POSTTRADE 360°

OSLO 2021

Inhouse edge

Helena Hillström, CEO of Swedish fund manager Didner & Gerge, knows the value of her admin. She was its employee number one. **29**

Cloud mover

Storebrand's COO Arne Martin Moen is back – with 38 other speakers for a solidly Norway-focused day. Check the packed 26 May agenda 6–9

PHOTO: STOREBRAND

Norway is big

Big numbers can be fascinating, and the frenetic 14-digit ticker on the home page of the global Norwegian oil fund is no exception. With global assets worth 2 million kroner per each citizen (some 1,300 billion dollars or so in total) in that fund alone, the Norwegians are a people who can easily see that their securitised, and hopefully well sub-custodied, financial holdings matter.

Then domestic assets come on top. The CSD, Euronext VPS, is safeguarding some 700 billion dollars' worth of securities in total. Some of this has foreign owners, of course. Euronext's arrival in Oslo as exchange and CSD operator two years ago was one signal of the growing international interconnectedness across the post-trade industry. And this year has seen Northern Trust open a new Norwegian office on the back of its reappointment to service assets for life insurer KLP – a 790-million-kroner mandate, indeed.

PostTrade 360° Oslo 2021 will offer a snapshot of this spectacular landscape as our economies are going back to normal after the covid-19 crisis – or even overheating, some warn. We will look at everything from the infrastructural shifts in trading and clearing, to operational case studies on custody partnerships and cloud migration. Everything from Norway's Brexit impact to sustainable investments, innovation in collateral management, workforce health, digital assets, general meetings and China's securities market. Before Northern Trust's chief economist Carl Tannenbaum helps us seal the day with a macro outlook.

Find the 26 May agenda on pages 6–9 ▶

Make sure you are with us throughout the day, and don't miss the tools for networking with your colleagues – including our PostTrade Chat Roulette in the first morning break!

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

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 took a next step. We seek to provide 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.

Under the covid-19 challenge in 2020, we launched **web-based conferences** – leading us to also publish **full-session videos** of presentations from our events. Our digital debut was our June 2020 full-day Web Summit, which gathered 60 speakers and 1,000 delegates.

Amsterdam was added in 2019 as our fifth city for **yearly events** beside Stockholm, Copenhagen, Oslo and Helsinki.

This link leads to **our LinkedIn flow**. Please click Follow – and let your colleagues know about us!

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@360fmg.com
+46-72-243 41 73

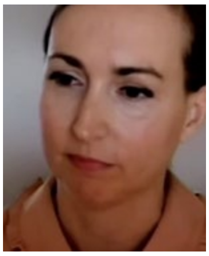
Commercial relations
Kim Ersson
kim.ersson@360fmg.com
+46-70-149 53 31

Layout: Alexander Kristofersson

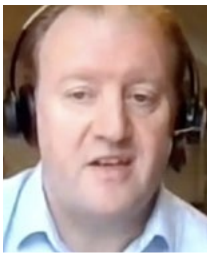
PostTrade 360° is a brand of Financial Media Group 360 AB.
Publisher: Daniele Truini

Nordic OTC derivatives clearing could keep growing

Philip Whitehurst



Julia Haglind



Brendon Bambury

Gabriel Vimberg

Panelists from three clearing houses shared a positive outlook for the region's OTC derivatives clearing market, as they met to talk at PostTrade 360° Stockholm.

By Alexander Kristofersson, PostTrade 360°

"I think Nordic OTC clearing is going to continue and grow – grow in terms of size and volume but also, I think, in terms of products and complexity and the solutions that the market want," said **Brendon Bambury**, head of international client relationships and sales at SIX's clearing business.

In the PostTrade 360° Stockholm 2021 conference, late March, he shared panel with …

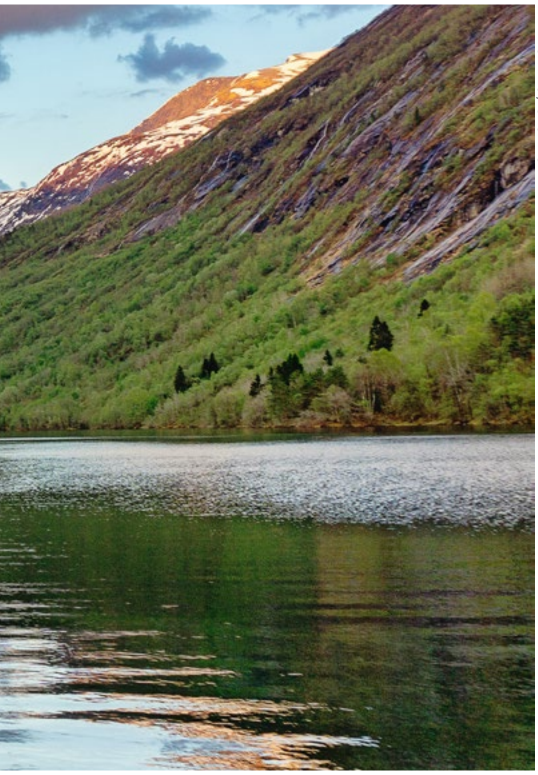
Julia Haglind, president of Nasdaq Clearing, and

Philip Whitehurst, head of service development for LCH's rate business.

The discussion was led by **Gabriel Vimberg**, head of derivatives clearing at SEB.

Clearing houses have largely been on the winning side of EU and world regulation, since the financial crisis around 2008. Regulators have incentivised market participants to bring their counterparty risks to clearing houses, as a way to get them under better control overall.

"Of course i'm a bit biased but I do think that the winds are still blowing in



DAMIR SPANIC / UNSPLASH

“Do I see more regulation? I kind of hope not.”

the direction towards central clearing. We see, for example, that Nordic institutional investors such as pension funds increasingly choose to clear their OTC derivatives irrespective of whether they are actually legally bound to do so or not. We all know that these funds control significant assets – and risk management is of utmost importance for them – so naturally, clearing represents an excellent tool for that risk reduction,” said Nasdaq Clearing president Julia Haglind.

“In terms of what I see ahead from our overall perspective, and you’ve probably already heard that I am optimistic that central counterparty clearing will increase, I personally hope to see an even bigger inflow of especially SEK IRS volumes,” she continued.

Globalisation drives standards

Philip Whitehurst pointed to the balance between regional and global business in the area.

“On the voluntary side, the thing we observe – in common really with all swap markets and all the most efficient markets – is that you’ve got a really interesting mix. You’ve got great international involvement in Swedish, Danish and Norwegian kroner, so those markets are, if you like, the majority of the business going on in those markets – maybe not by ticket count, but by volume it is international. And, by the same token, the players in those countries are looking to trade internationally, so they want access to US dollars, they want access to Canadian dollars, Aussie, yen …,” he said.

“In keeping with the patterns you see in many places, you’ve always got to, you know, bend as as much as possible to local idiosyncrasies and deal with some of the features that are specific to a marketplace. But at the same time, again, if we look at one of those central public goods that clearing can bring, it’s a lot about standardization.”

“More regulation, guys?”

SIX’s Brendon Bambury was asked by moderator Gabriel Vimberg if he is seeing even more regulatory push for clearing coming in.

“Do I see more regulation? I kind of hope not. There’s a lot of tools in the regulatory toolbox already, which is doing the job. It is mitigating risk, it is driving better practices, it is moving, say, hidden trading into a transparent arena. And I think if you turn around the market and say ‘Do you want some more regulation, guys?’ … it’s gonna be a fat … you know. I think we all recognize this regulation is costly to implement. It has an impact into your back office, your technology and your software. And, you know, I think we’ve got the right amount of regulation, rather,” said Brendon Bambury.

Watch the full half-hour session video on posttrade360.com. You can go straight to it by clicking here in this pdf. The little white dots guide you to questions/sections of the talk.

“I also think that the buy side firms have a big role in deciding where the clearing is going to take place. That’s at least what the sell side firms are saying.”

EU calls clearing home from UK

One politically sensitive issue at the moment is the emerging EU policy on the location of clearing, after the UK’s exit from the union. Julia Haglind said she would not want to make comments as such, but went so far as to share her impression of where the process is currently at.

“The EU regulators have stated that the current situation where the majority of the OTC market is cleared in the UK is not viable, as you know. And the EU commission is working on trying to convince the market to shift some volumes, basically in EU currencies into EU CCPs. They have established a working group with other EU institutions to identify the issues, to do this market shift. They’ve had two calls, as far as I know, with representatives from CCPs’ sell side and also from buyside, to discuss these issues where we have also participated from Nasdaq Clearing’s side. So at least from what I hear from from these calls, is that the message is going through to buy side firms in Europe and that they are starting to act to ensure that they’re not caught up in a situation where the market suddenly moves. So some buy side firms are setting up accounts with EU CCPs through their GCMs [General Clearing Members]. Some just leave them empty, some use them to clear new transactions, and some have even moved their whole portfolios out of the UK. So this is at least what some global GCMs stated on the most recent call with the EU Commission,” said Julia Haglind.

“I also think that the buy side firms have a big role in deciding where the clearing is going to take place. That’s at least what the sell side firms are saying.” ■

JACEK DYLAG / UNSPLASH

This year's PostTrade 360° Oslo event will still be digital only. But make sure you make maximum use of the networking tools on our web conference platform, as you join us from your desk on Wednesday 26 May.

A **well-stuffed** day with Oslo at the centre of post trade

WEDNESDAY 26 MAY

Event URL: hopin.com/events/posttrade-360-oslo. The conference is digital only, and free of charge.

08:25 CHAIRMAN OPENING REMARKS

Göran Fors, Deputy Head of Investor Services, SEB

08:30 OPENING KEYNOTE: Developments in the European post-trade market – main drivers for change

European post-trade is undergoing a deep transformation – and it happens now! Whilst the regulatory agenda and scale effects continue to shape a more integrated capital market and post-trade industry, changing investor's demands and new tech opportunities are shaking the whole value chain… In this keynote, Pierre Davoust, Head of CSDs at Euronext, will address key drivers for change in the European post-trade market.

Pierre Davoust, Head of Central Securities Depositories, Euronext

09:00 PANEL DEBATE: Oslo Børs migration To Euronext Optiq and consequences for the Norwegian market

Moderator: ***Hugo Sundkjer***, Head of Strategy, Business Development & Sales, TietoEVRY Wealth

Panellists:

Christian Ringstad, CTO, Oslo Børs

Espen Andersen, Head of Electronic Execution Services, DNB Markets

Morten Lindeman, CIO & Co-Founder, Infront

09:30 FIRESIDE CHAT: New dynamics for Oslo derivatives markets

Delphine Feyrit, Head of Listed Derivatives, LCH SA

Anders Holen, Head of Derivatives, OSLO BØRS

10:00 Chat roulette break – Let's network!

- Take our PostTrade Chat Roulette to speak with your first available fellow delegate!
- Hang out with colleagues in the Kitchen.

Continues ›

GREG MONTANI / PIXABAY

There are so many ways you can network in the breaks

• Hang out with colleagues in the Kitchen. Click "Sessions" on the left in the conference platform to find it.
• Take our PostTrade Chat Roulette to speak with your first available fellow delegate! Click "Networking" on the left. Default time: three minutes per call.
• Suggest a one-to-one chat with a delegate. On the right, click the "People" tab, then the name.
• Chat with the providers in our Expo, icon on the left.

Make sure your profile shows your title and company. Click your icon at the top right, then "Edit profile".

• Suggest a one-to-one chat with a delegate
• Chat with the providers in our Expo

10:30 CASE STUDY: A successful strategic partnership – Part 2 : Monitor and govern

Successful strategic partnerships requires a well-structured monitoring. How is SEB performing a thorough and diligent monitoring? What does the regulator and overseer say?
Moderator: Niklas Nyberg, Head of Institutional Global Custody, SEB
Catharina Buresten, Head of Risk Management, Investor Services, SEB
Susanne Öhrn, Information Security & Cyber Risk Manager, SEB
Martin Axelsson, Senior Legal Counsel, SEB

11:00 MARKET VIEWS: The importance of Norway as a fund domicile

In this session we will discuss the importance of Norway as a fund domicile, exploring the challenges the industry faces to maintain a healthy Norwegian funds marketplace, as well as the opportunities for Norway's fund market to grow.
Bernt S. Zakariassen, CEO, Verdipapirfondenes Forening / The Norwegian Fund and Asset Management Association
Harald Harlem, Head of Investment Management Services, KLP Kapitalforvaltning
Robert Stenmark, Head of Depositary Services Norway, Northern Trust
Moderator: ***Struan Malcolm***, Head of Nordic Sales, Northern Trust

11:30 CASE STUDY: Embarking on a journey to the cloud in order to build a future-proof and scalable platform

Storebrand Asset Management has embarked on a journey to the Cloud migrating their entire IT infrastructure from an on-prem data centre to a public Cloud. The session will describe the strategic drivers behind the move, the challenges and decisions made during the project and how this will unlock a foundation for future growth and scalability.
Arne Martin Moen, Chief Operating Officer, Storebrand Asset Management

12:00 Lunch – Let's network!

• Hang out with colleagues in the Kitchen
• Take our PostTrade Chat Roulette to speak with your first available fellow delegate!
• Suggest a one-to-one chat with a delegate
• Chat with the providers in our Expo

12:30 OUTSIDE THE BOX: Nurturing mental health in times of crisis

Through work with Doctors Without Borders, as well as his own mental health enterprise, Jimmy has interviewed over 600 people about their life's toughest challenge. As a speaker he shares insights from areas as diverse as war zones, elite sports and the high-performing shipping industry. Enjoy his accessible and engaging advice on how to nurture your own mental health.
Jimmy Westerheim, CEO, The Human Aspect

13:00 KEYNOTE: Norway and the Nordics – A Nasdaq view on the Norwegian financial landscape

Bjørn Sibbern, President, European Markets, Nasdaq

13:30 FIRESIDE CHAT: Digital assets – The future of banking

In 2021 BNY Mellon announced its plans to be the first global bank to build a multi-asset platform to service the rapidly evolving digital assets space. Lory Kehoe, Global Director of Digital Assets and Blockchain at BNY Mellon and adjunct professor at Trinity College Dublin, discusses the institutionalization of digital assets and how investment services is evolving to meet these investor needs. In addition to key infrastructure, he will discuss some hot topics and key elements for digital asset adoption in the capital markets and beyond.
Lory Kehoe, Director, Digital Assets & Blockchain, Advanced Solutions, BNY Mellon
Paula Avraamides, MD, Global Client Management, BNY Mellon

14:00 Break – Let's network!

• Hang out with colleagues in the Kitchen
• Take our PostTrade Chat Roulette to speak with your first available fellow delegate!
• Suggest a one-to-one chat with a delegate
• Chat with the providers in our Expo

Continues ›

14:30 PARALLEL SESSIONS

Choose between these 2 parallel sessions. You can move between them – and we record them so you may be able to view clashing sessions later at www.posttrade360.com

SESSION A – KEYNOTE: Covid-19 as a catalyst for digitization of the AGM process, is Virtual here to stay?

Digitization of annual general meetings was a trend long before the pandemic reached our shores yet adoption was sluggish and with mixed results. The technology was essentially in place to flourish nevertheless, the knowledge had not yet diffused into industry or regulation, nor was the will of issuers to take the plunge into unchartered waters. This all changed with the arrival of social distancing measures, zoom calls and unconceivable amounts of hand sanitizer.

This talk focuses on examining the rapid adoption of digital solutions surrounding the AGM process from a chronological, Eurocentric perspective. Together we will investigate the challenges to adoption pre-pandemic, the advantages contra pitfalls currently experienced as well as explore what the future may hold in this interesting space.

Gustav Vilhelm Thomas Lantz, Business Analyst, VP Securities, a Euronext company

SESSION B – FIRESIDE CHAT: China – Too big to ignore

China, which is home to the world's second-largest bond and equity markets, is too big to ignore. Its total market capitalization stands at US$30 trillion as of March 2021, a 30% increase from last year. Regulatory framework has gradually eased to allow foreign investors to tap into its domestic capital markets. What are some of the latest regulatory reforms and market developments undertaken to drive foreign inflows? Will China face a more measured outlook amid bond market volatility and the uncertain nature of its bilateral relationships, such as the U.S. executive order? What are some of the internal and external factors that foreign investors should consider when investing in China's capital markets in this and upcoming years ahead?

Gunnel Orndahl, Managing Director, BNY Mellon
Magdalene Tay, APAC Custody Product Manager, Asset Servicing, BNY Mellon
Geoffrey Yu, Senior EMEA Market Strategist, BNY Mellon Markets

15:00 PARALLEL SESSIONS

Choose between these 2 parallel sessions. You can move between them – and we record them so you may be able to view clashing sessions later at www.posttrade360.com

SESSION A - PANEL DEBATE: Bridging the gap between issuers and investors in ESG

Moderator: ***Sylvester Andersen***, AVP, New Business Development, European Markets, Nasdaq
Panellists:
Susanne Gloersen, Head of Climate and Sustainable Finance, SEB Norway
Corinne Neale, Global Head of Business Applications, Data & Analytics Solutions, BNY Mellon

SESSION B – FIRESIDE CHAT: How did/will BREXIT impact trading and clearing in the Norwegian markets

Tim Beckwith, Head of Commercial Services & Business Development , EuroCCP

Continues ›

Alex Dalley, Co-Head of Sales, European Equities, Cboe Global Markets
Anders Tvilde, Manager, Sector & Infrastructure, Nordea

15:30 PARALLEL SESSIONS

Choose between these 2 parallel sessions. You can move between them – and we record them so you may be able to view clashing sessions later at www.*posttrade360.com*

SESSION A – FIRESIDE CHAT: Investing in digital assets and implications on operations

Torbjørn Bull Jenssen, CEO, Arcane Crypto
Olivia Vinden, Head of FinTech & Innovation, Asset & Wealth Management Consulting, Alpha FMC

SESSION B – MARKET RESEARCH: Innovation in collateral management - A forward-looking perspective

The 2008 financial crisis and the years following had a drastic impact on collateral management and elevated the importance of its operations as evidenced by many firms' initiatives to create operational and technological efficiency in collateral management. As a result, collateral management is one of the few functions that is making a dramatic shift from the back office to the front office—a key evolution in a post-COVID-19 pandemic world. This report examines top innovative trends in collateral management adopted by central banks, institutions managing banking books and trading books, and the buy-side. It also profiles 23 firms engaged in the collateral markets ecosystem: AcadiaSoft, ApPello, Bloomberg MARS, BNP Paribas Securities Services, Broadridge Financial Solutions, Brown Brothers Harriman, Calypso Technology Inc., Cassini Systems Limited, Citi Markets and Securities Services, CloudMargin, Finastra, FIS, Genpact, Hazeltree Fund Services Inc., Margin Reform, Margin Tonic, Murex, Pirum, SmartStream, State Street Global Markets, Transcend Street Solutions, Vermeg, and Wipro Limited.
Vinod Jain, Senior Analyst, Institutional Securities & Investments, Aite Group

16:00 Break – Let's network!

- Hang out with colleagues in the Kitchen
- Take our PostTrade Chat Roulette to speak with your first available fellow delegate!
- Suggest a one-to-one chat with a delegate
- Chat with the providers in our Expo

16:30 PARALLEL SESSIONS

SESSION A – FIRESIDE CHAT: Future-proofing financial services – Diversity, equity and inclusion

Listen to a fireside chat with Sean George, a Wall Street veteran and hedge fund manager discussing the challenges he has faced in his career together with the opportunities ahead for the financial services industry to truly embrace diversity, equity and inclusion, by addressing the "S" in ESG.
Sean George, CIO, Strukturinvest
Alexis Goldfarb, Senior Diversity, Equity and Inclusion Consultant, Northern Trust

SESSION B – FIRESIDE CHAT: Nordic OTC Derivatives Markets: Accessing liquidity whilst driving for operational efficiencies and margin optimisation

Coverage of the latest trends in the Nordic derivatives markets and their impact on market infrastructure
Impact of the regulatory environment on OTC derivatives
Outlook on global rates and credit derivatives markets – What is the new normal on volumes and volatility?
Market infrastructure – A new drive for efficiency – Active margin optimisation and operational effectiveness
Heiko Cassens, Head of Sales & Relationship Management, EMEA & APAC, LCH
Joanne Donaghey, Director of Sales and Relationship Management, LCH

17:00 CLOSING KEYNOTE: The macro view

Carl Tannenbaum, Chief Economist, Northern Trust

17:30 CHAIRMAN CLOSING REMARKS and end of conference

KAMIL TATOL / UNSPLASH

Embracing change

The evolving landscape for global securities

Following the announcement of our investment in the launch of Zodia Custody, Northern Trust's **Justin Chapman** – Global Executive, Securities Services and Global Head of Market Advocacy and Innovation Research – and **Howard Rapley** – Global Product Lead, Securities Services – discuss how the securities industry may look in 2030.

Contributed by Northern Trust

What will be the biggest changes to the financial services industry in the next 10 years?

The key dynamics of change will centre around data and the digitalisation of assets; assets will be built entirely differently and data will be used more effectively to generate greater insight and value.

Over the last 10 years, firms stored data in private repositories and data lakes; but moving into the next decade, we'll see increased emphasis on the public cloud, and on generating powerful insight for clients. Digitalisation completely rethinks the processes between counterparties, with assets flowing from issuer to investor through flexible systems and smart contracts, using consistent, standardised real-time data. These benefits, alongside increased use of AI technologies, will help improve decision-making.

The challenge with this new approach is the difference in the systems involved compared to the industry's current architecture, which creates data multiple times across the investment chain, and, in some cases, within each asset servicing firm.

What role will new asset classes and market places play?

Investors are always looking for improved returns, better transparency, a more efficient investment process and, often, more direct influence over their investments. Meanwhile, there's industry-wide focus on providing simpler, faster access to those investments with less execution or operating risk. We're already seeing the development of new market places and are mindful this will allow for the development of new asset classes.

Will there still be a role for custodians?

Amongst all of this evolution, the central role of the custodian in protecting clients' assets won't change. What will is the execution, and the mix of traditional assets versus native digital assets in portfolios. For institutional investors, custodians will remain critical in ensuring the benefits of the traditional world aren't lost in terms of asset safety, regulation and control, and that the benefits of new digital environments are maximised – reducing cost, improving liquidity and, potentially, enhancing asset safety.

With all this innovation and change, what view are regulators taking?

Regulation is moving swiftly in the digital asset space, although this is accelerating in different areas and regions, and at different paces. Industry digitalisation is not only concerned with technology, but also with change to market operating processes. We believe regulation should remain agnostic to specific technologies and remain focussed on the outcomes of the use of those technologies in terms of the operation of the market, the stability of the financial sector and the protection of investors.

A key advantage of digital assets and markets is the ability for the regulator to be involved directly in the ecosystem - when combined with developments in AI and automation, this could eventually create environments that are effectively self-regulating.

With this incredible pace of change, what are the key considerations for firms as they adapt?

Firstly, custodians' duty of care and responsibility to ensure asset safety will remain their primary responsibility. How that's achieved will need to evolve – particularly, what the operating model looks like, and the skills and talent needed to support it.

Secondly, firms have always adapted to the rapid pace of development in the ecosystem, as well as regulatory evolution; with these developments, there'll be a need in the medium-term to manage parallel infrastructures as traditional systems give way to new technologies.

Lastly, there will always be a need to remain client-centred and flexible. The journey should be guided by what investors need to succeed, not what service providers want to do – meaning changes won't look the same for everyone in the value chain.

Ultimately, it's essential that organisations prepare.

It's very hard to move large organisations to ensure they're ready for change – firms need to be structured to deliver new products, services and capabilities. The pace of change will accelerate as the industry moves forward, and the multiplication of opportunities over the next 10 years will be significant – as will the risk for those who don't move quickly enough. ■

Northern Trust's paper "Custody Reimagined: The Outlook for Global Securities in 2030" is available by clicking here in the pdf.

Expecting the **unexpected**

With a year of unprecedented events behind us, the importance of risk management has never been clearer. **Irina Slinko**, VP Risk Management and Chief Risk Officer at Nasdaq Clearing, tells us more about her team's work.

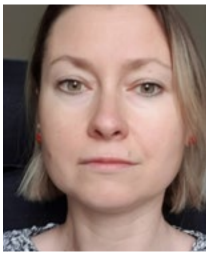
Nasdaq

Contributed by Nasdaq

With any new situation comes new risks. Can you tell us about how your team – which monitors financial and non-financial risks arising from clearing activities – worked through the early stages of the Covid-19 pandemic from a risk perspective?

Nasdaq Clearing's biggest concerns were people's safety and the ability to operate in all potential risk scenarios. We continuously re-examined our business continuity plans and managed to stay flexible in an ever-changing situation. The increased volatility on the equity markets caused by the pandemic also put our margin models to the test, which they passed successfully. Not only did they ensure enough coverage in terms of portfolio price volatility, but they also allowed us to keep our margins sufficiently stable, in line with anti-procyclicality regulation, providing stability and predictability to our members.

I'm especially proud that we early on in the pandemic managed to operate effectively while re-allocating all our staff to a work-from-home environment. Nasdaq's global investments in technology helped in this transition and our efficient use of technology has been key to our success.



Irina Slinko

Were there any other stand-out circumstances that your team worked with in 2020?

Perhaps surprisingly – the weather! The lengthy mild and wet winter in Sweden led to a prolonged electricity price decline. This resulted in both increased market volatility and continuous pressure on electricity producers, affecting their earnings and business strategies. Some Nordic countries' power prices even reached negative levels at day-ahead markets due to significant capacity and historically low demand fueled by the pandemic. Continuous monitoring became important for us to ensure that our margin models were performing well in this low-price environment and to give us sufficient protection against sudden price increases. We also engaged in stress testing and monitoring of the financial position and liquidity for the clearing members on the power market.

What role does risk management play at Nasdaq Clearing?

As a clearing house, robust risk management is the foundation of our business. Our risk function is constantly working towards refining our main models and risk framework. In 2020, we have, for example, enhanced our margin and stress testing models and refined our credit risk framework to ensure that we can efficiently monitor our clearing members credit quality and operational capacity. We are looking forward expanding and applying the improved framework to cover new business initiatives, while keeping a close dialogue with our members about the developments that we do.

Looking ahead, what is on your radar for 2021 within the risk management space?

What is most top of mind right now is of course the Archegos Capital Management case. It has highlighted risks related to prime brokerage, as well as risks associated with the interdependencies between banks and CCPs, which can result in propagation of systemic risk in the economy. Our team will continue to monitor the fallout and take a broader look on the risks posed to us, as I'm sure others in the industry will do as well. We are also following the CCP Recovery and Resolution Regulation soon coming into effect in the EU. It will be important to operationalize this regulation to further enhance the robustness of our recovery plans and the efficiency of our recovery tools.

Finally, we are paying close attention to new technologies, including the increased usage of specific technologies as a result of the pandemic. Naturally, there are many risks associated with technology for us to understand. For instance, with cloud technology becoming more common, we are currently developing a risk framework to help the business manage the new types of risks that this technology poses. ■

Plenty of options for **tomorrow's** Nordic trading **landscape**

Alessandro Romani, European Head of Derivatives at Nasdaq, shares his view on the ever-changing Nordic derivatives trading landscape and the growing importance of Norway in the Nasdaq eco-system.

Nasdaq

Contributed by Nasdaq

Amid heavy market turbulence on the equity markets, the ability to hedge against dramatic price movements have increased in importance over the last year, says Stockholm-based Alessandro Romani, who heads Nasdaq´s European derivatives trading business, when asked about his reflections on the little over 12 months that have passed since the Covid-19 pandemic took its grip on the world.

"Growing overall interest in trading among private investors has also created more interest, and a renewed sense of importance to educate investors about the opportunities – and risks – that the financial markets can bring, particularly with more complex asset classes such as derivatives."

How do you view the growing interest in trading from new and sometimes inexperienced private investors?

"Across Nasdaq, both in Europe and the U.S., we are seeing and reacting on the large growth of so called retail traders, or private investors. We are of course excited that more and more people are embracing the opportunity to take the stop from savers to investors as investments in equity products is an unparalleled way to create long-term growth. At the same time, while the ultimate responsibility lies with the investor, the investment community can help to minimize the risk that comes with combining a demand for short-term profits with inexperience, and at Nasdaq we do that through educational efforts, such as our partnership with OptionsPlay."

Alessandro Romani

In 2019, Nasdaq partnered with OptionsPlay, a global organization working to increase knowledge of derivatives trading, in order to bring intuitive options education with actionable trading ideas to the Nordics.

"We strongly believe that increasing the knowledge of derivatives, both the risks and the opportunities, will make private savers better investors. We plan to launch further educational efforts in Norway in close corporation with the local trading and investor community."

"We should at the same time remember that the Nordic region, Sweden in particular but increasingly also in other countries, has a strong tradition of equity ownership and an investment community, both professional and private, that is experienced and very knowledgeable."

Many are Pan-Nordic

The Nordic trading landscape is characterized by a number of major banks and brokering firms working across a region of small but affluent nations with a high general knowledge of trading.

Romani believes that while the markets are different and the many exchanges and MTFs are sometimes operated by competing operators, there are similarities and opportunities to further integrate the Nordic trading landscape.

"While we don´t operate an equities exchange in Norway, our largest clients are all pan-Nordic and are looking for pan-Nordic solutions. As we run seven out of the eight Nordic and Baltic exchanges, we are uniquely positioned to provide full regional coverage, and the synergies that comes with it, for our clients."

In Norway, Nasdaq offers trading and clearing of commodities derivatives, single stock options on Norwegian shares and also index futures, with a market share of close to 80 percent of open interest in stock options.

"As a market leader we´re trying to take responsibility not just in educating market participants but also driving industry discussions – for example, we recently held a Derivatives council for the Norwegian derivatives market to both inform and learn about current market trends and also get valuable feedback on how to improve the market." ■

TradeLog

EMPLOYEE TRADE MONITORING MADE EASY

A compliance solution aiding the monitoring of securities transactions, holdings and consents of your employees

TradeLog allows you to streamline your monitoring of employees' personal trading activity through electronic pre-clearance, screening list capabilities and automated rule checking. We help you reduce the time you spend on managing your employee trading while ensuring you remain compliant with the latest regulations, guidelines and internal procedures.

TRADELOG COMPLIANCE PORTAL

- Fully digitised application process for pre-clearance of trades
- Easily configure dozens of rule combinations to automate trade reviews based on firm's policies
- Fully digitised case management system for compliance
- Approval or rejection of applications based on pre-set parameters
- Automated surveillance and notifications of violations
- Standard and customised reports (e.g. violation log, reports to authorities)

EMPLOYEE PORTAL FEATURES

- Fully digitised application process for pre-clearance of trades
- Seamless administration of consent, holdings, roles, and related parties
- Communication channel with the firm's compliance department: employees receive information about blackout periods, prohibited trades
- Automated surveillance and notification of violations
- The system helps employees ensure they operate in full compliance with regulatory requirements and company policies

TradeLog is a compliance solution delivered by Euronext CSDs and Euronext Corporate Services.

For more information, visit our website **complylog.com** or contact our team.

Caspar Wergeland
Nordic Sales Lead | Euronext VPS

Phone: +47 4110 4387
E-mail: caspar.wergeland@vps.no

What innovation is next for your collateral?

Tough regulation has driven rapid change, and **huge values to save**, into the area of collateral management. These panelists at PostTrade 360° Stockholm had their go at summarising the innovation that is going on – and discussing what could be in it for you.

You can watch the full-session video too

This panel – recorded at PostTrade 360° Stockholm on 25 March – features actors in different roles along the collateral-handling value chain. If you want to see the full half-hour session, you find the video by clicking here in the pdf.

Craig Pearson, director at Margin Tonic, leads the panel made up of … **Marco Knaap**, Strategic Partnerships, Cassini Systems, **David White**, CCO, CloudMargin, and **Maurice Leo**, Director, Agency Securities Lending, Deutsche Bank.

Let these section labels tease you. You find them as white dots in the video's player bar or menu icon.

- Speaker intros (1:00)
- Scene setting: Why innovation is needed (2:14)
- The impact of accelerating value adjustments (5:57)
- Reducing required margin by pre-trade analytics (9:33)
- What firms should look for (13:25)
- The promise of automation: True STP (18:46)
- The services available (21:12)
- The next big trend (26:32)

By Alexander Kristofersson, PostTrade 360°

Setting the scene, Craig Pearson reflects on how a long list of factors have driven collateral management from obscurity to the spotlight in recent years, in both the back and front office.

"Historically, collateral management was an afterthought, certainly so when I started. It was a neglected back office function seen purely as a cost center. It took something bad in the market to change that impression."

Value adjustments in X flavours

Marco Knaap describes in detail how the regulatory push for clearing (and for increased collateral requirements under the "UMR" rules for derivatives that remain uncleared) have led to increasingly frequent value adjustments. In fact the methods for value adjustments are now so many, they are collectively called "XVA". The letters VA stand for value adjustment, while the X could be replaced by pretty much any letter: C for credit, D for debit, F for funding, K for capital (yes, really) or M for margin.

"So basically, what happens in the sell side, is that you have XVA desks who specialise in this. They model all these costs under pretty complex methods to do these value adjustments – and they put it in the price," says Marco Knaap.

"In the buy side you see the appearance of collateral staff in front office functions, literally sitting with execution desks or portfolio managers, and figuring out what is the route to pick with the lowest cost impact to make sure you control those costs and don't have bad impact on your P&L."

Get your assets together

David White advocates the merits of moving to cloud-based setups for the collateral management (indeed what his firm offers), rather than running your own system with a big need for manpower around updates, and limited scalability. But changing technology is not enough; there is also a need to take a consolidated view on data across asset classes – something that is often difficult today.

"In the buy side it's the same as the sell side: People tend to have some different solutions for different asset classes. Then, what you don't have is a single source of

> **"It was a neglected back office function seen purely as a cost center. It took something bad in the market to change that impression."**

MOHAMED HASSAN / PIXABAY

data, a single source for your inventory, and a single source of what your collateral obligations are at any point in time. And without that, the optimization that you do can only get you so far. So firms should really look at not only changing the technology that they use to perform that process, but we should also think about trying to consolidate all of these bifurcated processes. Because if they can do that, then the optimization that they do, and the cost savings that they can deliver enterprise-wide, are much more significant," says David White – who also comes to paint a delightful picture of the comfortable and optimised world that increasing automation could bring.

"So firms should really look at not only changing the technology that they use to perform that process, but we should also think about trying to consolidate all of these bifurcated processes."

Dig where you stand

Craig Pearson turns to Deutsche Bank's Maurice Leo with the question how collateral optimization has evolved, and what services are available to firms to enable them to make best use of their assets in inventory to meet their collateral obligations. Maurice Leo gives a detailed answer that covers many aspects, including how far different types of actors have come on their change journeys:

"The buy side are probably behind the sell side in terms of adoption of more centralized collateral models. We do see it there but I think there are signposts from the sell-side experience that are interesting both in terms of inventory optimization and transaction optimization. In inventory optimization, what we've seen on the sell side for instance, is that by creating a centralized collateral management model, firms are much more agile at actually sourcing the inventory they need within their own firm – and so pooling together collateral that is held across multiple product silos and managing that through one lens. So we would estimate somewhere in the region of 200 billion dollars of US equity balances that were there in 2014–15 are no longer there in terms of agents' lending to dealers', because the dealers source that in-house." ■

TietoEVRY plays a **central role** in Oslo Stock Exchange platform transition

In early 2019, both Nasdaq OMX and Euronext were in discussions with the Oslo Stock Exchange in a bid to acquire it. In the summer of 2019, it became clear that Euronext would become the new owner of the Oslo Stock Exchange.

Contributed by Dag Hasvold, TietoEVRY

With the decision taken, plans had to be put into place to migrate to Euronext's Optiq trading platform. This would be the third trading platform transition for the Oslo Stock Exchange within a decade: TradeElect in 2010, Millennium in 2012, and now Optiq in 2020. In December 2019, an aggressive migration plan was agreed upon and go-live was set for Q4 2020.

TietoEVRY's ProBroker – the brokers' choice

Since most of the local brokers and banks depend on the TietoEVRY ProBroker system to trade on the Oslo Stock Exchange, we had to commit to delivering an Optiq-ready ProBroker by Q4. Although the timeline was very short for such a large-scale migration, we were convinced it was possible – ProBroker has an efficient framework for trading and market data, while Optiq is powered by standard protocols such as FIX and SBE.

Complex transition

A large-scale transition such as this is extremely complex when doing it with an existing partner. The fact that we were now working with a new and larger organization, in Euronext, brought with it additional infrastructure challenges, among other things. One area that caused a lot of discussion in the market, was the decision to have LCH SA as the default Central Counterparty (CCP) for equity clearing. Because of this, members could be forced to have only LCH SA or both SIX x-clear and LCH SA as CCP. However, it was finally decided that the CCP interoperability model should be utilized, giving customers the option to choose their preferred single CCP.

New functionality

Unlike Millennium, Optiq supports trading of all asset classes – Equities, Fixed Income and Derivatives – which was good news for Oslo Stock Exchange customers. It was also decided to discontinue the "Derivatives desk" at Oslo Stock Exchange, used by brokers with smaller volumes to place their orders. For those brokers that wanted to continue trading derivatives, we added derivative order handling functionality to our Order Management Systems (OMS).

Although interoperability was chosen for clearing of equities, it was mandatory to use LCH SA for the clearing of derivatives. To manage this we created a gateway to their UCS ("Universal Clearing System").

New market data practices

The migration also meant we had to incorporate new practices for market data. Where brokers could previously pay real-time license fees per user, this was going to change to a more costly, per screen model. Due to this increased cost, brokers took a closer look at exactly which users needed access to real-time data. As a consequence, we added an "Entitlement System" to ProBroker. Access to data can now be controlled per user, and the necessary reports can be created for the stock exchange.

Speaking about the transition Head of IT at Carnegie **Øyvind Ruud**, says "The transition to a new stock exchange system is a critical activity for brokerage houses and we are dependent on our central system suppliers delivering high quality. Throughout the project, TietoEVRY with ProBroker has ensured good communication and involvement. On the first day of production, ProBroker was one of the systems that performed the best."

In conclusion…

This was a large and concentrated effort that required meticulous planning to meet requirements in such a short timeframe. Thanks to the flexible and proven ProBroker solution and the experience and expertise of the TietoEVRY team, the migration was a success. ProBroker was delivered on time and with the capabilities demanded by traders, banks, Euronext and the Oslo Stock Exchange. ■

***Dag Hasvold** is Head of Equities, Funds & Savings within Wealth at TietoEVRY.*

TietoEVRY Wealth Solutions is the number one Nordic Investment Core Platform for financial institutions operating in the Nordic savings and investment market including securities trading and settlement, fund savings, pensions savings, pension insurance, life insurance, treasury and portfolio management.

Creating a Nordic gateway to the international markets

"This is how we help fund Nordic economies"

Companies and financial institutions can list and issue bonds in all Nordic currencies and Euros, through Euronext. It is simply the most efficient path for Nordics issuers to reach local and international investors, and to leverage investment in Target2-Securities. And that's at the core of Euronext's mission – connect local economies to global markets.

Contributed by Euronext

In Q2 2020, according to the Bank of International Settlement, Nordic issuers issued bonds with an outstanding amount totalling EUR 2.812 billion. 56 percent of those are already issued through a Nordic CSD, and the question is, what about the remaining 44 percent? "Nordic CSDs don't support all possible currencies, but there's really no reason why 85–95 percent of those securities couldn't be issued through Euronext," says Bjørn Crepaz, Head of Issuer Products with VP Securities.

Through Euronext, companies and financial institutions can list and issue bonds in all Nordic currencies and euros. The company sees it as its mission to connect local economies to global markets, paving an efficient path for Nordics issuers to reach local and international investors, and to leverage investment in Target2-Securities.

Accessing a broader investor pool

When VP Securities, now part of Euronext, first introduced issuance in Euros, one of the main concerns they were met with was the question of investor reach, i.e., can you reach the same number of international investors when you issue via a Nordic CSD? This is where the Target2-Securities (T2S) platform comes into the picture. "We've invested in a platform, T2S, that benefits issuers," Bjørn Crepaz explains. "T2S – combined with links to important investor hubs – creates a shared, coherent market infrastructure that gives Nordic issuers access to a large, international investor base."

Experience also shows that international investors are not deterred by securities issued under Nordic law. "Our customers have been surprised time and time again that it's simply not an issue for international investors. In our most recent issuance with a Danish mortgage bond issuer, they didn't get a single question about the Danish ISIN," says Bjørn Crepaz. "And they saw no difference in their order book as a result of issuing through Euronext. They attracted the same range and type of investor, and the bond was oversubscribed three times. So clearly, it's a non-issue."

Benefits of harmonisation

Consolidating issuance in the Nordic infrastructure also enables Nordic issuers to have similar internal process across EUR and Nordic currencies. "If we take one of the larger Nordic banks, they issue structured bonds in both EUR, DKK and NOK through Euronext. As result, they can use one single, harmonised process for their structured products," says Bjørn Crepaz. "This has enabled them to reduce the total cost of issuance by simplifying their operations."

Euronext has seen similar results with other Nordic issuers. "This demonstrates one of the fundamental principles of process improvement. If you can centralise a process, you can then streamline it and improve it. Back-office staff spend less time having to learn various settlement processes and systems, and can instead focus on honing one process, making it faster and more effective. The end result is a settlement process with fewer errors."

Quicker path to market

The same, or broader, investor reach and simplified internal operations – these are compelling reasons for choosing an all-Nordic issuance model. Yet, according to Bjørn Crepaz, Euronext wants to go one step further. "If we're going to bring added-value to customers, we have to be able to offer a process that is faster and more efficient," Bjørn Crepaz says. "Which is why we offer our customers true Straight-Through-Processing (STP), so they can achieve a quicker path to market."

There are benefits on the legal side as well. Nordic issuers can operate under Nordic legislation, which also makes the process simpler, more efficient and more cost-effective. "When you have to involve external counsel and advisors specialising in, for instance, UK law, you increase issuance costs by three to five times what you would have to pay with a Nordic law prospectus," comments Bjørn Crepaz. "You now have an issuance process that is in-house and in-country, so everything is much more transparent and manageable."

USGS / UNSPLASH

A clear path to the European investment market

Euronext works with companies and financial institutions to issue Euro-denominated corporate, structured and mortgage bonds. "We have the large banks, mortgage credit institutions, and we have corporates as well," Bjørn Crepaz states. "These examples demonstrate that whether you raise capital via investment-grade or high-yield bonds, and whether you're issuing in Euros or one of the Scandinavian currencies, your path to the European investment markets can go through Euronext." Issuing through Euronext also creates another benefit for Nordic banks. "We have invested collectively, for many years, on the Nordic capital markets infrastructure. More issuance into that infrastructure simply benefits the whole ecosystem – from arrangers and issuing agents to custody and settlement providers.

"T2S – combined with links to important investor hubs – creates a shared, coherent market infrastructure that gives Nordic issuers access to a large, international investor base," says Bjørn Crepaz.

Funding pandemic recovery efforts

As Europe's focus shifts towards economic recovery after the global pandemic, funding needs will be considerable. "All across Europe, countries have taken measures to tackle the current Covid-19 health crisis. Most states are applying an expansive – and expensive – fiscal policy, which results in big funding needs. Corporations need new funding via bond issuances or capital increases; governments are issuing bonds; and investors, who in many countries are facing negative interest rates, are looking for opportunities to get a return on their excess capital. There's a lot of capital to be raised, and Nordic banks play an important part in linking issuers to investors. By creating an efficient, cost-effective issuance process across currencies, we can ensure that Nordic banks are active participants in these funding efforts," concludes Bjørn Crepaz. ■

In March, Bjørn Crepaz gave a presentation at PostTrade 360° Stockholm. A video of his full 23-minute session can be found by [clicking here in your pdf](#).

Searching through the green

The industry-wide need for quality ESG data

Contributed by Janine Hofer-Wittwer, SIX

Adoption of ESG strategies by investors and corporations globally has risen astronomically in recent years. Today, according to the US SIF Foundation's biennial Trends Report, a staggering $17 trillion is invested in sustainable investment strategies.

This dramatic shift, however, will not be sustained unless we facilitate the capture and reporting of ESG data in a way that is useful to all market participants. This strong interest in sustainable investments is matched by an equally strong industry and investor-driven need for quality ESG data.

A recent survey by BlackRock found that 53% of respondents cited concerns over poor quality or availability of ESG data and analytics. Although more companies are carrying out ESG reporting,

a fragmentation in reporting and lack of consensus on what defines "E", "S" and "G" means that the current data available is inadequate in its breadth, depth, and quality.

The coming into force of regulations, such as the EU Sustainable Finance Disclosure Regulation (SFDR) on 10th March, makes the need for ESG data to base investment decisions on even more pressing. Under the new EU rules, all asset managers will have to consider sustainability risks alongside other financial risks, before disclosing to investors how these are managed or why they are not deemed relevant. Raw ESG data is difficult to source and many companies do not report on their ESG performance, or only on some limited aspects of it. And even if there is data available from companies, that information is often not easily comparable between companies due to the absence of a uniform standard.

"Under the new EU rules, all asset managers will have to consider sustainability risks alongside other financial risks ..."

Current data is also focused on the climate and environmental impact of companies, and to a lesser extent on social factors such as diversity and inclusion, or human capital management issues. Furthermore, there is a lack of non-financial data on companies that are not based in the major markets and small and mid-cap companies. Bringing these non-financial factors onto corporate balance sheets makes the overall performance of many companies look very different.

Get your data clean

With such issues, how will market participants identify the truly sustainable? The first step is to understand what data is needed and to define the benchmarks and frameworks to analyse and standardise it. A sophisticated database with cleanly sourced, aggregated and refined data is crucial.

We can also expect more clarity on standards around ESG data, allowing investors and financial institutions to make informed decisions. Although there are many disclosure standards around, what we are now seeing is a convergence to TCFD, SASB and others.

As ESG-orientated investing grows increasingly important to investors, technology and analytics, such as AI-driven data analysis, will empower them to effectively assess the sustainability of the options available to them. The use of AI and alternatively sourced data will give investment managers greater capabilities to uncover material ESG data, provide investors with the products they want and achieve a better risk/return trade-off.

Innovation is ongoing

ESG investments are here to stay and are shaping to be the future of finance. We are constantly innovating and developing new products to ensure that our clients can capture future opportunities now. In addition to finalizing our ESG regulatory data offering (EU SFDR, EU Taxonomy), we have recently launched new ESG indices and also expanded our ESG data range through the acquisition of a majority stake in Orenda Software Solutions, with the aim of enabling our clients to make faster, more informed decisions with consumption-ready data and analytics. ■

***Janine Hofer-Wittwer**, CFA, is Senior Product Manager, Financial Information, SIX.*

In SIX's digital booth at PostTrade 360° Oslo on 26 May, you can enjoy a 22-minute video presentation by Janine – direct link here.

China's capital markets outlook

Remains cautiously positive

The outlook for China's capital markets remains cautiously positive for the rest of 2021, though admittedly the first quarter has been more volatile than expected.

Contributed by Geoffrey Yu and Magdalene Tay, BNY Mellon

By China's own admission in a surprisingly cautious April Politburo statement, the economy is recovering in an imbalanced manner is subject to much uncertainty. Nonetheless, China's growth is still expected to outpace the rest of the world materially and overshoot the relative conservative growth targets adopted for the year, according to International Monetary Fund[1]. Furthermore, strong commodity prices and export figures registered by many of China's main trade partners have also point to robust cross-sectoral domestic demand[2].

The Chinese government has further accelerated the pace of the market reforms in 2020. Most notable were the harmonization and deregulation of the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) rules, the introduction of more financial instruments available to foreign investors, and greater liberalization of the foreign exchange landscape. International investors at present are highly focused on regulatory developments and macro-prudential measures taken by the government which are targeting the highly-innovative and fast-growing 'platform economy'. As these companies target the expanding Chinese consumer base, foreign ownership and interest remains high and fears of regulatory-driven slowdown or containment may have affected valuations. Despite the scrutiny, Beijing remains clear that innovation will drive growth for coming generations and as of Q2, many companies have reached final settlements with regulators, removing a key source of uncertainty for investors.

Compared to 2020 where interest in Chinese bonds – led by Chinese Government Bonds (CGBs) demand – was largely impervious to changes in market sentiment, 2021 has displayed more two-way flows. Our own custody flow data registered some outflows through Q1. We believe the shift was purely tactical and is more a function of the surprise gains in US growth and inflation expectations, which affected bond markets globally and triggered rotation back into the US. China and Asian markets entered the year in an overweight position and were always likely to be disproportionally affected by the shift. Nonetheless, this should not detract from the structural underweighting of Chinese assets within global portfolios and we expected renewed index inclusion flow to continue supporting China's financial account. Flows ended on a high in Q4 2020 with US$110 billion in portfolio investment entering the country, the highest quarterly figure on record on a combined basis. (Figure 1)

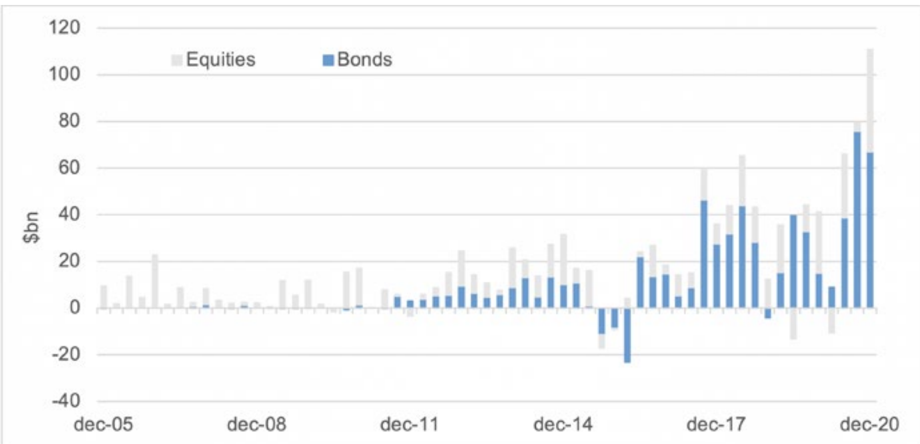


Figure 1: Capital Flows into China: Quarterly Net Incursion of Portfolio Liabilities
Source: State Administration of Foreign Exchange (SAFE), April 2021

NICK FEWINGS / UNSPLASH

Though it is hard to gauge the exact breakdown of where the inflows are coming from, U.S.- and Europe-based asset managers are likely to have dominated the flows, given their interest in Chinese assets. Based on BNY Mellon internal data, cumulative purchases of CGBs showed a material lift in the past few years, with a sharp increase in 2018 and an acceleration in 2020. Foreign bond holdings in the China interbank bond market has increased by 59% over the past year, reaching a record high in December 2020 to US$499 billion[3]. Such increase happened independently of periods of risk aversion surrounding the pandemic, underscoring the overall demand from custody clients targeting CGBs. The FTSE Russell's inclusion of CGBs into its flagship World Government Bond Index (WGBI) effective October 2021 will also draw further foreign inflows.

Investors' voice: focus on flexibility of the connect schemes

The latest regulations already allowed foreign investors under the onshore schemes to access a wider range of instruments, but operating guidelines have not yet been issued. Many investors are now looking forward to seeing similar flexibility introduced to the Connect Schemes and increased liberalization in offshore markets.

IPOs in mainland China, for example, are not yet open through Stock Connect, so foreign investors wanting to buy into these listings need to go through the China onshore schemes. But there are limitations in terms of allocations and profit repatriation, preventing foreign investors from participating. Relaxations around such limitations would allow foreign investors to more easily access and participate in China IPOs.

Wider capital account liberalization will likely continue in an asymmetric manner. Although foreign inflows are highly welcome, domestic outbound flows will continue to face some restrictions, particularly during times of stress.

In the near term, given recent bond market gyrations in China, developments in the equity markets over IPOs, and increased oversight of technology and fintech companies, there probably needs to be a confidence-rebuilding exercise, with a more stable framework in sight to reassure market participants. On the external front, it remains to be seen whether Beijing will re-engage with Washington D.C. with the aim of lifting ownership restrictions on Chinese companies by US investors.

In the short- and mid-term, China's government plans to focus on technology innovation to help create jobs and keep the economy humming, and has made such plans a highlight in its five-year plan. Much of this innovation may be funded through the capital markets, with new stock listings and bond offerings, so the outlook for China's capital markets for the rest of 2021 remains cautiously positive. ■

Geoffrey Yu *is Senior EMEA Market Strategist, BNY Mellon Markets.*
Magdalene Tay *is Custody Product Manager, Asset Servicing, BNY Mellon.*

[1] The IMF source can be reached by clicking here in your pdf.
[2] Germany and Australia export to China have increased 25.7% and 17.9% y-o-y, respectively ending February 2021; Japan exports to China has increased, 37.2% y-o-y ending March 2021; and South Korea exports to China has increased 31.7% y-o-y ending April 2021(Source: Bloomberg).
[3] Source: Bond Connect Company Limited, flash report, January 29, 2021.

APIs in securities services

Creating the industry **standard**

APIs (Application Programming Interfaces) are becoming a key part of our industry's digital transformation. But what are they and how exactly are they being used?

BNP PARIBAS

Contributed by Paud O'Keeffe, BNP Paribas Securities Services

Put simply, APIs are codes that are utilised by computer systems to communicate in 'conversation mode', asking questions and obtaining answers in real time. Basic interoperability programmes supporting information exchanges can be traced back to the 1960s[1]. Yet the growth of APIs in the last decade has been nothing short of astronomical. Aside from improving connectivity, APIs can help companies augment user experiences and acquire insights into customer behaviour[2]. The technology giants (i.e. Facebook, Google) were the first to spot the commercial opportunities of APIs but the financial services industry has followed suit with 75 of the top 100 banks now operating API platforms[3].

Harnessing the power of APIs

The challenges of interoperability, complexity, along with the search for efficiencies are well documented in our industry and whilst APIs may not be a silver bullet, they can provide a powerful tool to allow securities services providers to deliver

GERD ALTMANN / PIXABAY

increased value to clients if adopted effectively.

Firstly, we can look at the volume of data exchanged between organisations in the post-trade industry and the increasing need for information to be made available in near real time. Many large firms, including BNP Paribas Securities Services, have invested in the underlying building blocks to aggregate and deliver data. They have optimised data governance, quality, lineage and security, putting firms in an ideal position to leverage APIs to unlock data in real time.

The challenges that come with the growth in complex asset classes have provided the need for new data feeds to facilitate this expansion. Whilst in the past, technological change could not always keep up with growth; we believe service providers are better placed to deliver on new data requirements in a flexible, efficient and timely manner – ultimately helping to reduce risk for clients.

The old joke is 'Faster, better, cheaper. Choose two of the above.' In the securities services industry, we are seeing a real drive for efficiencies, improved customer experiences and faster processing times. While significant progress has been made to improve straight through processing rates and reduce breaks through the use of Robotic Process Automation, Artificial Intelligence and Machine Learning, there are still process areas that rely on traditional phone and fax for information exchange. System-to-system communication and real-time status updates via APIs provide a potential low cost route to further enhance efficiency while delivering improved experiences to customers.

Collaboration is key

The API Programme at BNP Paribas Securities Services has been developed by working hand-in-hand with our clients. This has ensured a strong focus on delivering real solutions to our clients' key pain points. To date we have prioritised our API investigation and delivery in areas such as NAV Calculation and Distribution, Settlement Instruction and Settlement Status, Corporate Actions as well as exploring how APIs can help with regulations such as SRD II and CSDR.

Of course, driving product or technology innovation within the confines of a single business is one thing. Creating a sensible framework allowing these technologies to obtain mass market adoption is an altogether different challenge. If emerging or disruptive technologies are to achieve scale, they will need to be underpinned by not only the same levels of security and resiliency as existing channels, but adhere to robust albeit flexible standards.

At present, client access to data at their various counterparties is not homogenised, meaning users receive proprietary information in multiple, unique formats. This adds to customer costs, complexity and risks, acting as yet another barrier to achieving interoperability. In a recent BCG survey of asset managers, 70% of respondents stated that they were concerned about API interoperability when exploring API solutions with their providers.

Setting the standard

Only through a single, industry-wide API standard will the benefits of this technology be fully realised. Standardisation will outline the principles, methodologies and data definitions covering the ways in which information is exchanged or relayed across clients and their service providers. A standardised set of rules will help reduce the risk of inaccurate data being disseminated while simultaneously streamlining the procedures by which firms collect, aggregate and use data. Such standards must also include guidelines covering data governance so as to ensure APIs comply with global regulations and rules.

Any harmonisation of API standards will undoubtedly accelerate with the involvement of organisations such as SWIFT. SWIFT has played an instrumental role in promoting standardisation across global securities markets over the last few decades, most notably in its efforts in supporting the delivery of uniform financial messaging standards through ISO 20022. In fact, SWIFT is already involved in API standardisation discussions, having recently published a blueprint for common API standards following engagement with various European banking standards bodies, STET and NextGenPSD2.

To this end, BNP Paribas Securities Services is already partnering with SWIFT to standardise our API catalogue to ISO20022 as a first step to help drive API standardisation.

APIs: What comes next?

APIs have the potential to significantly transform current market practices, and how our industry processes data and provides services. However, unless API processes undergo standardisation, the sharing and use of data will continue to be inconsistent and open to misinterpretation.

The establishment of an API standard will be dependent on the industry working together. Assuming this industry consensus can be reached, API technology will become even more engrained in the securities services ecosystem and has the potential to unlock new value for all participants. The tech giants have proved the use case for API adoption; now it is the turn of our industry to work together for the benefit of all our clients. ■

***Paud O'Keeffe** is Head of Client Digital Experience, BNP Paribas Securities Services.*

If you read this on your computer you can click your way to the noted sources:

[1] *API Economy. Deloitte. Link here.*

[2] *Evolution of the API Economy. IBM. Link here.*

[3] *White Paper. APIs in Securities Services. BCG. SWIFT. Link here.*

Crypto is going institutional

Meet the new breed of asset managers who make it happen in the billions

Two of the world's leading figures in the institutional crypto area joined us for PostTrade 360° Stockholm in March: **Michael Sonnenshein**, CEO of $40 billion asset manager Grayscale Investments, and **Michael Moro** who heads Genesis – its prime broker and custody sister firm.

The full 36-minute video from this session of PostTrade 360° Stockholm can be viewed by clicking here in your pdf.

By Alexander Kristofersson, PostTrade 360°

One could debate the nature of cryptocurrencies, but one thing is beyond doubt: They are here – and asset operationals have to deal with them.

"I'd certainly say that over the past two to three years, we've seen a material uptick in participation from institutions, namely hedge funds, endowments, pensions, and now even corporates," says Michael Sonnenshein.

Regular followers of PostTrade 360° may recognise Olivia Vinden, from consultancy firm Alpha FMC, who leads the chat.

Michael Moro of Genesis points to how the institutional rigging around bitcoin and other cryptocurrency assets is now maturing rapidly – in stark contrast to the reality when his company started out less than a decade ago:

"Ultimately, I do think that there is going to be an effort around a centralised clearing house to help settle transactions. There's lots of non-custodial models appearing in the cryptocurrency space today so I do think the industry will continue to move and evolve."

A lot could go wrong

Asked by Olivia Vinden what keeps him up at night, Michael Moro makes clear he could make the answer long.

"The panel is probably not long enough to cover the list of things that could potentially go wrong in the asset class, right? Our lending business is over $7 billion. So we have $7 billion of loans outstanding, denominated in both crypto and US dollars. Certainly, we have collateral and we have lots of strict underwriting guidelines. But that situation … it can always happen."

The constant threat of hacking, and the underdeveloped state of the insurance market, are other issues that Michael Moro observes.

Institutional adoption ticking up

Michael Sonnenshein argues that despite the recent price runs, institutional investors could still view bitcoin as "ripe for opportunity".

"Don't think about bitcoin's success or failure as to whether or not you can buy a cup of coffee with it in the next year, because you probably will still not be able to, but rather look at other measures of adoption and growth. Look at how many corporate players are adding bitcoin to their balance sheet of reserve assets, look at how many financial services firms are getting involved in the space, looking at how much of the pipes and infrastructure is being built around the asset class," he says. ■

Michael Sonnenshein

Michael Moro

Olivia Vinden

Navigating safely down the digital **transformation waterfall**

Agile versus waterfall: The conundrum that continues to tax the minds of project and program managers in the world of financial services technology.

Contributed by Alan Goodrich, ERI

Ever since the 70s, the question of whether waterfall or agile is the best approach for systems development and deployment projects has been keenly debated. The current trend towards API-first, cloud-based solutions that promise greater flexibility and better cost control appears, on the face of it, to favour an agile approach – or does it? Perhaps the secret to safely navigating the digital transformation waterfall lies more fundamentally in the architecture of the core system.

If one was launching a start-up business, then taking incremental steps in an agile approach would certainly be an interesting option to consider. However, for most financial services providers, the starting point is a legacy systems' landscape that supports ongoing business activities, while complying with a myriad of regulations. Migrating existing products, services and customers to a new platform, while minimising operational disruptions and remaining compliant does not naturally suit a gradual, or agile, approach. The architecture of the new solution must support and enable an agile approach that will allow new delivery channels, products and services to be introduced incrementally going forward. However, for the initial digital transformation of the business, a waterfall approach offers lower risks in terms of customer satisfaction, system integrity and regulatory compliance. Once the waterfall has been successfully navigated then an agile approach may be adopted to introduce those new delivery channels, products, services and processes.

But is the change motivated?

From a customer perspective, changes to the user experience (UX) that are too frequent, with little apparent added-value, can become frustrating. As customers, we like to see progress but, as creatures of habit, we also like consistency. Continual change may have the opposite effect, from that intended, on customer satisfaction.

For internal operations and customer support, the impact of perpetual updates should also not be underestimated. The cost savings and efficiencies, which may have been realised in the development and delivery of the enhancements, could be swallowed up entirely by additional expenses, as the staff need to be continuously trained to manage the new features, functions and processes being incrementally delivered.

With the introduction of; new standards, such as ISO 20022, new technology, such as blockchain, and associated new business models, a piecemeal approach may also be impractical. These involve complex end-to-end processes that need to be developed and tested in a holistic manner, i.e. using a waterfall approach, before being deployed.

By no means least, is also the challenge of both complying with existing regulations and keeping up with new ones. Here again, an agile approach may need to give way to a waterfall one. The risk of compliance failures is elevated when multiple systems need to combine either data or processes coherently in order to ensure auditable conformity. Add to this the potential for integrity to be compromised through incrementally applying new features, functions, or processes, and the waterfall suddenly looks the easier option.

Stay on top

Be careful not to get swept along by the trendy, safe agile wave, if it is not the appropriate approach. Choose a core system that allows for an API-first approach built upon a Service Oriented Architecture (SOA) with a decoupling of the presentation, business services and data layers. Once your initial digital transformation journey has been navigated successfully, using a waterfall approach to minimise the costs and risks, then it may be safe to adopt an agile approach to introduce new products, services and processes. However, remain mindful of the possible impacts on customer user experience, internal operations, external business flows and regulatory compliance. ■

***Alan Goodrich** is Regional Sales Manager at ERI and Fellow of the IAP (Institution of Analysts & Programmers).*

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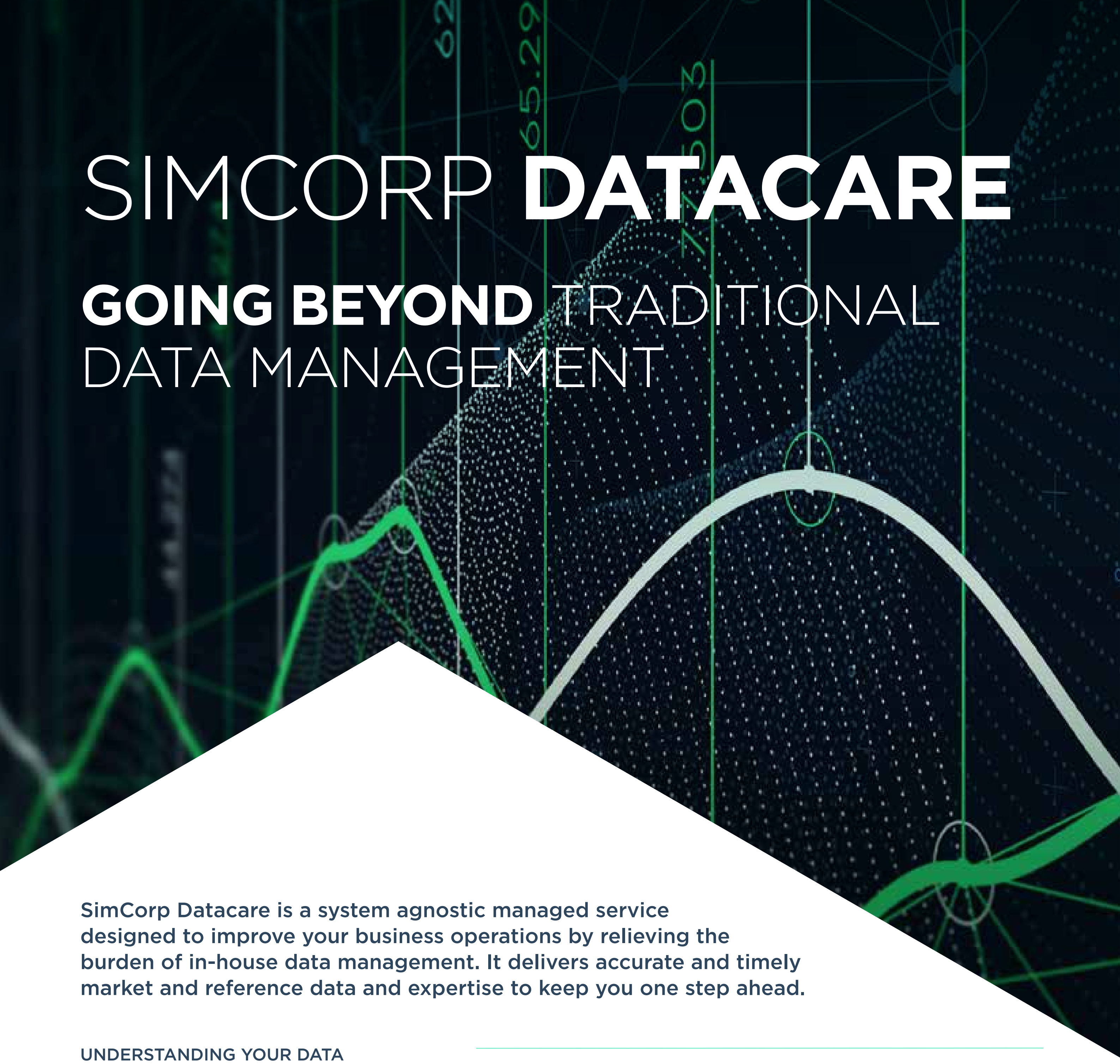

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DIDNER & GERGE

Interviewed by PostTrade 360°, Helena Hillström and Emma Westlin Forsberg of Didner & Gerge describe how the firm's inhouse fund administration model has developed into what it is today.

Admin **inhouse** helps their boutique **stand out**

Helena Hillström is the CEO of Swedish fund management company Didner & Gerge, with 60 billion SEK under management. Emma Westlin Forsberg is vice head of the administration – where Helena began her work in the 1990s as the company's employee number one.

Meet them in a talk about their all-inhouse post-trade model, and how it has developed into a cornerstone of the firm's strategy.

By Alexander Kristofersson, PostTrade 360

"There has been a monumental change in this market since we started back in the 1990s," says CEO Helena Hillström.

"I should honestly confess that I wouldn't make it for a single day in our administration department. Nowadays their

"I think we have kept this entrepreneurial spirit in us. You try to improve on what you do, all the time."

Helena Hillström

work has become so complex and qualified I'd be completely lost," she jokes.

"But having my background there, and grasping the full flow within the firm, is invaluable to me."

Founders Henrik Didner and Adam Gerge had done their own post-trade administration tasks for their company's three first years, before they hired Helena as their first recruit in 1997.

"They managed the fund – and then they sat there registering it all by themselves, sending the slips to the clients and everything."

Not just an anecdote

Helena Hillström refers to it as "a funny anecdote", an impossible scenario under the massive regulation that has since come to specify how things can be done or not at a fund manager. But as her story develops, it becomes clear that it is more than an anecdote. It is the origin of a let's-do-it-our-own-way fund management organization, today featuring 29 employees.

"I think we have kept this entrepreneurial spirit in us. You try to improve on what you do, all the time. And since we are able to do this continuously, without much hassle, I believe that this is amplified and reaches the whole organization. It could be that a printer should be placed in a different corner, or that the NAV should be set by an improved process; it covers the whole range."

"Yes, exactly," Emma Westlin Forsberg fills in. "And that is why I believe that many stay to work with us for long: the feeling that you can really contribute to the development if you have a good idea. For example, our head of administration and our head of compliance have both worked here for over 20 years."

We will come back soon to the strategy of keeping the admin inhouse. But let's first observe that Didner & Gerge is unafraid of differentiating itself in many aspects. It is an independent fund manager, performing highly active management of its assets, engaging strongly also in the management of its target firms. Each of its five funds is managed not by one fund manager but two – to get more angles covered through their dialogue internally. Then, the firm stands out by keeping its head office at clear distance from Sweden's financial centre in Stockholm – 70 km north of it, in Uppsala.

Investments became global

Emma Westlin Forsberg is the vice head of administration today, a department of nine people. When she joined the firm in 2010, it housed two funds, both focusing on domestic Swedish investments.

"A big shift over these ten years is that we now have three more funds, investing globally. That requires a lot of administration and it has been interesting to be a part of that development," she says.

Other influential events include the introduction of ever-tighter EU regulation, including know-your-customer and anti-money-laundry processes. And then in 2019, an order-routing system was implemented – to streamline transactions that go through distributors who offer the Didner & Gerge funds to their clients. An improvement that could be up next is a more automated NAV-setting workflow. Emma Westlin Forsberg has just started to compile her list of feasible solutions for the purpose.

Stays close to the client

Helena Hillström and Emma Westlin Forsberg can list a number of advantages to their in-house setup, but they keep coming back to the single-most important one: the sense of closeness for the customers.

"Since I answer the phone every day, I know how much our clients appreciate our accessibility. And the client is our focus. It is a pleasure to be able to offer that level of service," says Emma Westlin Forsberg.

The company is a pure-play fund management company – having no license to advise on investments, nor intending to get one. A large part of the investors hold their units through their banks and fund distributors' on-line platforms, and will most often call those actors for their customer service. Even so, Didner & Gerge has nearly 16,000 direct clients of its own.

"We have worked for many years according to the idea that everybody working in the administration should know everything."

Emma Westlin Forsberg

"We have worked for many years according to the idea that everybody working in the administration should know everything," says Emma Westlin Forsberg about their now 9-employee department.

"But with the growth of the global assets, the increasing order handling through distributors and the number of clients, we decided to split it into two parts after the summer 2020."

YANG YANG / UNSPLASH

Uppsala, home to Didner & Gerge, is 70 km north of Stockholm's financial centre where almost all other Swedish fund managers have their offices.

While a number of tasks can fall on staff from either part, the basic idea is that a back-office group now handles the fund unit transactions on the client side, while a middle office administrates the investment-side assets.

A venerable Excel sheet

Reconciliations of data are performed in series – first internally between team members who work in parallell, then between systems and against banks. Technically, the work is then complete. But Didner & Gerge chooses to keep an extra safety measure: a spreadsheet template into which the balances are looped for a final double check.

"We do that to catch what could potentially have gone wrong. If there would be any issue we would stop it there before it reached the client," says Emma Westlin Forsberg.

Helena Hillström points to the document's quarter-century history:

"It is a funny thing that this Excel sheet has followed us from the beginning and still lives on. It takes a lot of time to fill it in, and it has been discussed a number of times that it would be nice to get rid of it. But we feel that it gives such a quality advantage, going on with this hassle."

Inhouse model was challenged

As Didner & Gerge started out in the 1990s, there were not really any alternatives to doing the administration on one's own.

"So it was not even a strategic question at the time. That's just how it was," says Helena Hillström.

"And then we kept building on it, on doing it ourselves. It was only after quite a few years that this whole market boomed. The fund hotels and everything were becoming much more common, and the requirements were getting so much more complex. You need more resources, more personnel, more roles, and so on. So if you start a fund management company today, it's natural that you look at the alternatives for the administration and risks, regulations … everything. It came to the point where even we were considering it for ourselves, and quite a few providers were approaching us. But for us, the inhouse solution has constantly turned out to be the obvious choice.

No conflict with automation

Helena Hillström stresses that she speaks uniquely for her own firm, making no generalisations about how other fund managers ought to navigate. But it is evident that for Didner & Gerge, she sees no conflict between the small size and the big challenges around regulation and processing systems.

"That's a great advantage of being smaller. We can be very quick-footed. Once we realize we want to do something we are able to just do it; things don't necessarily need to go through committees or task forces or references groups."

She makes clear that the same goes for automation.

"Automation and digitalisation are important issues for us, and they are under constant discussion. Everything that makes the work easier is good and we need to take those steps. The more we can do of it, the better. Then that is not a thing you accomplish in a Friday afternoon. Many systems need to speak with each other and many types of reconciliations need to be possible," says Helena Hillström.

"That is something we try to build in as far as we can, into the administration that we are keeping here. There is no conflict in this whatsoever."

Helena Hillström mentions that she is generally restrictive about accepting interview requests, but her firm's administration is a thing she is happy to spotlight publicly.

"I am incredibly proud of it. I think it is fantastic that we have it inhouse – and I know what quality we have and what work goes into it." ■

Automation and digitalisation are important issues for us, and they are under constant discussion. Everything that makes the work easier is good and we need to take those steps. The more we can do of it, the better.

Helena Hillström

MATT BOWDEN / UNSPLASH

Diversification next

Contributed by EuroCCP

Cécile Nagel, CEO of EuroCCP, sums up the events of a rollercoaster 2020 – including the acquisition of the clearing house by Cboe Global Markets in July – and discusses what trends are likely to shape our near future.

What was the focus of EuroCCP over the past year?

2020 has been a pivotal year for EuroCCP for numerous reasons. Despite the coronavirus pandemic wreaking havoc in financial markets with record volatility, threatening economic disruption not seen since the 1930s Great Depression, EuroCCP was not only able to consolidate its position as the leading pan-European equities clearing house, but also reinforce its operational resilience and achieve several business milestones, including the acquisition by Cboe Global Markets. Successfully completed in July 2020, the acquisition brought together two companies that have long championed competition, open access and clearing interoperability in Europe.

Of course there was also Brexit to prepare for. As part of this preparation, we onboarded four EU venues and six EU clearing members and achieved a smooth transition of trading activity on 4th January. As an EU-based clearing house, EuroCCP is able to provide continuity of service for all its clients for the next three years, and will continue to help them address the challenges of Brexit.

EuroCCP strengthened its position as Europe's most-connected equities clearing house in 2020. Over the course of the year, we established additional single, interoperable and preferred clearing connections, increasing our coverage to approximately 95 percent of European equity trading flow for our clients. EuroCCP also maintained its position as the Nordic CCP champion, with continued high market share in the Nasdaq Nordic markets and growth in Oslo Børs clearing.

Partly driven by the volatility of last March, EuroCCP saw significant growth in cleared volumes, with €10 trillion cleared in 2020, averaging €41 billion a day. This amounted to 1.7 billion trades, a significant increase from 1.3 billion in 2019. The number of trades cleared through the preferred clearing model rose by more than 10,000 percent as competition was introduced to the Euronext markets for the first time. In 2020, EuroCCP cleared 3.5 million equity and ETF trades on Euronext Paris, Brussels, Lisbon and Amsterdam through preferred clearing, up from 33,000 the previous year.

EUROCCP

Cécile Nagel, CEO, EuroCCP.

"As we saw with the recent GameStop share price surge, retail investors have increasing influence ..."

What market drivers do you expect to see this year?

2021 is likely to be focused on dealing with the aftermath of Brexit and the consequences of the ongoing coronavirus pandemic. While there is still significant uncertainty around the medium to longer term relationship between the EU and the UK as well as the economic impact of Covid-19, there is some light at the end of the tunnel. I expect markets to be able to adapt to the new and changing environment. The Covid vaccine rollout has certainly raised expectations of a return to more normal conditions later in the year. Furthermore, while the immediate economic outlook may look bleak, there is also talk about a 'bounce back'.

Policymakers and regulatory authorities all around the world are looking to create the right environment to foster growth and development with investment in new technology including artificial intelligence, as well as green energy. Governments need to encourage homegrown start-ups and a general climate where high-tech businesses can thrive. Venture capital seed funding, and the regulatory freedom for big investors to back it, has an important role to play.

The growing interest of retail investors and participation in financial markets that we are experiencing, including in Europe, are also likely to create change. As we saw with the recent GameStop share price surge, retail investors have increasing influence thanks to the availability of free trading platforms such as Robinhood, social media forums such as Reddit, access to information and advances in technology.

What will EuroCCP be focusing on in 2021?

We're really excited about our plans for this year. Cboe's ownership of EuroCCP has provided the opportunity for us to focus on the development of equity derivatives clearing capabilities in support of its new Amsterdam-based exchange, Cboe Europe Derivatives, which is on track to launch in the first half of this year (subject to regulatory approval).

This exchange will initially offer futures and options based on six European equity indices as a first step and will be looking at further product opportunities at a later date, dependent on customer demand. Equity derivatives is a natural extension of our cash equities and ETFs businesses and a perfect diversification opportunity for EuroCCP.

The objective of this exchange is to bring a modern, transparent and vibrant pan-European model to the region's derivatives markets by leveraging Cboe's global derivatives expertise and world-class technology, along with both companies' European cash equities footprints.

On the clearing side, we will be able to bring efficiencies and cost savings to market participants and end investors, including by allowing a broad range of pan-European index futures and options to be cleared at a single CCP.

Of course, we will also continue to expand our offering for the ETF industry through primary and secondary market clearing in partnership with ETF issuers, ETF RfQ venues like Bloomberg and Tradeweb and other participants in the ecosystem. Our main focus remains to address fragmentation and inefficiencies in the European market. ■

Custodians grow their offers

Do you know what you seek?

They used to be a bank. Now they are a global cloud of interconnected post-trade services you can pick and mix from.

PostTrade 360° Oslo on 26 May will see Vinod Jain, consultant with Aite Group, discuss collateral innovation – yet this interview, made earlier this year, focuses on industry changes that force custodians as well as their clients to ask themselves new questions.

By Alexander Kristofersson, PostTrade 360°

What is the most important factor when you consider outsourcing elements of your back-office? Would you say you look for cost-cutting, or fast-footed action in volatile times … or perhaps even new capabilities to support new lines of business for your firm?

"We see the capital market as one – but at the same time it is all fragmented in the sense that you can execute and process trades in multiple ways now," says **Vinod Jain**, senior analyst at Aite Group, a financial services industry research and advisory firm.

What is your opportunity?

In his session with PostTrade 360° Stockholm, he will zoom in on the various drivers behind today's major changes across the post-trade landscape. With an understanding of these drivers, delegates from various types of firms should be better equipped to figure out what implications they can expect – and how they should grab the full advantage.

AITE

Vinod Jain

"We see the evolvement of the custody bank service providers. We used to think that the assets under management was the key to differentiating the services. But now, buy-side firms who want to evaluate service providers have become much smarter in identifying what matters to them. Being big doesn't mean providers are always good. And being small doesn't mean that they don't have capabilities," says Vinod Jain.

With the divergence in services, technology enables custodians and their clients to identify, together, what is the best way for them to have the tasks performed.

"The big banks can provide the scalability factor, can acquire other firms more quickly and back innovative ideas. They can make new offerings to the buy-side firms in providing data as a service, let's say. But a smaller firm could still provide the same functions to the asset servicing side, the services which can be economical to the buy-side client as well as to themselves."

Enjoy consciously

As a senior analyst, Vinod Jain covers a broad range of post-trade topics – including custody strategies in the light of maturing front-to-back integration across companies, but also collateral management, the impact of DLT in the settlement space, etc. Custodians need to ask themselves what services they ought to offer. Conversely, buy-side firms need to ask themselves what services they should be buying, from whom – and what techni-

MAILANMAIK / PIXABAY

"I think all the custody banks are moving into that space."

cal capabilities they must have in place to enable it. With the growing possibilities to connect modules of software service across the internet, a new world of operational opportunity has opened up. But how do you choose?

"The decisive thing is to identify what the buy-side firm wants to achieve in its business and operating model," says Vinod Jain.

"Do you want just simple cost reductions over two to three years? Then you need to take the costs of outsourcings and integrations, against the cost reductions by outsourcing, into account. Secondly, whichever sourcing model you choose, you need to consider how you safeguard yourself from increased volatility at any point in time. The third thing is how they could have more alternatives in the trading, so they can expand their side of the business."

Climbing up the value chain

Vinod Jain sets today's situation against the background of how we got here. A key force is the desire among buy-side firms, brokers and others to outsource operational tasks seen as non-core to their businesses or to leverage cost reduction opportunities. For custodians – whose traditional safekeeping of securities has become commoditised and price-squeezed – this has presented opportunities to diversify their outsourcing offers.

While the outsourcing setups started from relatively standardised high-volume tasks – such as reconciliations and accounting in the back-office space – the service providers have gradually climbed their way up the value chain and now produce, for example, complete front-to-back-office outsourcing solutions. Thus, increasingly, a complete service portfolio by today's standards is also expected to span trade execution as well as the trade processing and servicing.

"On the custody bank side, you see the upward chain of integrations ," says Vinod Jain.

"I think the rise of BlackRock and its investment into Aladdin as the platform for its funds processing, and State Street's acquisition of Charles River, are the game changers because – in terms of having an ability to execute, process and service the trade – that gave unique combined offerings."

This doesn't mean Vinod Jain is singling out BlackRock and State Street as overall front-runners.

"I think all the custody banks are moving into that space." ■

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