something in common with the wheeled suitcase. One day custodians will ask themselves not only how they managed for so long without it, but why their predecessors took so long to adopt it.

The current indifference of the industry to digital IDs is not unusual. The wheeled trunk was patented in 1887 but it took a century (literally, since the pioneering Rollaboard bag with a telescope handle was launched in 1987) before the wheeled suitcase became popular.

The crucial factor in its adoption was the advent of mass airline travel. Not every passenger could afford a porter, and the airlines prized minimal weight and tight dimensions. Developments in an adjacent industry might provide a similar spark for the adoption of digital IDs in custody.

Digital IDs are part of a wider data revolution

A positive dynamic between retail banking and public services is already driving the adoption of digital IDs in the Nordic markets. The risk for custodians is that the adjacent development is not a spark but a conflagration that consumes their entire business.

It is easy to mistake digital ID for a futuristic idea, consideration of which can be postponed. It is in fact a vital aspect of a technological revolution that is already transforming the core business of the custodian banks: the transmission, storage and ownership of data.

Custodians know that. But balancing the protection of existing revenues (which reward shareholders and pay for future products) with defence against potential disruptors (whose advocates always exaggerate the deadliness of the threat and the value of the opportunity) is never easy.

The short-term benefit is a massive reduction in costs.

However, digital IDs are precisely the kind of incremental improvement to existing processes – namely, customer due diligence at on-boarding and regular re-verification checks – that makes the balance easy to strike. They can cut costs, lift profitability and prolong the life of an ageing service.

In 2017-18 Lexis Nexis put the cost of financial crime compliance in Canada, the United States and five European countries at $115 billion a year. Certainly, expenditure on AML, KYC, CFT and sanctions screening checks is rising at every custodian bank and fund administrator.

Experience of comparable efficiency initiatives suggests that Digital IDs, which not only enable identity checks to be run once but shift responsibility for obtaining and updating them from the custodian to the client, would not just cap the rise in costs. They would cut them by up to 75 per cent.

Reliance on counterparty assurances about customers means less business is done.

Yet custodians persist in defending the status quo. When in 2014 two major custodians were fined by American regulators for inadequate due diligence on clients of clients invisible in omnibus accounts, the response of the industry was to defend the omnibus account as operationally efficient.

Principle 4 of the *Financial Crime Compliance Principles for Securities Custody and Settlement* of the International Securities Services Association (ISSA), revised as recently as May 2019, still holds that "it is the responsibility of the Account Holder to ensure that its Direct Clients have undertaken the appropriate level of due diligence."

True, ISSA publishes a questionnaire custodians can use to check each third party conducts customer due diligence to an appropriate standard. But shrinking correspondent banking and sub-custodian networks suggest most banks prefer to stop doing business with certain third parties altogether.

The alternative of data-sharing utilities is a failed idea.

Doing less business is a Procrustean solution. Equally puzzling is the loyalty of custodians to the idea of pooling their AML, KYC, CFT and sanctions screening information via data-sharing utilities. Cutting the costs of compliance by reducing the duplication of work seems a good and obvious solution only until it is tried.

Just last year Bloomberg closed its Entity Exchange and Refinitiv abandoned its KYC-as-a-service offering, previously known as the Clarient KYC utility founded by Barclays, BNY Mellon, Credit Suisse, Goldman Sachs, J.P. Morgan and State Street, and operated by DTCC.

Utilities fail for real reasons. The benefits accrue to the industry, not the firm. Larger firms contribute more data than small ones. Pooling client information creates confidentiality, privacy, consent and security risks. Data formats are incompatible. Bad data creates a liability. No firm can rely on the work of another.

Digital IDs solve these problems. Clients, not custodians, take responsibility for obtaining and maintaining them. They assume it because a digital ID saves them time and money currently invested in repeated checks, even by different parts of the same bank. Consent to share data is written into the process.

FATF supports the use of digital IDs in customer due diligence.

Best of all, the key regulator supports digital IDs. In March the Financial Action Task Force (FATF), whose 40 Recommendations shape financial crime compliance in more than 200 jurisdictions, published a guide to using digital IDs to comply with its crucial Recommendation 10 on customer due diligence.

According to FATF, digital ID is at "an inflection point."

Indeed, variants are now in use in Belgium, Britain, China, Estonia, India, Italy, Mexico, Nigeria, Peru, Singapore, South Africa and Sweden. This summer, a European Union (EU) consultation endorsed the idea of an EU-wide digital ID.

Multiple international bodies – ISO, IEC, FIDO, OIDF, ITU and GSMA – are at work already on the assurance frameworks and standards that will make digital IDs international and inter-operable. Their work will clear the clutter of different ideas and designs advanced by various companies and countries.

Digital IDs can help custodians prepare for a radically different future.

In this environment, custodians which cling to reliance on third party assurances and data-pooling utilities - especially at a time when regulators are demonstrably shifting the focus of financial crime compliance from payments to securities - are in danger of finding themselves on what President Obama called "the wrong side of history."

But there is more than one sense in which digital IDs could attune custodians to the times. Digital IDs, like Open Banking, are just one aspect of a massive structural shift in capitalism. Ownership and control of data is passing from the corporation to the customer.

That custodians know this is obvious from their newfound willingness to trade exclusivity for the right to aggregate data for buy-side clients. Using digital IDs would help them adapt faster, by tilting their strategies towards a future in which customers share data with the service providers they prefer.

Dominic Hobson

Co-founder, Future of Finance and Principal, Hobson Cardew

THE NETWORK FORUM

Nigeria: My Home And Africa's Hope – Babatunde Majiyagbe

~

Trading and Nigerian optimism is part of Babatunde Majiyagbe's DNA. As the new Head: Investor Services at Stanbic IBTC Bank in Nigeria, he has moved from watching price determination at the local agricultural markets of his childhood to keeping a close eye on local FX and securities markets.

All I saw growing up in Kano, in Northern Nigeria were pyramids of groundnuts, and huge grain silos. My friends were children of agro-merchants and traders at the Dawanau market, where grain price discovery is determined.

Today, agriculture remains the largest sector contributing about 26% of GDP. Nigeria is the largest economy in Africa with a population of 200 million, a GDP of over USD400 billion and crude oil making up 85% of the country's exports, Nigeria's importance to Africa's growth cannot be overemphasized.

Foreign Portfolio Investments (FPI) are the main source of financing for Nigeria's balance of payments. These flows account for 2% of GDP and over 50% of foreign capital flows.

In October the Nigerian Stock Exchange (NSE) saw a positive rally, recording its largest daily All Share Index (ASI) gain in over five years and equities market capitalization crossed NGN15 trillion.

The pension growth widened the investor base bringing liquidity to the capital market. This was boosted by the Pension Reforms of 2004 and today the industry has NGN11.3 trillion in assets.

In August, after 6 months of thin FX liquidity, the Central Bank of Nigeria (CBN) resumed sales to foreign portfolio investors. For Q4 2020, the CBN seems set on keeping the USD/NGN stable and to clear the FX backlog. With the FX reserves, higher oil prices and the World Bank loan, we believe the CBN's target of USD/NGN at 390 is achievable.

Despite economic headwinds, Nigeria has focused on improving capital market infrastructure through:

1. Issuance of sovereign green bond. In December 2017 Nigeria became the first African nation to issue a sovereign green bond for NGN10.69 billion.

2. Introduction of Central Clearing Counterparties (CCP) and derivatives. In September 2020, the Securities and Exchange Commission (SEC) provided in-principle approvals to NG Clearing Limited and FMDQ Clear Limited to launch clearing and settlement of all derivatives.

3. Securities lending has become available to all investors. Collateral includes cash, Treasury bills and bonds. Available securities for borrowing are listed securities.

4. Nigeria has passed the Companies and Allied Matters Act (CAMA) 2020. This law replaces CAMA 1990 and promotes efficient meetings and introduces netting, critical for the derivatives and REPO markets.

5. Monetary policy focus has been on FX stability and liquidity tightening through CRR. With resources from oil to agriculture, the economy now exerts its importance on the world stage.

Despite current challenges, long term fundamentals combined with infrastructural and legislative reforms will ensure Nigeria remains a leading destination for investment in Africa.

Welcome to Nigeria, my home and Africa's hope.

Babatunde (Tmaj) has 15 years' experience and joined the bank in 2012 and Investor Services in 2017.

Babatunde Majiyagbe

Head: Investor Services,
Stanbic IBTC Bank

Standard Bank
Also trading as Stanbic Bank

Weathering The Latest Storm

The Covid-19 pandemic has tested the resilience of the financial sector in the most extreme way since the 2008 financial crisis.

Volatility spiked in March - the CBOE VIX Index hit a 12-year high – as market participants rushed to reposition their investment portfolios, causing clearing and settlement volumes to soar. As liquidity was hard to find in certain stocks, the industry witnessed an increase in settlement fails as legacy systems and inefficient processes were laid bare.

The high market volatility experienced during March when the world shut down to contain the Covid-19 pandemic has changed how firms assess risks. Choosing a trusted and proven partner that can cope with spikes in volumes and reduced liquidity can assist in managing these risks.

Robust and Resilient

Operational resilience has also become more important than ever. Firms have had to ensure they have taken the necessary steps to ensure their staff, systems and process are sufficient in a world where the vast majority of staff are working remotely and ensure business continuity for their clients.

These highly stressed scenarios are leading an increasing number of firms to take a much closer look at service providers and how they performed during these difficult months. This has put due diligence in the spotlight, and once again shown it to be much more than a box ticking exercise.

The delivery of operational resilience requires firms to take decisive and effective actions, for example addressing key person dependencies, replacing weak or old infrastructure and increasing system capacity. Addressing gaps and building resilience will enable firms to become more capable of supplying their most important services even during the most difficult times.

While UK regulators are not proposing changes to the rules and guidance on third-party service provision, they have published proposals to enhance operational resilience. The expectation remains that all firms are responsible for the management of their third-party relationships.

Strength, Stability and Flexibility

Financial strength has always been a key factor when selecting a service provider, although in the past this has been mainly focused on asset protection and insolvency. The recent market volatility has caused clients to check that their provider has the scale and balance sheet to be able to provide sufficient cash liquidity.

BNY Mellon's Pershing provides clients with multiple options when it comes to managing agent banks and liquidity. All models allow clients to streamline middle and back office processes and rely on the Pershing operations infrastructure.

Under the 'Model A' arrangement, it is the client's own agent bank network, name in the market and liquidity arrangements with its own agent bank network. The difference with the 'Model B' option is that it uses the Pershing's agent bank network, liquidity and name in the market. A hybrid model is also available. As a result, it is possible to use the services of Pershing but retain your own agent bank network.

Cyber Security

The onset of the pandemic and the sheer number of people working remotely has also led many firms to consider the role that cyber security plays in their choice of partner.

Even before the pandemic, cybercrime was becoming an increasing problem in financial markets and becoming a real point of difference between providers. This has only increased since the pandemic with ever-increasing volumes of emails being sent as the vast majority of employees work remotely. For example, the UN reports there has been a 350% increase in phishing websites since the start of the pandemic.

Firms need to be comfortable that their providers have resilient and tested services and continuously review and enhance their cyber-security arrangements to minimise the impact of a cyber-attack. Equally important in the new normal is the training of their staff and to continue operating under amended processes while maintaining a strong risk framework and control.

People and Culture

Alongside the ability to react quickly to major disruptions and challenges, the Covid-19 crisis has highlighted the importance of ensuring staff safety. A service provider should have proven continuity plans in place to keep employees safe and deploy remote working quickly - all while ensure continuity of service and adherence with internal controls.

If they are able to meet these requirements, firms will be better placed to continue operating in this new environment in the longer-term.

Another important factor is how the service provider treats their people and maintains its company culture while the majority of staff work remotely. If this isn't properly addressed, there is a risk that long periods of remote working may make employees feel disengaged or undervalued. This could then lead to a deterioration of service and increased potential for fraud.

This pandemic has highlighted once again the fact that choosing a service provider that has the resources, scale and expertise to plan and respond to future crises, as well as the right culture, is the key ingredient to ensure you can keep your own business running during these events.

Andrew Duffin,

Business Development Director,
BNY Mellon's Pershing

BNY MELLON | PERSHING

ESG Investing – The Rise Of The Social Factor

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The ESG – environmental, social and governance – agenda of investors, issuers and policymakers is rapidly becoming mainstream as the world grapples the effects of the Covid-19 pandemic.

And amid a new spirit of collaboration between the public and private sectors, there's broad agreement that rebuilding the economy provides an opportunity to transform societies and to make systems resilient against future shocks.

In South Africa, it is expected that the sustainable financing market is likely to accelerate as capital allocation becomes increasingly based on integrating ESG considerations into fixed income investments.
The idea that good corporate citizenship makes good business sense has already been entrenched by the King Codes on Corporate Governance.

Increasing awareness of climate change has focused more attention on green issues since actions to mitigate climate change are urgent and environmental considerations (the E) have disproportionate influence – they exacerbate the social impact (the S) and need to be embedded in governance structures (the G).

Not surprisingly, the focus on green funding over the last five years has seen a significant increase in green debt, with issuance increasing 4.5x from 2015 to 2019. Green now accounts for 75% of the US$1,400bn outstanding sustainable debt securities. However, the issuance of sustainability-linked debt grew 11.4x, before the onset of the Covid-19 pandemic.

Publication of the Sustainability-Linked Loan Principles (SLLP) in 2019 by three loan markets associations, and in 2020 the International Capital Markets Association (ICMA) release of its Sustainability-Linked Bond Principles (SLBP), fuelled the pickup in global activity.

ESG assessments are also becoming influential as ESG ratings increasingly drive asset allocations, much as traditional credit ratings determine allocation in fixed income portfolios.

Unsurprisingly, health and well-being are the obvious investment sectors under the "social" theme.

Pandemic-specific issuance so far has been dominated by supra-nationals such as the IFC, AfDB, EBRD and EIB, with Guatemala opening the sovereign tally in April 2020 and, in January 2020, Ecuador becoming the first country to issue a sovereign social bond.

De-risking and simplifying supply chains are already a priority for many organisations while a change in consumption patterns is inevitable.

As economies and companies adapt, and economic recovery is partially driven by investment in infrastructure - such as in green energy, water and sewage, connectivity, and cyber security - there is little doubt that investor demand will encourage a growth in fixed income ESG products.

Elena Ilkova

SA Investment Strategist
RMB

RMB A division of FirstRand Bank Limited
Traditional values. Innovative ideas.

Latin America: In Times Of Troubled Waters, Resilience Unfolds New Opportunities

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J. Sidlow Baxter (Australia, 1903-1999) put it simply: "What is the difference between an obstacle and an opportunity? Our attitude toward it. Every opportunity has a difficulty and every difficulty has an opportunity".

In one of the regions hardly hit by a pandemic similar to others we have only read about in history books, we could have doubted about the capacity to react and to overcome the whirlwinds ahead. Truth is, though, that after nine months into such troubled waters, the Latin American markets stand still and have been able to find opportunities within the tremendous difficulties the region is living in.

Brazil, on the one hand, has gone through very successful reformatory steps on local labor regulations (in 2018) and social security (in 2019). In face of an extremely challenging 2020, the country is well aware of the need to keep attracting foreign investment. Once we are back to a less traumatic situation, the pillars that must sustain the local economy need to be in place. So, alongside the enormous impact that the pandemic is causing to the country, the authorities keep working on the conclusion of the required Administrative Reform and the so much desired Tax Reform. Combined with this, Santander CACEIS continuous to be an active contributor to the local securities industry decisions, but not only; simultaneously, it has found means to face several historical market challenges in a way that dramatically ease its clients' day-to-day activities, hence proving Sidlow Baxter's words, by turning difficulties into clear opportunities.

But this is "only" one case amongst several others, where the decision not to wait for better days to come but, instead, to weather the storm and stay put in face of unprecedented challenges, proved to be the correct way forward.

Despite how hardly this region is being hit, word must be spread out on the high level of resilience that we have been witnessing. A good number of industry players and individuals alike have stood still, supported, on one side, by powerful technology (which enabled them to continue operating normally in a 100% remote working mode) and, on the other hand, by an incredible capacity to adapt to totally new, often frightening and certainly unfamiliar circumstances.

If we take a look at Colombia, for instance, hard work – albeit executed remotely – has resulted in extremely successful opportunities for Santander CACEIS, as we started new partnerships with local public entities and, simultaneously, successfully migrated new businesses from a number of non-resident institutions, hence proving the high level of resilience of our staff in overcoming an extremely puzzling environment.

Looking northerly, into Mexico, another one of Santander CACEIS' local markets in Latin America, even though badly hit by the pandemic and living amongst troubled times in all fronts (social, political and economic), the bank's behavior could well be different than the reality is showing. Here again, were it not for our capacity to believe that, in order to succeed, resilience is key, we would not be witnessing incoming business from various partners (existing and new), a sign that the course of action we have been taking leads to results that one would not have expected when spring came. Winston Churchill once said that "success is not final, failure is not fatal: it is the courage to continue that counts." We believe that the course of action we have been taking, do prove him right.

Hugo Rocha

Head of Sales &
Relationship Management –
Global Clients
CACEIS Bank Spain

caceis INVESTOR SERVICES

Relationships In A Transforming Post-Trade Industry

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If the pandemic has taught us anything, it is that only a fool (or a blind optimist) takes anything for granted – the things we hold dear, and consider constant, can change quickly. Much has been made of the way Covid-19 has changed business, especially in sales and relationship management, even in industries which have so far been comparatively unaffected, like post-trading. We should be grateful that post-trading was already in a process of digital transformation.

The essence of client relationships

However, the pandemic has undoubtedly further accelerated digital transformation: surprisingly, especially so in sales and relationship management. With social distancing now being a part of our day-to-day reality, traditional face-to-face communication has given way to calls, video conferences and webinars. In a world where many products have become commoditised, trust is the key to differentiating a company from its competitors. Personal relationships, founded on years of trust, are what build the basis for lasting business relationships, and this is challenging in the current environment.

And this question of trust becomes even more important as we are in an industry that is currently transforming. Cost pressure and industry consolidation are driving concentration within the post-trade industry, opening opportunities (built on trust) for true partnerships with clients and increasing the importance of collaboration, such as the proxy-voting service Proxymity. As you will soon be able to read in the upcoming ISSA paper on the Future of Securities Services, changing issuer and investor needs, technological innovation and ongoing regulatory pressure will further change the competitive landscape, requiring constant adjustments in the relationships between market participants and financial market infrastructures.

The right ecosystems for digital transformation

To meet those needs, we believe that digital transformation is key, with the potential to touch all aspects of our business: our processes, our systems and eventually even our products themselves. However, transformational change is only possible in the right ecosystem, one with a clear focus on new technologies. Achieving true technological transformation based on automation and artificial intelligence is conditional on providing the right expertise, the right technical infrastructure and the right contractual framework. One clear example is the ability to provide access to flexible, legally-compliant cloud services whilst ensuring that these services are available within a highly regulated environment with strict data protection requirements.

Providing the right ecosystem is also key within the DLT-driven evolution towards digital securities: it needs state-of-the-art technology enshrined in a legal framework guaranteeing public accountability. Under this framework, Central Securities Depositories will extend their function as registrars to new digital instruments, allowing products to be processed fully digitally along their whole lifecycle, thereby unlocking a whole new world of efficiency for financial markets. As we enter this new world of digital securities, it is crucial that the investor protection structures, and infrastructures, inherent in our current "analogue" world, are maintained.

All this having been said, despite the welcome increase of automation and digitisation in our industry, the human touch will always play a central role. Covid-19 showed us how technologically advanced and resilient our industry already is. At Clearstream, and all of Deutsche Börse Group, the peak of the lockdown saw around 95 per cent of all employees and most of our customers working from home. But thanks to the industry's digital adoption, and most importantly thanks to trust built up through decades of human interactions, we were all still able to ensure continuous provision of safe and secure markets – even in times of high volatility. This marriage of the digital and the human will continue to form the basis for all of our future success.

Philip Brown

CEO of Clearstream Holding AG and Head of Global RM, Sales & Client Service at Clearstream

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The Transformation Of Securities Services Amidst Disruption

Executive Summary

The securities services industry needs to change, to evolve, to become less complex, more efficient, more streamlined, fit for purpose, future ready and secure. We are out of step with the pace of change evident in other more progressive industries creating a mismatch in client expectations whilst incumbent providers start to feel the effects of commoditisation and shrinking margins. Whereas other industries have already experienced major disruption, the securities services industry has yet to feel the full force of the blow until perhaps now. Covid-19 has turned the world on its head and as unsettling as the situation undoubtedly is, this global crisis may prove the accelerator for transformational change our industry is much in need of. Reliance on paper and manual handling in a world where social distancing and remote working may persist for some time has forced us to expedite digitisation[1], digitalisation[2] and automation. Full scale disruption is closer than ever now, and we must act.

With these challenges and issues at the fore, and prior to the advance of Covid-19, Securities Services at HSBC undertook a research study to explore potential disruption to Financial Market Infrastructure (FMI)[3] and specifically securities services as a consequence of new and emerging technologies across Asia.

PUBLIC · [1] Digitisation, the conversion of information from physical format into a digital format

[2] Digitalisation, the application of digitisation to a process.

[3] Financial Market Infrastructure refers to parties involved in delivering services critical to the smooth running of financial services and encompass e.g. Stock Exchanges, Counterparty Clearing Houses, Trade Repositories, Regulators and Central Securities Depositories.

Arguably more than any other 'disruptive' technology, Distributed Ledger Technology (DLT) claims to offer the potential to reinvent process, reduce friction within and across organisations, generate new business models, create new value propositions and transform the financial services ecosystem. The study therefore s pecifically sought to understand levels of awareness and activity pertaining to DLT and consider the impact this may have on the end- to- end FMI value chain whilst at the same time explore other key issues and challenges across our industry.

Our findings highlight that:

- ***Whilst Distributed Ledger Technology is still evolving, overall technology maturity remains relatively low with adoption hampered by structural fragmentation and poor interoperability across the end-to-end value chain.*** Increased involvement from regulators in particular will be essential as well as other key actors across the value chain in order to expedite solution development.

- ***One of the biggest opportunities to transform our industry lies in digitisation and automation.*** True digital transformation requires us to reimagine how we operate across the entire process, end to end, and invent a future without faxes, printers or paper. We need to develop better, more intuitive digital experiences for clients and colleagues which place the user at the heart of the design process.

- ***Our industry exhibits a preference for tactical solutions over strategic.*** We observe a desire to implement emerging technologies in a discrete and tactical way thereby delivering only marginal improvements to the status quo. To shift the dial, it will be necessary to consider the whole ecosystem and understand where the real opportunities for innovation lie.

- ***Infrastructure fragmentation, process inconsistencies and poor interoperability prohibits innovation and transformation in our industry.*** Joined up thinking at the highest level and co-solutioning within consortia will support co-ordinated efforts and innovative thinking across FMI for the benefit of all.

We are not impervious to disruption and we must not be complacent; anticipating major change and adapting to it is crucial to ensure ongoing success, moreover it enables us to play an active and positive part in shaping the future of our industry. Our research is intended to help drive the conversation forward, to help encourage and inspire us to think differently, to be bold, brave and ready for whatever the future holds. Covid-19 and the current crisis affords the opportunity to change dramatically and we must seize this opportunity; we cannot afford to live in the past any longer.

To read the full report, please visit www.gbm.hsbc.com/insights/securities-services/transformation-amidst-disruption

Eleanor Barlow

Global Head of Strategic Research and Insight Strategy, Innovation and Architecture, Securities Services Investment Services International

HSBC

Eleanor has over 20 years' experience in Digital, Data and Strategy. She has a background in Cyberpsychology and an in-depth understanding of people's use of emerging technologies. Prior to joining Securities Services at HSBC, Eleanor led Digital Transformation projects for IBM managing teams to execute major change for global brands. As a Consultant, she developed Digital Strategies for international businesses. Eleanor has founded Insight & Data Analytics functions in global digital agencies and in 2009 acquired a 'first of its kind' Master of Science in Cyberpsychology.

Eleanor has blogged for the Telegraph on technology and behaviour, lectured on Digital at Cranfield University, and continues to provide expert comment in the media. In 2019, Eleanor was shortlisted for the Women in Banking and Finance Tech Star award acknowledging her contribution within the Fintech and Digital space, she also won a place representing HSBC at the Sibos STAR Scholarship scheme specifically designed to foster future facing female talent within the industry.

Only The Start For The Shareholder Rights Directive

Although we are now on the other side of the Shareholder Rights Directive (SRD II) 3 September deadline, by no means does the work stop here. For many, the focus will now centre on managing any changes and challenges brought on from the regulation on an ongoing basis. Over the next 12 months, we expect meeting these requirements to be significant from an operational and business perspective. For others that were less well prepared, there is a more pressing need to formulate plans and move ahead with deploying an effective solution.

Intermediaries that operate between issuers and investors must ensure they adapt to ongoing market practice changes, market volatility, and pressure from internal and up and downstream external stakeholders - something we have certainly seen a lot of in 2020.

Broadridge's SRD II solution is market-ready and has been in operation since the September go-live date. We offer an agile, end-to-end solution and have efficiently and effectively onboarded new clients based both within and outside of Europe, including both retail and institutional-focused firms. We remain agile and alert to any changes within the regulation's stringent and complex data standards through our proactive engagement with industry authorities and market participants throughout the investor communications ecosystem.

More recently, we have been collaborating with SLIB a leading-edge software vendor in electronic voting and securities services based in France, to offer a joint, cross-border proxy voting solution for SRD II compliance, covering European shareholder meetings. Explicitly designed for French intermediaries, including the retail sector, the fully automated solution will leverage Broadridge's industry-leading Global Proxy solution and includes an STP connection to SLIB's Votaccess®, the leading electronic voting platform in France which manages more than 80% of CAC 40 companies' General Meetings.

There is no doubt that there have been challenges to the regulation, notably: interpretation, lack of standardisation and implementation. These are slowly being resolved but will take time. It is also clear that the dramatic shift to remote working due to COVID-19 has been a significant hurdle for some intermediaries on the road to compliance. While most financial institutions were able to move to work from home set-up quickly, this did not eliminate the real day-to-day challenges experienced by staff at the pandemic height.

Overall, I have been extremely impressed with the agility that the industry has displayed thus far. With an uncertain outlook on the horizon, these new cooperative working skills will provide an excellent grounding for the future. The upcoming proxy season in 2021 will likely prove itself to be the most crucial test for the industry and the regulators.

SRD II remains a significant opportunity to improve corporate governance standards in Europe, bringing greater transparency and efficiency to investor communications and driving higher stewardship standards and improved investor engagement levels. It has also compelled many intermediaries to rethink and invest in their technology, which should ultimately lead to higher efficiency levels and an enhanced and more empowering end-client experience.

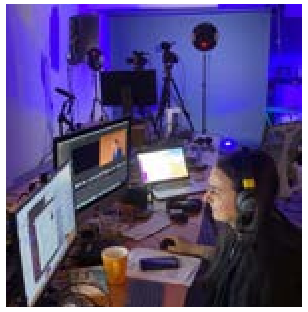
Demi Derem

General Manager
Investor Communication Solutions International
Broadridge Financial Solutions

Broadridge

Virtual Summer Meeting 2020









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Memories From Past Events