

POSTTRADE^{360°}

OSLO 2020

“Every single asset class was being sold”

Covid-19 puts post trade to toughest test since Lehman. Here's how we coped. **3**

“With Euronext we can think larger than Norway”

A controversial takeover later, VPS chief **Audun Bø** finds himself at the centre of a pan-European campaign for CSD domination **8**

Long story long

SEB reboots global custody (The 25-year version) **12**

... and here's your 26 August agenda **4**

THE POST-TRADE LANDSCAPE BNP Paribas on how public institutions just took the lead **5** **INFRASTRUCTURE** Euronext CEO Stéphane Boujnah in PostTrade 360° exclusive on his Nordic CSD conquest **10**
ESG BNY Mellon on why advancing ESG standards will yield huge value **16** **TECH & INNOVATION** SIX on how to hunt down that alpha **20** • ERI on the joys of chopping post trade into pieces **22**

And by the way, did we just save the world's markets?

Capital market crashes are spectacular, and the virus-induced one this spring was no exception. Then those markets ticked up again – in relative quiet, as is usual when they go up. Yet what may be most remarkable is the speed of the cycle rather than the amplitude. By summer, experts and public alike could look with surprise at the split economy: masses unemployed, our local shopkeepers and bar owners struggling – but stocks prices back near peak levels.

How could this be? Now, this is where post trade comes in. The big market fear in a crash is not that a single firm A goes down, but that it triggers dominos that take firms B, C and D with it as it cancels payments to suppliers, banks and investors. In 2008, the lack of transparency made it hard to predict who might fall with Lehman. This year, a combination of quick and massive credit commitments from the US and EU, together with ten years of structured resilience-building in the market infrastructure, seem to have taken a lot of drama out. Are the rising stocks and bonds perhaps not reflecting short-term business expectations, but rather a new level of long-term trust in the infrastructure's ability to stop dominos? If so, dear post-trade pro – thanks for your hard work lately.

2020 finds Norway and the Nordics at the centre of post-trade industry transformation, after last year's entry by Euronext as operator by not only the exchange but also the CSD – under cross-border competition that is heating up. Let us promise that PostTrade 360° Oslo 2020 will be a unique experience.



Alexander Kristofersson
Editor of PostTrade 360°
news@posttrade360.com
+46-73-947 11 95

Find the
26 August
agenda on the
next fold



PostTrade 360° – Events and news for post-trade pros

Our origins can be traced decades back in the Nordics, where we are the leading player. With the PostTrade 360° initiative, debuting 2019, we take a next step.

Our idea is to shift the focus over to you, the post-trade professional, to supply not just an event but a sense of a community all year around. We added a **news site** with its own editorial desk, and you will find some of its stories in **this magazine** – here mixed with thought leadership contributions from our sponsors. Our news flow is free, both on our web page and through our **weekly newsletter**, at www.posttrade360.com. Recently, we have also started publishing **full-session videos** of presentations from our events, see next page.

2019 saw Amsterdam added as our fifth city for **yearly events** beside Stockholm, Copenhagen, Oslo and Helsinki. In June 2020 we added a yearly full-day **Web Summit** with 60 speakers, reaching 1,000 delegates. Going forward, our physical events, too, will offer web-based participation remotely.



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Do you have news, views or tips on what we could cover? Don't hesitate to contact our news desk at news@posttrade360.com.



Head of PostTrade 360°
Daniele Truini
daniele.truini@contentlab.se
+46-72-243 41 73



Commercial relations
Kim Ersson
kim.ersson@contentlab.se
+46-70-149 53 31

Layout: Ingela Hallonquist
Printing: Arkitektkopia

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“Every single asset class **was being sold**”

At the PostTrade 360° Web Summit in June, **Patrick Pearson** of the European Commission summed up how the spring’s covid-19 crisis had put markets to a tough test – against which they stood up well.



“The infrastructure in the European Union proved to be resilient,” says Patrick Pearson, head of financial market infrastructure and derivatives at the European Commission.

By Alexander Kristofersson, PostTrade 360°

“We saw that settlement fails increased three- to four-fold in the third week of March – and that immediately caught the attention of regulators who reached out to their infrastructures,” says Patrick Pearson, explaining how the situation came to lead to credit challenges, a halt in securities lending markets, and other questions.

Despite this, and despite a highly challenging credit climate for some time, casualties turned out to be relatively few. A main explanation was the “quick oxygen” by central banks such as ECB and the US Fed.

“And I think the infrastructure held up remarkably well. The infrastructure in the European Union proved to be resilient, as it proved to be in the major jurisdictions with whom we have important trading relations.”

“**There is one** technical point that I would like to stress here, and that is that the margin models the clearing houses were using also really met the demands in the significant stress that we faced,” Patrick Pearson adds.

“Those margin models were on point, and it demonstrates that the anti-procyclicality measures that ESMA and our regulators put in place actually worked. I think one important read-out from those margin models were that they were predictable. There were no unsuspected surprises and swings in the margin calls. They were entirely predictable and robust. I think that’s a very, very important takeaway for the regulatory community in the European Union.”

At the onset of the crisis, the strain on liquidity in the market was serious.

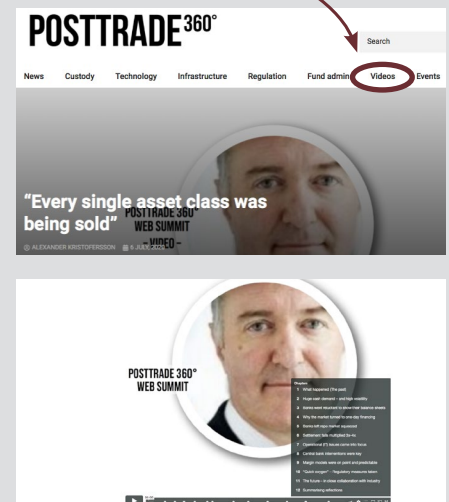
“We not only saw a huge demand for cash, we also saw that every single asset was being sold – every class, including gold which says quite a lot – and we saw what some people call a scramble for collateral.”

Patrick’s original presentation on the day was troubled by transmission issues; we are thankful to him for this video, which is a re-recording. ■

See our full videos here

See Patrick Pearson’s full 15-minute video presentation – like many other conference presentations – on our news site at posttrade360.com. You find them via the new Video entry in the top menu bar on the site.

The video is indexed so you easily find the parts of it that interest you the most. A menu icon in the player bar lets you see the whole list of “chapters”.



Event URL: next.brella.io/join/PT3600slo
Free for operations professionals. You may need Join Code: PT3600slo

08:25 Chairman's Opening Remarks

Göran Fors, Deputy Head of Investor Services, SEB

08:30 OPENING KEYNOTE: Euronext - strategy and plans for Norway - what does this mean for the Norwegian post trade market?

Audun Bø, CEO, VPS (See interviews on pages 8–11.)

09:00 CASE STUDY: A journey towards system architecture consolidation

Harald Harlem, Head of Investment Management Services, KLP Kapitalforvaltning

09:30 Nasdaq's strategic priorities within post-trade and beyond – FIRESIDE CHAT

Bjørn Sibbern, President, European Markets, Nasdaq

Hugo Sundkjer, Head of Capital Markets, TietoEVRY

10:00 Coffee

11:00 CASE STUDY: A successful strategic partnership - why and how

How can you turn a weakness into a strength by leveraging capabilities provided by some else? Successful strategic partnerships requires a well defined strategy and long term commitment.

Niklas Nyberg, Head of Institutional Global Custody, SEB (See interview on pages 12–15.)

11:30 Lunch

12:30 What's in a Name? A conversation on inclusion and belonging

Paula Avraamides, Director Nordic Region, Asset Servicing EMEA, BNY Mellon

Hani Kablawi, Head of International and Chairman of EMEA, BNY Mellon

13:00 PANEL DEBATE: Clearing developments in the Norwegian market

Moderator: **Gabriel Vimberg**, Head of Derivatives Clearing, SEB

Panelists:

Göran Bolin, Deputy President and Head of Business Development, Nasdaq Clearing

Jesper von Zweigbergk, Head of Derivatives & ETPs, Oslo Stock Exchange

Tim Beckwith, Head of Commercial & Business Development, EuroCCP

Phil McNelly, Head Markets & Strategy, SIX

Delphine Feyrit, Director and Head of LCH SA Financial & Commodities Listed Derivatives, LCH

13:45 CASE STUDY: Integrating ESG factors into the investment process

Laura McTavish, Responsible Investment Analyst, DNB Asset Management

14:15 Coffee

14:45 KEYNOTE: Post Trade Regulatory Updates for the Norwegian Market

Lars Ove Hagset, VPS

15:15 PANEL DEBATE: Nordic Sub Custody and shrinking number of service providers

Moderator: **Sveinung Dyrdal**, Executive Vice President, Head of Client Relations and Sales, VPS

Panelists:

Ulf Noren, Sub Custody Sales and Relationship Management, SEB

Magnus Karlsson, Head of Custody, Nordea

Ola Mjorud, Director / Securities Services Head, Nordic Equities & Securities Services, Citi

15:45 Coffee

16:15 PANEL DEBATE: The evolving role of the Network Manager

Moderator: **Göran Fors**, Deputy Head of Investor Services, SEB

Panelists:

Alpana Johnsson, Head of Network Management, SEB

Ekaterina Rous, Network Relationship Manager, BNP Paribas Securities Services

David Booth, Senior Sales and Relationship Manager, HSBC Securities Services

16:35 OUTSIDE THE BOX: Gone Phishing - Live Hacking Using a Bank Application

Marit Iren Rognli Tokle is Senior Software Engineer at Sopra Steria, where she works as a fullstack developer, and makes hacking competitions for recruitment and teaching security to colleagues. She also participate in a project to teach kids aged 13–16 years and their parents about security in our everyday systems, and is one of several leaders of University of Oslo's hacking team, hosting workshops and events. In this session Marit will be attempting a live hack using a bank application.

17:15 Chairman's Closing Remarks & End of Conference

Göran Fors, Deputy Head of Investor Services, SEB



Official institutions lead the Covid-19 **recovery** charge



BNP PARIBAS

**Contributed by
Christian Oger, Florence
Lubineau, Laurent Libiszewski,
Michael Saunders, Natalia Floate
and Vera Delvoye**

Official institutions – including central banks and supranational bodies - have been tested by the Covid-19 pandemic and the market consensus is that they have been instrumental in mitigating market disruption. As economies work out how to adapt to a post-lockdown Covid-19 world, major public bodies such as, for Europe, the European Investment Bank (EIB), the European Commission (EC) and the European Stability Mechanism (ESM) are likely to play a major role in the economic recovery process. BNP Paribas Securities Services examines how official institutions are expected to support economic growth in the new normal. >

A massive monetary policy response

The intervention by the European Central Bank (ECB) to mitigate the economic damage caused by Covid-19 has been extraordinarily powerful. In addition to pumping vast amounts of liquidity into a number of eurozone banks, announcing an interim lowering of bank capital requirements and postponing EU-wide stress tests until 2021, the ECB has introduced a temporary easing of its collateral measures (i.e. reduced haircuts, widening the scope of acceptable bonds and loans) to help banks continue to provide liquidity and credit. The ECB also strengthened its quantitative easing (QE) programme through the Pandemic Emergency Purchase Programme (PEPP), which now totals €1.35 trillion, a scheme expected to last until at least the end of June 2021.

The ECB has demonstrated increased flexibility and some risk tolerance over the last four months. Most notably, it included Greek government bonds in its bond-buying list and scrapped a self-imposed limit on holding more than 33% of any one country's bonds. The ECB also expanded the range of eligible assets and maturities by incorporating non-financial commercial paper and government bills into its QE programme.

Although the ECB and the Federal Reserve have reacted quickly to the Covid-19 crisis, their responses have diverged at times, owing mostly to the structural differences between both markets. Whereas banks in Europe have traditionally been the providers of corporate financing, funding in the US is typically procured through capital markets. This explains why the ECB provided ample liquidity to the banks whereas the Federal Reserve set up a panoply of primary and secondary corporate purchases, going beyond

the initial purchases via indices such as exchange traded funds.

The nuances between the Federal Reserve and ECB's responses are also a consequence of both markets being at different stages of the economic cycle at the start of the crisis. The Federal Reserve, for instance, reduced interest rates to 0%-0.25%, unlike the ECB whose rates were already set at zero. Another discrepancy between the two central banks is that the ECB has publicly disclosed how much it intends to purchase as part of the PEPP initiative, in contrast to the Federal Reserve, which has opted instead to conduct an open-ended asset purchase programme.

Covid-19: a catalyst for social bond issuance

As markets stabilise, there is now a growing pressure on central banks worldwide to ensure that corporate QE should be reserved to sectors making tangible improvements on ESG (environment, social, governance). Admittedly, this may prove difficult in some cases, especially as a number of bond buying programmes do not allow central banks to discriminate against particular industries.

“As markets stabilise, there is now a growing pressure on central banks worldwide to ensure that corporate QE should be reserved to sectors making tangible improvements on ESG (environment, social, governance).”

However, there are a number of reasons to be optimistic about the future trajectory of ESG. Firstly, central banks globally appear to be adopting a co-ordinated, structured approach in the fight against climate change through consortiums such as the Network for Greening the Financial System (NGFS), a body which has continued to balloon in size since inception. Similarly, there has also been a notable spike in demand for social bonds amid the crisis. Social bonds now account for 28% of the total sustainable bond market, with issuances climbing to \$33.1 billion during the first four months of 2020 – a trend which is being driven overwhelmingly by supranational bodies and agencies. In contrast, social bonds comprised just 5% - or \$14 billion - of the sustainable bond market last year.¹

Use of proceeds from many of these social bond issuances are being funnelled into initiatives designed to mitigate the impact of Covid-19. High-profile issuances include the International Financing Corporation's \$1 billion, 3-year social bond designed to fund Covid-19 relief measures; the African Development Bank's \$3 billion, 3-year Fight Covid-19 Social Bond aimed at providing support and financing to African countries and businesses; the EIB's €1 billion, 8-year and €1 billion, 10-year Sustainability Awareness Bonds; and Nordic Investment Bank's €1 billion, 3-year Inaugural Response Bond, which will attempt to alleviate the social and economic consequences of the Covid-19 pandemic. Nearly all of these transactions follow the ICMA (International Capital Markets Association) Social Bond Principles, a set of guidelines promoting transparency in the social bond market.

¹ BNP Paribas CIB

Social bonds have exploded in size and popularity, with \$57 billion issuance in 2020 YTD vs 9 billion during the same period last year. Green bonds represent \$93 billion YTD, suggesting that interest in these products remains very healthy although a little behind the 2019 YTD issuance at \$111 billion. Sustainability-linked bond issuance activity is also projected to rise off in the footsteps of the Sustainability-linked loans which have seen an exponential growth since they appeared only a couple of years ago. The ICMA Sustainability-Linked Bond Principles should help pave the way for the development of this new market. Global regulation promoting ESG is also expected to support more issuance. The EU, for instance, is pushing ahead with its Sustainable Finance Action Plan, a policy intended to help steer private and public funding into ESG investments. Other core markets are now following suit.

Securities lending and repo: an enticing opportunity for official institutions

Cash injections by central banks have been critical in stabilising the repo market, especially during the early stages of the Covid-19 disruption when investors were struggling to manage their liquidity risk. This rapid intervention by central banks ultimately freed up financial institutions' credit lines allowing for cash to be deployed in the repo market. This decisive action is widely considered to have prevented a severe drought in credit markets from materialising. The insatiable demand for High Quality Liquid Assets (HQLA) and the use of those assets to generate incremental revenue in a risk-controlled programme have always been present in the market. The volatility over the past several months has reinforced

the notion that central banks have an opportunity to earn increased returns while adding liquidity to capital markets through the adoption of securities lending programmes.

There are also revenue opportunities available as a result of incoming OTC derivatives regulation in the US, EU and APAC. Having implemented mandatory clearing of vanilla OTCs

“Not all financial institutions will have suitable collateral available in their inventories, so they will have to source it from elsewhere.”

through CCPs, global regulators are pushing ahead with reforms that will require counterparties to bilateral OTC transactions to post initial and variation margin on their trades. Although the rules have been delayed by one year due to Covid-19, trading counterparties will still need to obtain acceptable collateral to post as margin. Not all financial institutions will have suitable collateral available in their inventories, so they will have to source it from elsewhere. Official institutions – a number of whom are sitting on massive liquid cash reserves or high quality financial instruments – may be tempted to on-lend some of their securities to OTC market participants who will use them for margining purposes.

As a leading, global provider, BNP Paribas Securities Services is in a strong position to support clients' securities lending requirements by providing global and local coverage in more than 30 countries for a wide range of asset classes and using differ-

ent types of collateral. It offers various routes to market including both principal and agency lending services, while clients can simultaneously access the bank's industry-leading Global Markets and CIB facilities. The breadth of services enables participants to be well positioned to maximise revenue opportunities while minimising market exposure. Coupled with its robust asset safety measures and commitment to risk management, BNP Paribas Securities Services can provide an optimum securities lending solution to official institutions.

Reassessing priorities post-Covid-19

Covid-19 is a crisis like no other. Official institutions – including central banks – will be vital in shaping the world's recovery moving forward. From short-term monetary intervention as a means to shore up liquidity to longer-term initiatives focusing on ESG bond issuance, official institutions are helping to salvage the global economy. ■

With thanks to the following BNP Paribas contributors:

Christian Oger, Head of technical sales at BNP Paribas Securities Services

Florence Lubineau, Head of Central Banks & MDBs/Supranationals, Europe at BNP Paribas CIB - Official Institutions Coverage

Laurent Libiszewski, Global Head of Debt Products & Solutions at BNP Paribas Securities Services

Michael Saunders, Head of Agency Lending, Americas at BNP Paribas Securities Services

Natalia Floate, Head of Market & Financing Services, Asia Pacific at BNP Paribas Securities Services

Vera Delvoe, Official institutions and Pension funds, Go to Market strategist at BNP Paribas Securities Services



ALEXANDER KRISTOFERSSON

As head of VPS, Norway's CSD now acquired by Euronext, Audun Bø is at the centre of the industry's transition from national monopolies to open-market combatants.

“With Euronext we can think larger than Norway”

Many in the Oslo Børs VPS organisation were reluctant to see Euronext take over as owner last year. Yet from the post-trade perspective of the CSD division VPS – and its head **Audun Bø** – the joining could give the Norwegian entity an attractive key role on a full European scale.

By Alexander Kristofersson, PostTrade 360°

Before acquiring us, the post trade area made up 13 percent of Euronext's business. With us, this proportion is up at around 20 percent,” says Audun Bø, CEO of Norway's central securities depository VPS.

He details how this harmonises with the realigned strategy of the Paris-/Amsterdam-based exchange

group, to increase its weight on post-trade activities:

“Coming from being an operator of exchanges as such, Euronext now states its strategy in terms of ‘building the leading pan-European market infrastructure’,” says Audun Bø.

At the heart of CSD transformation

We meet at the PostTrade 360° Stockholm conference in late February (after which Audun Bø was then scheduled to give the opening keynote at PostTrade 360° Oslo in March, the event that has since moved to August due to the covid-19 outbreak). The landscape of the world’s CSDs is clearly in transition – from one of national monopolies to one of commercially owned competitors who battle it out in the open market. This could hardly be demonstrated more clearly, anywhere in the world, than it is at Audun Bø’s

Oslo office these days.

“Before Euronext came in, we were a small Nordic CSD considering how to protect our national position. With Euronext we can think larger than that.”

In total, Oslo is now the third-largest site for the Euronext group, and the largest post-trade entity. For possible growth ambitions across the Nordic region, this makes Oslo the evident base under Euronext, Audun Bø points out. With Nasdaq, which runs its large Nordic business with Stockholm as its main centre, Oslo would not have had such a role.

No looking back

It is a poorly kept secret that most of Norway’s financial community were favouring Nasdaq to become the new owner of national exchange/CSD Oslo Børs VPS – rather than its rival Euronext, who eventually won the

bidding game triggered by the latter at Christmas 2018. Sensing this, Euronext was quick to declare to its new employees in Oslo that it would prefer all bygones to be bygones.

According to Audun Bø, employees viewed it positively that Oslo would become the Nordic centre for their owner. Even so, he acknowledges that the organisation, including himself, is negatively touched by a mandate to downsize the activity. Across the Oslo Børs VPS business, including the exchange operation, headcount should be down from about 250 to 210 by the end of 2021.

In the meantime, there will be a high work load both with the group integration and with the efforts to become licensed under CSDR. After the application deadline for the CSDR license on 30 June 2020, Audun Bø expects the final authorisation during the first half of 2021. ■



Norway’s CSD, VPS, belongs to 200-year-old exchange operator Oslo Børs since 2007. Purchased by Euronext last year, it is now a weapon in the European group’s Nordic competition against Euroclear and Nasdaq.

“This makes us more Nordic”

Euronext CEO Stéphane Boujnah comments on the recent acquisition also of Denmark’s CSD, VP Securities. ►



EURONEXT

"This makes us more Nordic"

On the evening of Thursday 23 April, Euronext announced that it buys Denmark's CSD, VP Securities. We spoke with Euronext CEO Stéphane Boujnah the next morning. Read about his strategy – and his different experiences in Oslo and Copenhagen.

The Thursday evening announcement that European exchange operating leader Euronext will take control of VP Securities changes the scene in the Nordic post-trade landscape.

"This makes our business more

Nordic," says Stéphane Boujnah, CEO of Euronext, to PostTrade 360°.

"Around 25 percent of the Euronext group revenue will now be generated in the Nordics – to compare with zero two years ago."

With teams in Oslo, Bergen,

"This is the outcome of dialogue that has taken place for two years. We have an understanding of VP Securities better than any other company we have ever bought."

Copenhagen, Stockholm and Helsinki, Euronext will have more than a third of its staff located in the Nordics.

In dialogue since long

The seeming swiftness of the transaction is in stark contrast against the highly public bidding war for Norway's combined exchange and CSD operator Oslo Børs VPS last year. A general bid by Euronext was challenged both price-wise and legally by Nasdaq but Euronext came out winner. Let us come back to this later. Further, Euronext bought the Nordic spot power exchange, NordPool, this winter.

Yet Stéphane Boujnah reveals to PostTrade 360° that the VP Securities deal follows a long anchoring process – where VP Securities board-of-directors chairman Peter Lybecker has played a key role in coordinating the many Danish stakeholders.

"This is the outcome of dialogue that has taken place for two years. We have an understanding of VP Securities better than any other company

we have ever bought,” says Stéphane Boujnah.

Stéphane Boujnah underlines what he sees as a logical connection and possible synergies between the Norwegian and Danish CSDs, although they are on different sides of the EU border. Beside the closeness of their locations and economies, they share the segregated account structure which differentiates the region from most of Europe – where the “jumbo”, or “omnibus”, structure dominates. The two also have a history of close relations and collaboration – and, says Stéphane Boujnah, actually a joint technological “DNA”, since Norway’s platform was once built upon Denmark’s solution.

At large, Euronext’s discussions to acquire both Oslo Børs VPS and VP Securities first ran largely in parallel, but the challenge from Nasdaq OMX over Norway changed that, with Danish talks needing to be stalled for half a year in 2019.

This spring, the coronavirus situation has threatened to bring further delays to the Danish acquisition but the parties were determined not to let it obstruct developments.

“We are clearly not in wait-and-see mode,” says Stéphane Boujnah.

Shares view with central bank

Thursday’s public announcement of the transaction was enabled by a crucial decision by the Danish Central Bank, which has a double role – as both key shareholder of Denmark’s central securities depository VP Securities and as regulator.

Definitive agreements have also been struck with shareholders Danske Bank, Nykredit, Nordea and Jyske Bank, guaranteeing an initial stake for Euronext of around 70 percent of the

Despite the two years, he holds the Danish negotiation process as “extremely efficient”. This is in contrast against the rowdy Norwegian situation last year.

shares in VP Securities. Euronext is now opening an offer to all minority shareholders at the same terms.

The agreement sees VP Securities transform from a user-owned organisation, to one that is run commercially as part of a European industry group. Stéphane Boujnah describes the old user/owner overlap as “creating ambivalence” – and perceives that the Danish financial community is positive to saying farewell to it.

“With us, it will be part of a compact commercial, industrial and technology-driven company fully anchored in the EU capital markets. That is good news both for the teams and the clients.”

Sees no conflict in Norway

Despite the two years, he holds the Danish negotiation process as “extremely efficient”. This is in contrast against the rowdy Norwegian situation last year, where local actors including the Oslo Børs VPS board lined up behind Nasdaq OMX in its challenge against Euronext to take over. But

Stéphane Boujnah strongly rejects the picture that there would have been general resistance in Norway either. Yes, there has been legitimate concrete discussion in Oslo over certain points – such as trading hours and changes in the clearing chain, where Euronext has come to halt original change plans after requests from the participants. Yet overall, he describes the public spectacle primarily as “noise” orchestrated solely by Nasdaq, using “unfounded arguments” in an attempt to “frustrate” Euronext’s Nordic entry.

“It is fact that there was actually no mobilisation of market participants,” he points out.

“I don’t even want to call it a debate,” he says – adding that relations are going very well, also with leading bank DNB which was originally a critic of the deal.

Strategy to grow post trade

For Euronext, which is a top European stock exchange operator (originally formed in 2000 from the merger of the Paris, Amsterdam and Brussels exchanges), the Danish entry also means another increase in the proportion of revenue coming from post-trade activities rather than exchange operation. This is in line with a strategic redirection of the group last year, to “build the leading pan-European market infrastructure”. In other words: growing post trade.

Euronext’s purchase in 2019 of Oslo Børs VPS was a big step in growing the post-trade revenue share, besides positioning Euronext as a Nordic actor. Adding VP Securities now takes post-trade income to a level around 23 percent of Euronext group revenues, with strong Nordic emphasis. Portugal’s CSD Interbolsa was the starting point. ■

Decades in agony, then SEB gets custody right

Eight years after the “go” in 2012, Sweden’s SEB finally dares calling it a success: the huge integration project with custody outsourcing partner Brown Brothers Harriman. Now many new mandates are won.

Interviewed by PostTrade 360°, SEB’s **Niklas Nyberg** and **Göran Fors** tell the story. Of a rocky path, starting way back.

By Alexander Kristofersson,
PostTrade 360°

Göran Fors and Niklas Nyberg both work with SEB’s custody since the 1990’s. Already then they saw their business stuck in a dilemma over the need for a massive operational investment. “It is not until now that we feel we finally got it right,” says Niklas Nyberg.



“It was unthinkable for our owners to see their bank unable to discuss securities handling in detail with its corporate and institutional clients. This is part of our DNA.”

Niklas Nyberg



ALEXANDER KRISTOFERSSON

The project name was “P6”, and there was a reason for it. This was the sixth time that SEB launched a reassessment of its global custody strategy. The focus was on institutional clients such as insurance companies, pension funds and fund companies. The previous five attempts had all left an itch.

With some 4,500 billion SEK in assets under custody (AuC) in its global custody business, SEB is a large player by Nordic measures. Adding its sub-custody assets, held for overseas investors, gives a total AuC above 10,000 billion SEK today.

But let us rewind. As SEB’s global custody business emerged, on the back of Sweden’s currency-exchange deregulation in the late 1980’s, the global competitors had already had many years to establish their positions.

“Ever since the 1990’s, SEB had been in agony about the size of the investment that would be needed to catch up operationally with the big global custodians. Because on the other hand we felt that we just couldn’t let our key clients down,” tells Niklas Nyberg.

Today head of institutional global custody, Niklas Nyberg can look back at a 22-year career in SEB’s custody business which coincides in time with the relentless reconsideration of its

existential dilemma. So can Göran Fors, currently deputy head of Investor Services, who came in at SEB around the same time in the mid-1990's. Plans existed, already then, to outsource some operational tasks to OM (the precursor of Nasdaq's tech division in Stockholm), but did not materialise. We meet at SEB's history-laden head office at Stockholm's Kungsträdgården, and Göran leaves it to Niklas to draw the interior.

"We kept putting make-up on the pig, so to speak – improving what we could – but by the early 00's many of the larger institutions had let go of us. We risked being perceived as the provider of an over-priced but under-performing product – which could hit back on the image of our services and brand generally," says Niklas Nyberg.

As a part of the Wallenberg sphere since the 1800's, SEB served as a catalyst for Sweden's global industrial impact over the next century. Today, this reflects in a leading position as house bank to a large share of the Nordic region's large corporates and institutions. (The institutional investor part in the segment is growing and now makes up nearly half of SEB's LC&FI business.) So SEB is a regional giant in the segment. But a giant which, on the scale-economy-driven market for global custody services, is battling with international giants a hundred times its size.

Around 2010–2011 the indecision had finally transformed into determination to do something. But what? Four high-level alternatives were sketched:

- build a state-of-the-art platform at the bank itself,
- outsource operation to a partner that already has one,
- keep on using the existing infrastructure, mitigating the drawbacks, or
- sell the global custody activity while doing the best to still keep the

trading business – a strategic path with similarities to those later chosen by other large actors like Deutsche Bank, Barclays and Nordea.

"We quickly identified that our owners did not want to sell," says Niklas Nyberg.

"It was unthinkable for them to see their bank unable to discuss securities handling in detail with its corporate and institutional clients.

"So was there any early-exit possibility, or just all or nothing?"

"That is a very good question," Niklas Nyberg answers. "In fact it is a question we spent about half a year evaluating."

This is part of our DNA. Additionally, it would cause a major income drop over-night, and the buyer would probably be a competitor to SEB also in other areas."

The mitigation path, too, was soon excluded. Virtually having done it for more than a decade had made things worse, not better.

So build or outsource? The two remaining alternatives were considered near equal both in terms of capability and investment cost. But building a new in-house platform would bring some drawbacks: Competitors would not stop improving their systems and products, so the imperative for more investments would stay forever. And then the build-up project would be so big, not even all the knowledgeable consultants in the Nordics would have been many enough to staff it.

The outsourcing would be for the technical platform provision – not leading to handover of any client relations as such from SEB. US custody bank Brown Brothers Harriman, BBH, was soon spotted as the particularly suitable strategic fit. It was a reasonably close match in size, rather than a giant, and had decided on a strategy to invest in its platform to provide just this type of capability for other custodians. BBH had long been SEB's sub-custodian in the United States so there were good personal relations too.

However, according to Niklas Nyberg, the integration for SEB was a much more complex venture than anything BBH had previously done in this area. At the peak, the project was keeping 350 people busy – 200 on SEB's side and another 150 at BBH.

"In hindsight we can observe that they were not mature for an outsourcing project at this level. They, too, have had a lot of learning to do," says Niklas Nyberg.

Several hundred million SEK had been budgeted on SEB's side, but complexity emerged along the way. In 2015 it was clear that the allocated resources would not be enough.

So was there any early-exit possibility, or just all or nothing?

"That is a very good question," Niklas Nyberg answers. "In fact it is a question we spent about half a year evaluating."

By this time the team was under heavy stress.

"There were hot discussions. We had invested a lot of money – but still had costs ahead. Many of our people had worked very hard for a long time. And then nobody could give answers, nobody had done this before us. We could only trust our gut feeling."

An exit scenario, limiting the implementation to Luxembourg-based assets, was pitched against the full scope. But the bank's top management kept trusting its custody people, and stayed

“Overall, one would be wise not to think of this type of project as a cost-saving exercise.”

Göran Fors

committed to sponsoring the job until it was done. Around late 2015 the decision was made to prioritise the Swedish market with its key clients, and to go the full stretch.

“That turned out to be a very, very good decision”, says Niklas Nyberg, evidently relieved.

By the time the first client went live on the new platform in October 2016, Niklas Nyberg knew his team was past the turning point.

“The first year we did put effort into the sales but also into ensuring the functionality. It is since 2018 that we have been public and confident in our sales activities – with success. So in the last two years, we have been seeing our dreams materialise.”

He claims his business now enjoys a “hit-rate” around a remarkable 50 percent when bidding for new mandates, and despite a more than doubled total project cost he describes the overall outcome as “quite spot-on in relation to our 2012 business case”. One result clearly exceeds expectations: the “straight-through processing rate” – that is, the proportion of transactions that are completed without need for manual intervention. This is up from below 70 percent to above 98 percent, meaning that less than 2 percent of transactions now require a human touch.

So the per-transaction cost must be down remarkably?

To this question Göran Fors cannot resist entering the discussion.

“Overall, one would be wise not to think of this type of project as a cost-saving exercise,” he cautions.

Göran Fors lists the overall success factors as he sees them in hindsight:

- going with a long-term partner, stable teams on both sides, with members staying throughout the project,
- commitment and trust from top-management, and
- being determined not to take any easy way out but to pursue what would be the best solution in a long perspective.

Since the project started, new challenges have risen.

“Regulatory requirements have increased, both locally and internation-

ally, so we now have employees whose main task is to monitor the outsourcing,” says Göran Fors.

The final touch is still to be added. 20 percent of the assets under the LC&FI business in Sweden still remain to be moved from the old platform. This old platform, in turn, will be staying in use for the retail business, which will then be able to adapt it more closely to its own needs in the future.

Then, in Luxembourg, the first clients will be onboarded with the BBH solution later this year.

“That will mean that our infrastructural tech-journey has reached its destination,” Niklas Nyberg concludes.

“That will feel like a milestone.” ■



SEB had a key role in the build-up of Sweden's corporate and institutional landscape.

ESG 2.0: Crowdsourcing standards and mass customization

More transparency, flexibility and responsiveness to investor needs will yield tremendous gains in advancing ESG standards in a post-pandemic world.



BNY MELLON



**Contributed by
Corinne Neale,
BNY Mellon**

With net flows into sustainable funds nearly quadrupling in 2019, attracting a record \$20.6 billion¹, last year was widely heralded as a breakthrough year for Environmental, Social and Governance (ESG) investing. The dramatic growth provided yet more proof of the heightened demand for ESG investment options from institutional and retail investors alike. With the out-

break of the COVID-19 pandemic, ESG focused funds now face their first real test since entering the mainstream.

The initial signs remain encouraging: assets under management continued to grow in Q1 2020² and, relatively speaking, there is some evidence that ESG funds performed better than broader market indices³. There are still a number of underlying challenges to be overcome, however, and the fallout from the pandemic could prove to be an inflection point for ESG investing.

Meaning different things

One of the key issues with ESG investing is that it is – by definition – a broad range, encompassing a huge number of factors, even within each of the over-arching environmental, social and governance themes. As such, ESG can often mean different things to different people. In Europe, for example, ESG is typically viewed through more of an environmental lens with climate change and carbon risk the primary focus while in many APAC countries social factors, particularly those related to financial inclusion of under-served communities, tend to take center-stage. In North America, there has traditionally been a greater emphasis on governance issues, particularly around management quality. At an individual

level, it becomes even more complex and disparate; one investor may be interested in carbon emissions, while another may be interested in diversity.

This dynamic and multifaceted lens is reflected in the dizzying array of ESG data available and the lack of commonly accepted standards that define ESG. At last count, there were more than 300 vendors supplying data and analytics to score sustainability. Each focuses on a particular set of issues or reflects different priorities, applying different interpretations of those issues and employing a variety of methodologies to score them. As users of ESG data are well aware, many also suffer from data quality issues. This results in vast differences in scores; one company may get an excellent score for sustainability from one vendor and a terrible score from another. Some, for instance, will provide points for transparency alone, whether or not a company is progressing on a path toward sustainability. The hard-to-discern nuance between differing data sets presents anyone trying to conduct an objective analysis with a major headache.

It's a widely recognized problem. According to research from the Chartered Financial Analyst Institute and United Nations Principles for

“The lack of standards can also lead to claims of “greenwashing” or “social washing”, which chips away at the credibility of the entire segment.”



OLIVER SJÖSTRÖM / UNSPLASH

Responsible Investment (UN PRI)⁴, the lack of standards around ESG data verification and the demonstrability of the ESG factors shaping investment portfolios are among the key barriers to greater ESG integration into investment processes. The lack of standards can also lead to claims of “greenwashing” or “social washing,” which chips away at the credibility of the entire segment.

Beyond the scrutiny into ESG data, the COVID-19 pandemic creates a new unknown. On one hand, market volatility and the likely recession threaten to divert attention away from ESG as investors retrain their focus on capital preservation. But on the other hand, the outbreak and impact on portfolios could instead sharpen the focus of investors on environmental

and social issues. Already there have been profound shifts in people’s social attitudes more generally. Just the idea of who qualifies as “essential” employees in a “shelter-in-place” world has added new thrust to the \$15 minimum wage debate in the U.S., for instance. Additionally, anecdotally, investors are increasingly looking for evidence that their specific ESG objectives, preferences and values are reflected in their investments and the COVID-19 pandemic may accelerate that process.

New tools of the ESG trade

In practical terms, to achieve a greater alignment between investor objectives and the investment process will require:

- A deeper understanding of investors’ interests and concerns when it

comes to ESG, allowing them to define relevance on their own terms;

- An ability to “open up the box” to explore and identify the underlying components of ESG, how they’re scored, and how they can inform and support specific investment strategies and objectives;

- Customized portfolio construction to reflect investor preferences and needs;

- Demonstrability to ensure preferred ESG factors are represented in the portfolios or fund investments.

Without existing common standards and the disparity across ESG’s data universe, a consensus will likely only form through greater transparency into what investors are doing, which will, in turn, inform best practices.

At BNY Mellon Data and Ana-

lytics Solutions, for instance, we are developing an application to leverage the power of the BNY Mellon network to learn how portfolio managers and business users are interacting with and interpreting ESG data. Effectively this will provide crowdsourced guidance around the preferred ESG factors and priorities to determine the materiality of specific data sets and in the process create standards that both guide future ESG investments and continually improve and optimize the effectiveness of ESG metrics to complement traditional fundamental analysis or facilitate non-financial goals.

In time and as these efforts achieve critical mass, we expect to see a consensus form around the most reliable and valuable data, with the consequence that data may become more streamlined over time. This clarity, too, will likely expose gaps in the market where current priorities are not being met. With greater transparency and a deeper understanding of how data is being applied, users will be better placed to shape, refine and optimize standards to meet their specific goals and produce the greatest possible impact based on their specific definition of success.

The benefits of “opening the box” will also likely play through into investment portfolio construction. As asset managers gain a deeper understanding of the factors their investors are interested in, they will take this cue and tailor their portfolios to better reflect these priorities. Ultimately, this has the potential to pave the way for ‘mass customization,’ in which a wider range of products tailored to the ESG profiles of individual investors are made available. This will represent a fundamental change in how institutions and individuals invest.

The caveat is that as portfolios are tailored to needs of investors, asset managers will be held more responsible for making sure that their funds are delivering performance and provid-

ing “demonstrability” to validate the factors most supportive of the goals. If fund managers prioritize diversity, for example, they will need to demonstrate the specific diversity factors included in portfolios and report that back to investors.

The impact of this will be wide-ranging, influencing everything from how funds and investment products

“If fund managers prioritize diversity, for example, they will need to demonstrate the specific diversity factors included in portfolios and report that back to investors.”

are marketed and distributed, to providing evidence that proxy voting is consistent with the ESG factors that match investor preferences. This would have a knock-on effect on companies as they would also need to ensure the reliability, clarity and alignment of disclosure on relevant ESG factors.

The impact of the crisis caused by COVID-19 on ESG investing will be interesting to follow. One possible outcome may be that it exacerbates the ESG factors that individuals may have always cared about, but never focused on. This has the potential to heighten the need to understand investments through an ESG lens, with greater granularity and definition. It may also highlight that ESG factors are not static as some assume and that people’s perceptions and priorities are also mutable. For example, whereas climate risk is a key factor in Europe, market watchers will be interested to see if a shift occurs in which social and governance factors assume greater importance as business preparedness issues become more prominent. Alternatively,

climate change could get more attention in the U.S. and APAC regions to the extent that it would likely require a similar global response.

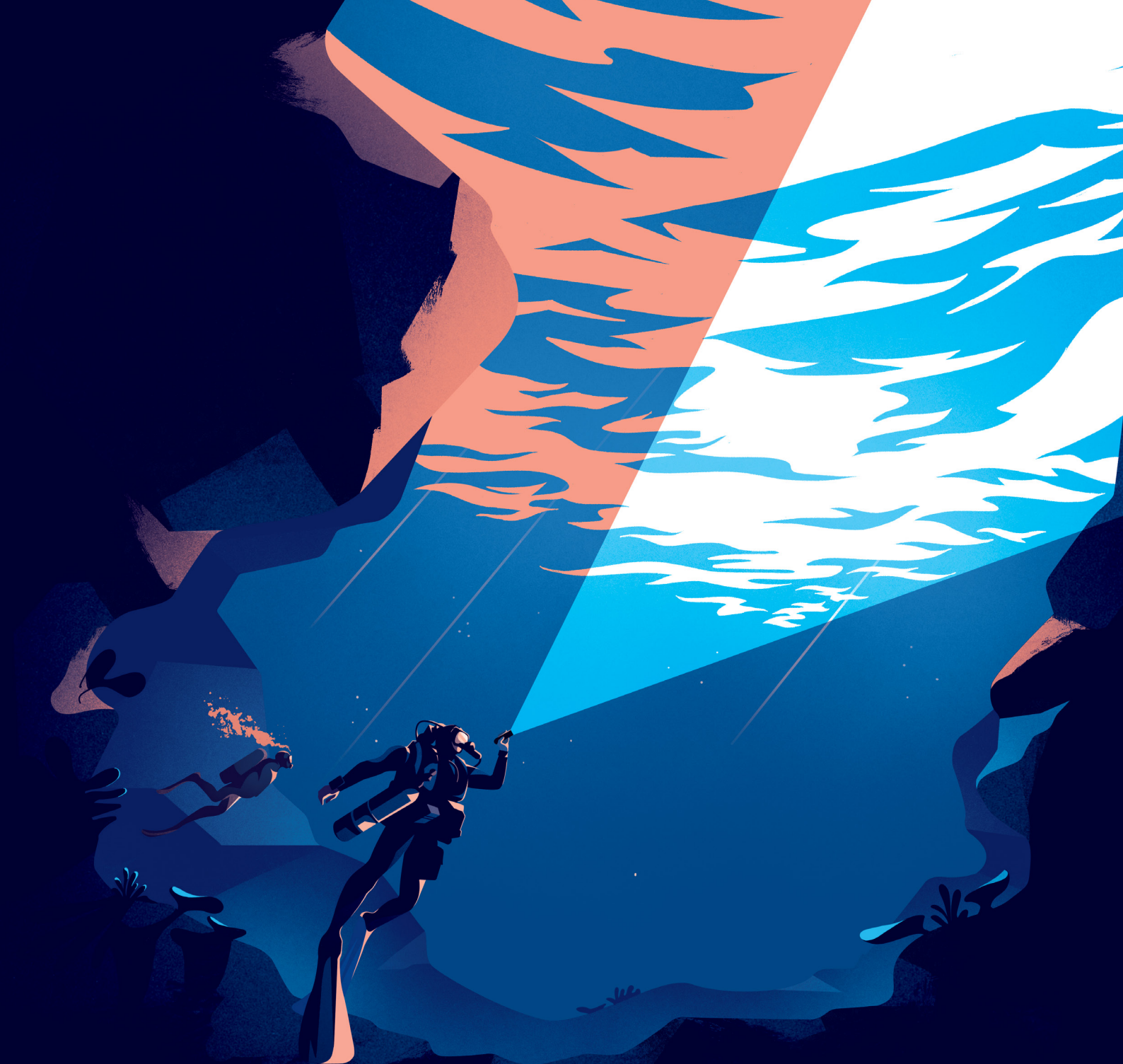
Not to be overlooked, the economic impact of the virus may also lead to a greater appreciation of what is financially material. For instance, investors may further scrutinize governance and business continuity plans to identify supply chain risks, and working conditions could become an area of emphasis.

Despite the recent popularity of ESG-themed investing, a number of challenges remain, particularly around standardization and the granularity of data. These ongoing hurdles create a degree of dislocation between the needs of investors and available solutions.

The global crisis caused by COVID-19 could have a profound impact; it’s probable that awareness of ESG issues will increase, putting a greater focus on investing through an ESG lens. People will likely emerge with stronger views on the type of world they want to live in, and this will play through into their investment decisions. These individual voices will need to be heard.

This has wide-ranging implications for asset management and the concept of stakeholder capitalism more broadly. There’s an opportunity for asset managers to better understand investor priorities, and respond to that by offering more tailored, “mass” customized products. This greater understanding could also lead to the emergence of more tightly defined ESG standards, as well as improved clarity and accuracy of when it comes to corporate disclosures, ultimately embedding ESG principles more fundamentally in the entire investment process. ■

Corinne Neale is Global Head of Business Applications for BNY Mellon Data and Analytics Solutions.



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Next, it takes innovation

Although markets may have calmed down following the extraordinary volatility in March/April 2020, financial institutions are bracing themselves for further Covid-19-induced uncertainty and stress. Low interest rates along with unpredictable asset price gyrations are playing havoc on return generation at banks, asset managers and investors.

If organisations are to withstand this ongoing crisis, they need to engage with post-trade service providers who are not only robust but innovative.



**Contributed by
Brendon Bambury**

Central to the Swiss Stock Exchange's ethos is a desire to innovate and provide leading solutions to solve real-world client problems. As the seriousness of the pandemic became increasingly obvious, financial institutions scrambled to access repo markets in order to obtain high quality liquid assets (HQLA) enabling them to meet collateral calls and facilitate redemption requests as in the case of asset managers. The entities which implemented automation and operational efficiencies into

their collateral management activities – either internally or through leveraging platforms such as the Swiss Stock Exchange's Future Tri-Party Agent (FTP) service - have largely weathered the volatility.

Longer-term, institutions – including wealth managers and private banks - will likely struggle to deliver alpha. In order to safeguard client assets amid the revenue uncertainty, institutions will need to identify operational savings so as to maximise performance. One way this can be done is through tax optimisation. However, a number of institutions are reliant on antiquated technologies and manual intervention when performing tax optimisation functions, which can be disadvantageous for clients insofar as they may not benefit from the tax relief they are entitled to. Tax optimisation can have a material impact on portfolio performance, so it is essential organisations take it seriously. In response, the Swiss Stock Exchange has developed a new

Advanced Tax Service (ATS) which provides financial institutions with tax reclaim support, helping them to deliver further value for their clients.

Evolving with the times

Digitalisation has been a recurrent theme in post-trade circles as custodians and market infrastructures look for ways to remain relevant in this rapidly evolving environment. The Swiss Stock Exchange fully recognises that markets are undergoing an unprecedented transformation, which is why it has created the SIX Digital Exchange (SDX), a fully integrated issuance, trading, settlement and custody infrastructure for digital assets. Nonethe-





“Most critically, organisations need to be technology agnostic when developing new products.”

less, financial institutions do need to be pragmatic and realistic in how they implement these ambitious technology change programmes.

Most critically, organisations need to be technology agnostic when developing new products. Although SDX is leveraging R3’s Corda Enterprise Blockchain solution to facilitate

trade settlements, it is also using commoditised technology sourced from NASDAQ, which is not Blockchain-enabled. This is because there is limited point in building an exchange platform on a Blockchain. While Blockchain has many applications and use cases, organisations need to be sensible in how they deploy it. If existing technologies can solve commercial problems or deliver business-wide efficiencies, then firms should look to make use of those solutions instead. ■

Brendon Bambury is a specialist in strategic business development and client relationship management. In his position as Head of Post Trade Sales for the

UK and Nordics, since June 2017, he is responsible for sales and relationship management. Brendon was initially appointed as a senior sales manager, during which time he strengthened the core services of SIX in UK and international markets. In addition to managing a portfolio of key clients, he is responsible for all of the activities of the Post Trade Sales team based in the UK and the Nordics.

Learn more: Come listen to Phil McNelly, on the topic of Clearing developments in the Norwegian market, at Post-Trade 360°, 26th of August, 13:00.

Standing **still** is already going **backwards**

Is your technology platform supporting or restricting your ability to maximise the new post-trade landscape opportunities?



**Contributed by
Alan Goodrich,
ERI**

Securities post-trade, particularly in Europe thanks to TARGET2-Securities (T2S) and the CSD Regulation (CSDR), is undergoing a major transformation. Impacts on existing business models are potentially disruptive.

While the objective of regulation is to standardise and facilitate interoperability, players are forced to stand out of the crowd by differentiating their value propositions to meet their clients' expectations. Adopting strategies that turn constraints into opportunities is the way forward. However, only technology that cost effectively enables change can make these strategies successful. Re-engineering the core

becomes critical as an inflexible, hard to maintain, legacy system will simply leave the institution behind.

T2S could trigger disaggregation of post-trade functions, meaning that the traditional functions of custody, settlement, collateral services and account management, are performed separately.

This separation will see the emergence of a component-based approach, as opposed to the traditional end-to-end transaction chain, and will invite the advent of new operating models.

"This separation will see the emergence of a component-based approach, as opposed to the traditional end-to-end transaction chain, and will invite the advent of new operating models."

Consequently, roles may be re-defined depending on the provider's strategy. Some may opt to become a router of transactions, while others may focus on transaction processing, or asset servicing.

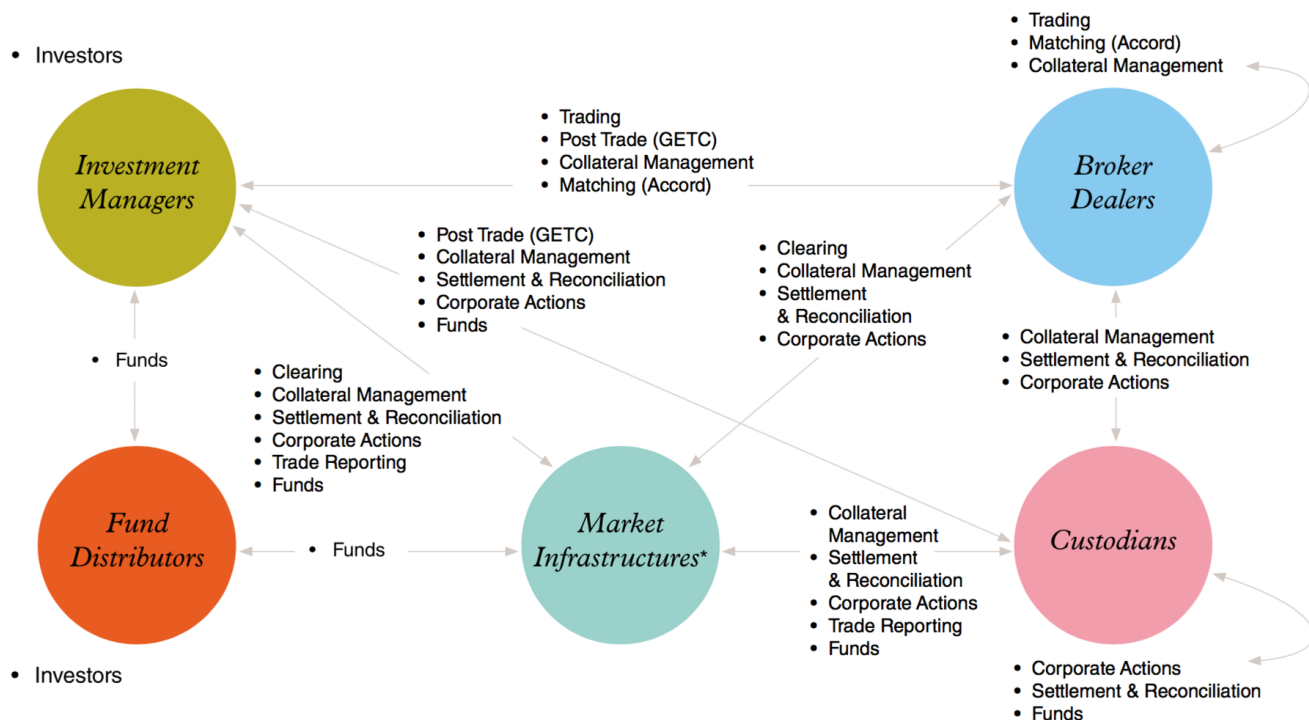
The commoditisation of securities settlement throughout Europe is transforming market interactions. Partnerships will further accelerate. Their success will rely on choices made by all stakeholders, including: investment banks, global custodians, broker/dealers, investment managers and issuers.

This unbundling will have consequences. For instance, each party will have to be fully aware of the latest settlement and custody positions of the client.

Even though, functional flows are dissociated from operational ones, there will be great interdependency between providers adding an extra layer of operational complexity.

Traditional messaging flows will no longer reflect the functional or legal distribution of tasks. Players will be unable to work in isolation because they rely on each other for information. Every party will be included in the ecosystem of the new transaction chain flows with an exchange of significantly more data.

Some players may still operate processes which are not fully automated (STP). This may hinder the efficiency of the settlement chain,



*Stock exchange, CCP, (I) CSD, Trade repository

Source: SWIFT for Securities report

which goes against the objectives of CSDR.

Hence, the importance of core systems is huge, as they will support new standards and specific data, such as Legal Entity Identifier (LEI) and the parallel use of ISO 15022 as well as ISO 20022 for message exchange.

Whereas some parties have been used to mainly receive and process messages, in future their systems will have to manage more new interactive flows.

Only a cost efficient and flexible system will be capable of adapting as business needs and partnerships models evolve.

Parallel use of ISO 15022 and ISO 20022 for message exchange is necessary. However, conversion cannot be a permanent solution for the value chain stakeholders.

The limited functionality of the ISO 15022 standard by comparison with its more advanced ISO 20022 successor has already created some issues of data loss when converting from one to the other. Despite the

assistance of mapping tables from SWIFT, the conversion of messages also creates additional costs.

Effective implementation of ISO 20022, in the context of recently developed business models entails a re-think, of post-trade securities processing. To succeed in a more integrated post-trade landscape where both lower risks and lower costs are pivotal, stakeholders will need to innovate and be agile.

The adoption of technologies such as Blockchain, DLT (Distributed Ledger Technology) and Artificial Intelligence (AI), can improve how post-trade business is managed. However, these processes are not yet mature, and a number of issues need to be resolved before they can be considered mainstream.

The ISO 20022 business model is unparalleled in its breadth of business scope and is widely adopted in the post-trade arena. In fact, because it separates business concepts from syntax, players agree that a common set of standards, based on ISO 20022,

is necessary to coordinate Blockchain and other technologies.

In a world of digital asset marketplaces on permissioned Blockchains, a custodian's roles may not fundamentally change. They will manage the private keys for the wallets on the Blockchain as well as managing asset servicing, so requiring cutting-edge technology.

In conclusion, standing still on legacy systems is not an option. To do so will already be going backwards. The need for transparency will continue to trigger regulatory changes. Now is the time to implement an agile and modern system that will enable post-trade operations to embrace emerging business models and maximise the opportunities presented. ■

Alan Goodrich is Regional Sales Manager at ERI, supplier of the OLYMPIC Banking System, a solution offering award-winning levels of post-trade automation.

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