

POSTTRADE^{360°}

COPENHAGEN 2021

Includes
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Get on top
of your
collateral 25

Go centralised



Ulrik Modigh, COO
of Nordea Asset
Management,
could let a manager
sit on the moon.

The groundwork runs in
Copenhagen in any case. 22

Constructive critic

A national high-level task force for post trade,
featuring Danske Bank's **Michael Holmgaard
Mortensen**, just finished its overview of what
needs to change. Read his sentence. 8

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At the forefront

National news agency Ritzau reported in March that the Danish stock market is now Europe's number eight in size (while the country is number 22 in population). A four-fold price increase over ten years had helped it get there. Since the financial crisis of the noughties, foreign investors have discovered the attractions of a market that is strong on promising growth ventures, as well as on stuff that people need every day (insulin and beer). At the time of writing, the C25 index is back a bit from recent peaks above 2,000 – twice as high as its corona-crisis bottom.

Small markets may once have been backyards, and their post-trade operations may once have been something of a side activity on them. Yet, with time, cross-border investments, competition and harmonisation have changed the scene. As for Denmark's post trade area, its growing strategic importance would long go under the institutional radar, but not anymore; our interview with Danske Bank's Michael Holmgaard Mortensen should make this evident.

PostTrade 360° Copenhagen 2021, at Axelborg on 29–30 September, will be the first physical PostTrade 360° conference since the Stockholm event in February 2020. (Yes, you can also join remotely, you find the link in this magazine's agenda section.) As always, you can expect all main post trade areas to be solidly covered: settlement, clearing, servicing and process outsourcing, regulation, collateral innovation, technical change (incremental and radical) ... Let's meet up and lay the foundation for tomorrow. By now, there is no doubt it matters.



Alexander Kristofersson

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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 currently 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.



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KEVIN SCHMID / PIXABAY

Finally! Copenhagen hosts the first physical 360° conference after the virus

WEDNESDAY 29 SEPTEMBER

07:55 Breakfast & Registration – Let's Network!

08:25 MODERATOR'S OPENING REMARKS

Göran Fors, Deputy Head of Investor Services, SEB

08:30 OPENING SESSION: Post Trade Juke Box Jury

- Rediscovering the painful process of strategic decision making
- Beware of the Emperor's new clothes
- Hits and misses

Alan Cameron, Head of Client Line Advisory, BNP Paribas Securities Services

09:00 SESSION TO BE ANNOUNCED

Speaker to be announced

09:30 CUSTODY TALKS

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

Continues >

Tickets and general event info: posttrade360copenhagen.confetti.events

Digital conference, free of charge: hopin.com/events/posttrade-360-copenhagen



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Use your phone for your juke box vote

Alan Cameron of BNP Paribas will kick off the conference Wednesday morning – with your help. To transform your phone into your vote button, either ...

- scan the QR code with your phone's camera, or
- go to menti.com and enter voting code 4013 4840.



10:00 Break – Let's Network!

10:30 FIRESIDE INTERVIEW: China bonds access – the evolving landscape

Moderator: Virginie O'Shea, Founder, Firebrand Research

Panellists:

Cairbre King, Vice President, Head of EMEA Network Client Consulting, J.P. Morgan

Daniel Zhao, Executive Director, Custody Product Manager - China, J.P. Morgan

11:00 KEYNOTE: Broker to Custody – An integrated workflow

Integrated execution and asset servicing has traditionally been a focused solution for US investments by retail clients. How is this evolving with greater global focus on costs and can an integrated solution comply with best execution needs?

Gary O'Brien, Head of Broker and Broker Segment Strategy, BNP Paribas Securities Services

11:30 KEYNOTE: Trade Execution outsourcing – a valuable element of the alpha generation challenge?

Financial services firms have outsourced functions and activities for decades now, to achieve numerous objectives. Is the next wave of outsourcing destined to impact the previously sacrosanct front office? If so, what are the catalysts? What are the competing considerations? Where can asset managers and in-house managed asset owners expect to accrue benefits? Are there reasons not to do it?

Gerard Walsh, Head of Integrated Trading Solutions (ITS) EMEA, Northern Trust

12:00 Lunch – Let's Network!

13:00 PANEL DEBATE: Bridging the gap between issuers & investors in ESG

Moderator: Sylvester Andersen, Associate Vice President, European Markets, Nasdaq

Panellists:

Ole Buhl, Head of ESG, Senior Vice President, ATP

Lars Eibeholm, Head of Sustainable Banking, SEB Denmark

13:30 TECHNOLOGY TALKS

KEYNOTE: How to optimize the operating model with Data as a Service

- Why are traditional approaches to data management no longer future-fit?
- How to build a successful business case for Data as a Service (DaaS)?
- How can DaaS enable the next level of digitalization?
- How to empower top talent to focus on innovation projects that drive competitive advantage?
- What does the future of data management look like?

Speaker from SimCorp to be announced

14:00 FIRESIDE INTERVIEW: DLT Replacement for legacy systems

Distributed ledger technology (DLT), similar to that which underpins cryptocurrencies including bitcoin, offers a radically new, all-digital and potentially much more efficient way of settling securities trades, in comparison with legacy systems. Expectations differ as to how big and fast the disruption to the industry could be, and incumbents take different approaches to the timing of their own initiatives while the technology is maturing. In this session Clearstream will discuss how it is working behind the scenes with distributed ledger technology (DLT) solutions to explore replacing its legacy technology systems, which would be one of the most notable breakthroughs for distributed ledger technology among CSDs.

Moderator: Alan Goodrich, Regional Sales Manager – Benelux, Nordics, Baltics & SEE, ERI BANCAIRE

Jens Hachmeister, Managing Director, Issuer Services & New Digital Markets, Deutsche Börse

14:20 FIRESIDE CHAT: European Repo & Derivatives Markets: Accessing Optimum Liquidity Whilst Driving for Efficiencies, Stability and Margin Optimisation

How can Nordic participants in Repo and Derivatives markets ensure that they have access to liquidity in all market conditions? What criteria should be considered by the buy-side for choosing their access to liquidity pools? How can securities and OTC clearing benefit both the sell-side and the buy-side? What impact will ongoing regulatory reform have on the derivatives landscape?

Emmanuel Rolland, COO RepoClear, Collateral and Liquidity Management, LCH SA

Joanne Donaghey, Director, Sales and Relationship Management, LCH

14:50 Break – Let's Network!

Custody, Asset Servicing & Digital, BNY Mellon

15:50 INFRASTRUCTURE PANEL DEBATE: The CCP's skin in the game & other related CCPs risks

This panel is based on the difference in views between CCPs and market participants on the issue of CCP “skin in the game” and other related CCPs risks
Moderator: Anthony Freeman, Consultant
Oliver Sjølin, Chief Risk Manager, Nordea

Owen Thorpe, Head of Risk and Control, EuroCCP

Brendon Bambury, Head of International Client Relations & Sales, SIX
Gert Ellerkmann, Global Risk Governance & Strategy Specialist, ABN AMRO Clearing

Alex Kronic, Head of Equities, LCH
Rogier van Kempen, Executive Director, J.P.Morgan

17:00 MODERATOR'S CLOSING REMARKS, END OF DAY 1 & NETWORKING MINGLE

Göran Fors, Deputy Head of Investor Services, SEB

THURSDAY 30 SEPTEMBER

07:55 Breakfast – Let's Network!

08:30 RINGSIDE CHAT: Post Trade - Danish Market Development

Niels Hjort Rotendahl, Interim CEO, VP Securities, a Euronext Company
Hugo Sundkjer, Head of Strategy, Business Development & Sales, TietoEVRY Wealth

09:00 KEYNOTE: Danish Kroner on new settlement platform – TARGET DKK

Peter Møller Restelli-Nielsen, Senior Adviser, Danmarks Nationalbank
Pernille Thinggård, Principal Market Infrastructure Expert, Danmarks Nationalbank

Continues >

15:20 DIGITAL ASSETS FIRE- SIDE CHAT: The Next Chapter

As institutional adoption of digital assets is accelerating, the underlying technology, infrastructure and operational needs will continue to evolve to support the evolving types of digital assets and new use cases. In this panel discussion, we will address the following:

– As the digital assets landscape is one that is constantly evolving, where is the market trending in terms of market participants,

infrastructure, and other key developments?

– What will be the next innovations and use cases?

– What are some of the key challenges and/or opportunities for digital assets as the market matures?

Søren Eberhard, Branch Manager, BNY Mellon Copenhagen Branch and Relationship Manager Nordics

Ben Weisman, Financial Innovation Lead, World Economic Forum

Orla Aherne, Director, Digital Asset



Göran Fors
Deputy Head of Investor Services, SEB



Niels Hjort Rotendahl
Interim CEO, VP Securities, a Euronext Company



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



Gert Ellerkmann
Global Risk Governance & Strategy Specialist, ABN AMRO Clearing



Lars Elbeholt
Head of Sustainable Banking, SEB Denmark



Sylvester Andersen
Associate Vice President, European Markets, Nasdaq



Kristina Kledal
Lead Business Developer, Trading & Settlement, Jyske Bank



Jörn Strunge
Head of Financial Infrastructure, Wealth Markets Operations, Nykredit



Pernille Christiansen
Specialkonsulent, Finanslojnet



Ole Buhl
Head of ESG, Senior Vice President, ATP



Virginie O'Shea
Founder, Finbrand Research



Brendon Bambury
Head of International Clients Relations & Sales, SIX



Jens Hachmeister
Managing Director, Issuer Services & New Digital Markets, Deutsche Börse



Paul Ravenscroft
Product Manager, Data Management and Connectivity, SimCorp



Emmanuel Rolland
COO, RepoClear and CalMSA, LCH



Daniel Zhao
Executive Director, Custody Product Manager - China, J.P.Morgan



Cairbre King
Vice President, Head of EMEA Network Client Consulting, J.P.Morgan



Owen Thorpe
Head of Risk and Control, EuroCCP



Joanne Donaghey
Director of Sales and Relationship Management, LCH



Alex Hingston
Senior Vice President, Head of Private Monitor & Performance Onboarding EMEA Investment Risk and Analytical Services (IRAS), Northern Trust



Fredrik Soderlund
Product Manager, Portfolio Solutions, SEB Investor Services



Tony Freeman
Consultant



Theodor Christensen
Head of Sustainable Finance, Finanslojnet



Carl Balstev Clausen
Director, ESG Product Manager, SimCorp



Thomas Anker
Application Manager, PenSam



Nick Kurzel
Buy-Side Strategy and Product Management, BNY Mellon



Orla Aherne
Director, Digital Asset Custody Asset Servicing & Digital, BNY Mellon



Alan Goodrich
Regional Sales Manager - Brewlux, Nordics, Baltics & SEE, ERI (BANKIA)



Alan Cameron
Head of Client Line Advisory, BNP Paribas Securities Services



Pernille Thinggård
Principal Market Infrastructure Expert, Danmarks Nationalbank



Ben Weisman
Financial Innovation Lead, World Economic Forum



Søren Eberhard
Branch Manager, BNY Mellon Copenhagen Branch and Relationship Manager Nordics



Rogier van Kempen
Executive Director, J.P.Morgan



Peter Møller Restelli-Nielsen
Senior Adviser, Danmarks Nationalbank



Tobias Bergholdt
Head of Derivatives and Collateral, Nykredit Portfolio Administration



Oliver Sjølin
Chief Risk Manager, Nordea



Jesper Stahl Nielsen
Head of Collateral Management, Saxo Bank



Gerard Walsh
Head of Integrated Trading Solutions (ITS) EMEA, Northern Trust



Christian Mährbeck
Head of Derivatives Operations, Nordica Asset Management



Gary O'Brien
Head of Bank & Broker Segment Strategy, BNP Paribas Securities Services



Martin Axelsson
Senior Legal Counsel, SEB



Susanne Öhrn
Information Security & Cyber Risk Manager, SEB



Alex Kronic
Head of Equities, LCH



Heiko Stuber
Senior Product Manager, Tax, Regulation & Funds, Financial Information, SIX



Amy Caruso
Head of Collateral Initiatives, International Swaps and Derivatives Association, Inc. (ISDA)



Catharina Buresten
Head of Risk Management, Investor Services, SEB



Niklas Nyberg
Head of Institutional Global Custody, SEB

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09:30 KEYNOTE: CSDR-SDR – Data is essential for being compliant

Heiko Stuber, Senior Product Manager, Tax, Regulation & Funds, Financial Information, SIX

10:00 Break – Let's Network!

10:30 CSDR Business & Legal status in the Danish Market

The session will discuss implementation challenges and solutions for CSDR Settlement Discipline, covering penalties regime and Buy In, will give an update on the legal challenges from the CSDR Settlement regulation as well as latest news from the EU Commission and ESMA about what we expect and what could be a timeline for the necessary improvements in a CSDR Refit.

Kristina Kledal, Lead Business Developer, Trading & Settlement, Jyske Bank

Pernille Christiansen, Specialkonsulent, Finanstilsynet

11:00 KEYNOTE: SCoRE – Financial Harmonisation or Regulation

SCoRE ECB's Single Collateral Management Rulebook for Europe with focus on coming Corporate Actions standards. We have during the last many years seen different initiatives to standardise corporate actions. Why is ECB's initiative special important? What are the impact for the Danish Market? We'll double click on the new model to handle negative cash flows according to the SCoRE standards.

Jörn Strunge, Head of Financial Infrastructure, Wealth Markets Operations, Nykredit

11:30 PANEL DEBATE: Alternative Assets and their impact on operations

Moderator: Fredrik Soderlund, Product Manager, Portfolio Solutions, SEB Investor Services

Panellists:

Thomas Anker, Application Manager, PenSam

Alex Hingston, Senior Vice President, Head of Private Monitor & Performance Onboarding EMEA, Investment Risk and Analytical Services (IRAS), Northern Trust

12:00 Lunch – Let's Network!

13:00 PANEL DEBATE: Collateral management in 2021

Moderator: Amy Caruso, Head of Collateral Initiatives, International Swaps and Derivatives Association, Inc. (ISDA)

Panellists:

Tobias Bergholdt, Head of Derivatives and Collateral, Nykredit Portefølje Administration

Christian Måhrbeck, Head of Derivatives Operations, Nordea Asset Management

Jesper Stahl Nielsen, Head of Collateral Management, Saxo Bank

Nick Kurzel, Buy-Side Strategy and Product Management, BNY Mellon

13:30 FIRESIDE CHAT: Raising the bar for ESG investing

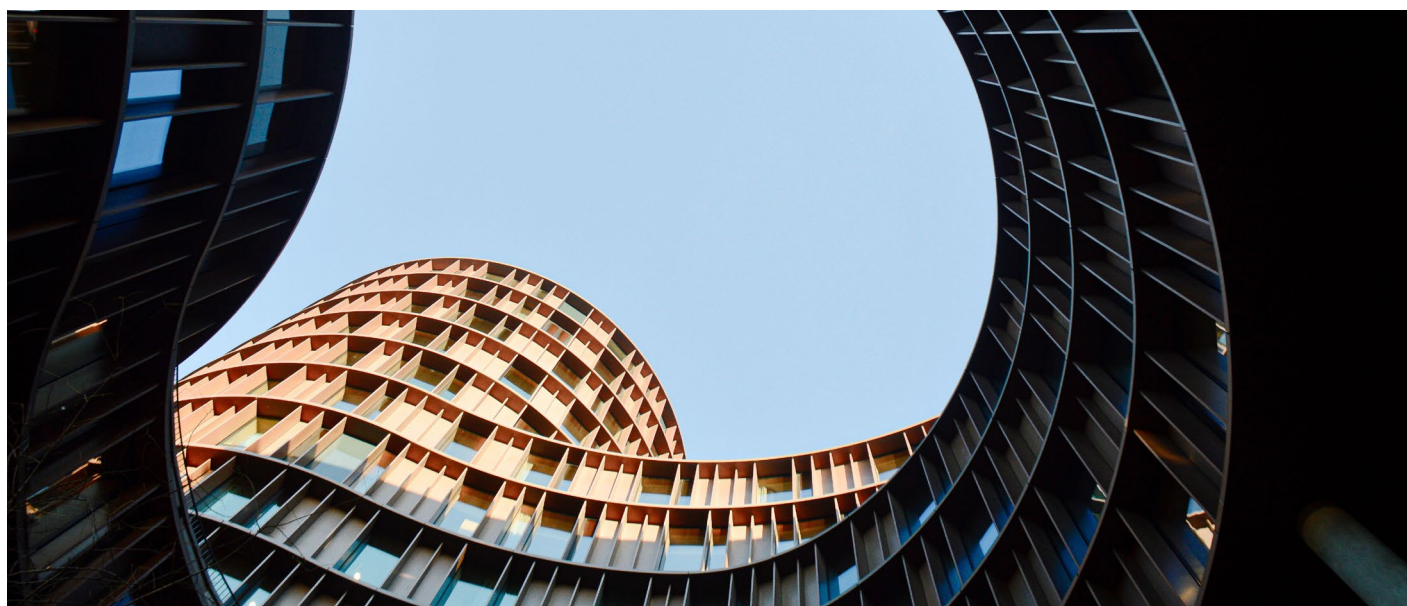
Hear a discussion between Theodor Christensen, head of a newly-formed Sustainable Finance unit within the Danish Financial Supervisory Authority and SimCorp's Director of ESG Investing Carl Balslev Clausen which will explore the drivers for the far-reaching SFDR regulation and how it can shape the future of sustainable finance. And perhaps our planet too.

Theodor Christensen, Head of Sustainable Finance, Finanstilsynet

Carl Balslev Clausen, Director, ESG Product Manager, SimCorp

14:00 MODERATOR'S CLOSING REMARKS & END OF CONFERENCE

Göran Fors, Deputy Head of Investor Services, SEB



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"The Danish post-trade market is **picking up** the pace"

As one of the delegates to the country's three-year high-level industry task force for post trade, Danske Bank's **Michael Holmgaard Mortensen** has spent the time fixing the leaks after the difficult T2S launch in 2018 – and lining out the strategic vision. On both points, the group is now just done. And he is convinced that the key to success is harmonisation and scale.

By Alexander Kristofersson,
PostTrade 360°

"We were essentially tasked with two things," says Michael Holmgaard Mortensen,

about the high-level task force on Danish post trade where he has worked with other senior representatives of the leading banks.

"One task was to clean up and get back on track after the difficult implementation of the T2S settlement platform in 2018. It's about a lot of very technical integrations to make sure that settlements run smoothly under the T2S setup. Then, secondly – and even more importantly – to write a forward-looking strategy paper on post trade for the Danish market. And, actually, we have now just put our final touches to both, based on extremely good collaboration in the working group."

In it, he represents Danske Bank,

"So 2018 was the point in time when there was a realisation in the market that this can't continue."

where he is senior vice president and heads the development of markets post trade services.

When Michael Holmgaard Mortensen speaks with PostTrade 360° in mid-September, the strategy report is written and approved by the board of industry association Finance Denmark, who commissioned the tasks. However, it is not yet formally published, so he stresses that he is not speaking on the group's behalf but in his personal capacity.

"But I don't think it will be a big surprise that the paper contains a lot of recommendations that all go in the direc-

tion of harmonisation to international standards, based on scalable infrastructure solutions with the aim to lower operational risk and costs in the value chain."

Harsh awakening

Denmark and its central securities depository – VP Securities, later acquired by the Euronext group – volunteered as pioneers to implement the new pan-European settlement system Target2–Securities (T2S) already in 2018. While it may have opened for harmonisation in the long term, the road started out rocky – with a period of severe disruption to the country's trade settlement.

Michael Holmgaard Mortensen is quite direct in his verdict over how the project had been handled ("it was a collective market melt-down due to the lack of proper planning and testing"). But immediately, he also reflects back on the leading market participants, of which his own or-



DANSKE BANK

"I don't think it will be a big surprise that the paper contains a lot of recommendations that all go in the direction of harmonisation to international standards," says Michael Holmgaard Mortensen, Danske Bank.

organisation Danske Bank is one. For far too long, these had let post trade activities go on as purely operational activities, leaving strategic decisions to be handled on too low levels in the respective organisations. Collectively, they had failed to act on the need for the industry's strategic seniors to step up and take a lead – the way their peers often do in larger European countries like the UK or Germany.

"So 2018 was the point in time when there was a realisation in the market that this can't continue," he sums up.

Action was initiated under Finance Denmark in 2019. (Fundamentally an employer association, it mainly represents banks with large Danish retail activities, not so much foreign-based participants in the country's securities market.) The high-level task force was appointed by the board of Finance Denmark, with highly senior representatives from banks also including Nordea, SEB, Jyske Bank, Nykredit and

Sydbank, as well as for smaller actors. And with the strategic perspective now lined out, the High-Level Task Force will see itself succeeded by a more operational Post Trade Steering Group.

Too scattered

"We have a very fragmented post-trade market with many bespoke standards for settlement, safekeeping and corporate actions. We are not at all where we should be in terms of harmonising the market to international standards," says Michael Holmgaard Mortensen.

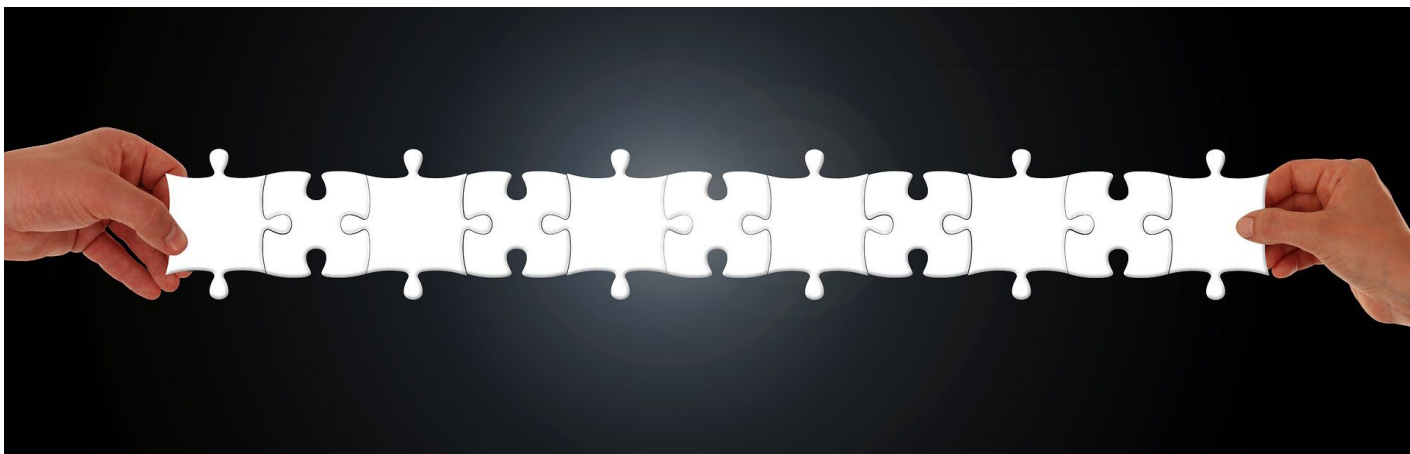
Looking forward, though, he sees hope.

"If I look at it as a VP Securities user over the years, I think what we really need is Euronext VP Securities to step up and become a clear leader of the market – towards more harmonization and international standards. And also, on their own side, make sure that the initiatives

they take go in one direction, and that is for scale. And obviously, we all believe now that Euronext has come in as owners, that they have the required investment appetite and scale."

Broadening the view to cover also the other main Nordic market – Norway, Sweden and Finland – Michael Holmgaard Mortensen is not convinced that today's four separate national CSDs will all be able to motivate their existence in the longer-term future. From the perspective of scale, he is less than impressed by seeing that the Nordic CSDs are all running on different system infrastructures. From a user point of view, integrating to four different infrastructures is very costly, he points out.

"In any case, the CSDs' business model has to change. I don't think they can survive only selling classical services like settlement, safekeeping and corporate actions handling. They have to reinvent themselves and look at providing ancil-



GERD ALTMANN / PIXABAY

lary services. The Nordic CSDs are very much trying at the moment – but I don't think it's exactly clear which direction they want to move yet. They have different propositions for which services they could potentially sell to the market."

Advocates omnibus structure

So, in the drive to iron out the Danish and Nordic peculiarities from the settlement processes ... where does Michael Holmgaard Mortensen see the Nordics' main specialty go – the CSDs' segregated accounts structure that keeps track of each citizen as an individual securities holder rather than lump them in "omnibus" accounts per their intermediaries?

"Yes, we definitely advocate going in the direction of omnibus accounts," he says, seeing it as a question that "certainly matters a lot".

"You will see, in the recommendations from the high-level task force, that we have dwelled on this structure and the reasons for it. It is much cheaper, and also a more harmonised standard, to run omnibus accounts."

That said, the question is not trivial. Legal aspects, including investor protection in case a CSD or a bank would go bankrupt, deserve a close look and there are some country-specific legal limitations to when omnibus account structures can be offered. So, the first recommended step is a pre-study.

"You will hear others talk about this too, for example in the Swedish market. It is to scale and make sure we become more efficient, and to harmonise to this model which is very well known in the international markets. Definitely, this has a big implication for the CSDs' business model.

Today, obviously, they charge for every segregated account they hold. So, if there was a move to omnibus all of a sudden, they would have to revisit their business model. It is a very touchy point for them."

DLT carries promise

So far the harmonisation aspects. How about the digitalisation part which was also mentioned as a focus point? Moving from the finance sector's rigid old mainframes, how radical should the technical change be? We often hear about "cloud" and "APIs" as a flexible alternative way of doing things on the back of interconnected remote services across the internet, and this has become a commonplace way of implementing new systems. Increasingly, we also hear about industry initiatives applying distributed ledger technology, DLT – a much more radical but still not mature approach that could potentially overhaul the post trade industry altogether.

On the whole, Michael Holmgaard Mortensen suggests a progressive approach.

"There is a huge potential in DLT. If we use it the right way, making sure that the network is properly protected, that there is interconnectedness with the off-

chain world and a solid legal foundation, I think it is proven in use cases to be a very, very efficient and scalable setup. I also like the idea about digitising or tokenising the contracts so that the contract logic is embedded in the code and settlement happens in real time."

He stresses that the legal foundation – not least with respect to the security – is an issue that first needs to be addressed very seriously, and a pan-European legal foundation would help – but the area could then rocket.

But first cloud?

"DLT will potentially, and most probably, overshadow cloud ... I would say within three to five years. The reason is that I can see more and more use cases becoming successful," says Michael Holmgaard Mortensen, mentioning successful pilot projects at the Singapore Stock Exchange and Clearstream.

"Particularly, seeing use cases on rather significant bond issuances in real time, I must say I'm pretty impressed with what has been achieved so far."

"But I would also say it's a rather large jump to just bridge directly from mainframes to DLT," Michael Holmgaard Mortensen cautions. If I look at today's market infrastructure in general, then I think we will definitely have to shift to cloud solutions as quickly as possible ... and that is also what I see that the market is doing right now."

"So, in the industry, there is a lot of debate on what is the right sequence of things. Where should the money be invested? That is a very difficult question my take is that I am a big believer in DLT, from everything I've seen." ■

"Particularly, seeing use cases on rather significant bond issuances in real time, I must say I'm pretty impressed with what has been achieved so far."

Hyper-efficient and flexible systems needed for a **hybrid** post-trade era

Hybrid is a word that may well end up defining this period in history. Hybrid cars, hybrid working (thanks to the COVID-19 pandemic), hybrid customer service and advisory models, hybrid “phygital” events – and the list goes on. But the biological origins of the expression point to it being a complex temporary period leading to a simpler, non-hybrid future.



Contributed by
Alan Goodrich, ERI

In general, hybrid animals and plants are unable to reproduce. Hybrid cars are likely to have a short-lived existence, with the old combustion engine technology disappearing altogether before very long. Home/office hybrid working is also already looking like a temporary, rather than permanent, solution. The conversational aspects of hybrid customer services and advisory models may also diverge, as the experience matures, to being either fully AI for the mass market or fully human for the wealthy. The challenges of managing the user experience of physical as well as digital events are likely to polarise these back to being either one or the other eventually. But, for a period of time, in all these cases, the hybrid scenario has to be managed and live alongside the old and new models.

So, what about assets and investment vehicles? According to a recent report from CryptoCompare, total AUM across all

digital asset investment products increased by 57.3% (USD 54.8bn) in just one month from July to August 2021. Aggregated daily volumes across all digital asset investment product types increased by an average of 46.6% in the same period with average daily volumes standing at USD 544m. Compared to conventional/traditional AUM, these digital assets still only account for a relatively small proportion of the total market, but the speed of growth and adoption/acceptance of tokenisation points to a tipping point being reached in the not-too-distant future.

Much has been written and discussed recently on the Post Trade 360 platform regarding the “Internet of Value”. Underlying this concept is the “tokenisation thesis”, which postulates that DLT is a superior mechanism for representing and transacting digital value – providing “always-on”, resilient, global, programmable, multi-asset financial networks with the endgame being the tokenisation of all regulated liabilities.

Indeed, any institution that is currently planning to issue securities or launch investment funds must already be thinking about whether it makes sense to do this through traditional mechanisms, or instead go straight to tokenisation. As another example of the speed of change, the T-REX platform from Tokeny, a Luxembourg company that is 23.5% owned by

Euronext, has already quickly clocked up EUR 8.5bn in tokenised assets.

In short, the post-trade ecosystem is going to have to live for some time within a hybrid world, in which all forms of asset exist side-by-side, until eventually the non-digital assets become extinct. Customers are going to need conventional accounts and digital wallets while also investing in and managing portfolios of both digital and non-digital assets, which in turn may potentially also be invested in a mix of digital and non-digital assets.

So while the conventional/traditional model is grappling with the post-trade settlement limbo bar heading down to T+1 from T+2, the coming period of hybrid asset models will also need core systems to support and reflect the “always-on”, DLT-based digital asset post-trade activities in true real time, with process automation levels and built-in compliance controls that deliver new levels of efficiency and flexibility. ■

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

ERI is the supplier of the OLYMPIC Banking System, offering award-winning levels of innovation, real-time post-trade automation and compliance.

SEB's team employs AI to service alternative assets

Being the Nordics' largest custodian, SEB Investor Services was seeing an increasing need to offer its clients services not only around securities but also the operationally awkward alternative assets.

The team decided to skip the evolutionary step of manual processing and went straight for full digitalisation. Now the first participant is live – with self-learning algorithms from Google Cloud doing the heavy lifting.



Contributed by SEB

“Essentially, we took the least standardised process we could find – and decided to digitalise it,” says Fredrik Söderlund, product manager for portfolio solutions at SEB Investor Services/LCFI.

“We have served our clients for a long time around their liquid assets – the

shares, bonds, derivatives, funds ... – but our portfolio has been lacking a service for their illiquid instruments.”

With the availability of new artificial intelligence (AI), SEB could now go straight for a setup that is digital at its core, rather than starting with a manual one. The common view in the industry has been that – in stark contrast to the shares, bonds and most derivatives – alternative assets are just too complex and unstand-

ardised to lend themselves to automation. The SEB team stopped to ask itself whether, in fact, the opposite could be true? What if it is just because the alternative assets are cumbersome that their processes must be digitalised rather than human-staffed?

Started with a “sprint”

A process-modelling platform by software provider Appian was configured by SEB's own staff to connect the pieces. Google Cloud supplies the self-learning data crunching tools. But with the relative ease of connecting digital services today, no traditional IT consultants were needed to staff a project. The main design considerations were drawn up in a five-day “design sprint” workshop in September 2020. Development started in January 2021, and

“With this move, we have gone from offering nothing, straight into the future.”



Launching alternative asset services in complement to its custody, SEB Investor Services has gone straight for an AI-powered digital solution. Fredrik Söderlund and Tomas Engel share a glimpse of how today's technology lets financial institutions tackle administrative burdens from a completely new angle.

was completed half a year later. The contrast against traditional bank IT megaprojects could hardly be more striking.

"The big projects cost big money – with large project groups, consultants and testing. But when you start from a blank

sheet today, using new technology based on blocks that you assemble in lego style, with pre-defined integrations and self-testing capabilities ... it gets so much easier," says Fredrik Söderlund.

Most of the AI-powered work is

about "intelligent document processing" – starting with the extraction and interpretation of data from the broad range of emails, PDFs, spreadsheets and other files that are exchanged between stakeholders. If the system is uncertain, perhaps because



a document format is new, it will loop the document to the human staff for help to match incoming data with the database blanks it should fill.

A large mass of assets

For institutional investors, the hunt for returns and fierce competition for attractive assets are only two of the many reasons for seeking diversification and better returns outside the capital markets. The alternative assets are not new – these include forests, energy plants such as solar and wind power parks, buildings and bridges, private equity and debt, venture capital holdings etc. And they constitute a large part of the total wealth. Denmark is a Nordic leader in the space, with alternatives making up over a fifth of the institutionally held assets. But the pressure to keep down administrative costs is mounting.

Tomas Engel is SEB Investor Services' head of sales and relationship.

"We see a large number of clients who wish to have these services. Many of the larger custodians are offering this in one way or another already so now we are joining them. As this is one of the more complex and manual processes for the clients, a service based on AI and a lot of knowledge is quite attractive. Also, as this field is growing substantially you actually need to be able to ease the burden on behalf of the clients to stay relevant as a service provider for the years to come," he says.

"And with this move, we have gone from offering nothing, straight into the future", he adds, with a smile.

With all the billions' worth of alternative assets under management at Nordic investment institutions, he hopes that many will be attracted to outsource-

ing their administration of them to SEB. Technically, alternative assets are not stored at SEB's custody, which securities are. But if the institutional clients provide SEB with information that reflects their contracts, the services around them can still be performed. An example could be the fulfilment of payments into a venture capital fund when its general partner issues a "capital call" according to previous agreement.

Another key value of the new service is that it can feed the aggregated information about liquid and illiquid assets into a combined overview in the client's portfolio management system. An integration with SimCorp Dimension is already in place.

Banking gets a new suit

So has it all been a simple and smooth process?

"Yes, it feels like it when we look back, but naturally it didn't always feel like it during the process," says Fredrik Söderlund.

The story could be a text-book example of how banks across the world, like firms in many industries, are currently transforming themselves into digital-first enterprises, increasingly catching inspiration from the ways agile start-ups are working. At SEB, naturally, the new solution needed to be defended through the usual chain of committees. The growing use of cloud architectures raise new questions.

Security and data integrity are of course essential when implementing cloud-based AI solutions. Data stored and processed in Google Cloud is separated from the consumer-facing services that Google also offer. Google personnel do not have access to SEB's or its clients' data. Further-

"Sometimes, it can be better to be fewer people."

more, by the earlier announced partnership between SEB and Google Cloud, they also have a solid security fundament together. This is a good example of how this partnership delivers new, innovative and secure services.

Based on the Appian platform, the SEB team is able to configure business rules and workflows and data structures rather intuitively, without needing to hire expensive coding experts. This type of "low-code" approach is rapidly becoming popular across the financial services industry.

Keep it small – and do it faster

Fredrik Söderlund and Tomas Engel believe that many institutions, possibly also among its institutional clients, could benefit from a similar search for new processing possibilities. Just how solutions should look must depend on the situation at each company, but in SEB's case it has worked well to move towards "task-based" principles, the low-code approach, a small cross-functional development team and the use of artificial intelligence (calibrated by large data from internal asset administration in other parts of the group).

"To do something like this in a financial institution, you do need to radically reconsider how you work," says Fredrik Söderlund. "And sometimes, it can be better to be fewer people."

Tomas Engel agrees:

"Today, sometimes all it takes is a small group that thinks new and smart." ■

COVID-19 accelerates the need to consider outsourcing

Front office outsourcing is no longer purely about cost but offers resiliency, efficiency and enhanced governance



Contributed by Northern Trust

For many asset owners outsourcing front office services would often be a way to cut costs, but the recent pandemic has brought about other reasons to consider such a move.

Northern Trust's Gary Paulin believes the current financial environment has brought about an increase in outsourcing activity as asset owners seek increased governance and control around business continuity.

He argues that outsourcing in general is a trend within the asset management world that is driven in part by an increased emphasis on governance and transparency, that in turn contributes to margin compression.

"Costs are always a consideration, it is a given," he said, but added that "COVID-19 has provided excuses and opportunities for [asset owners] to review and reset operations".

Pension funds have grown uneasy about lack of control and many believe the optimal model is to own and control those resources in house, but quite often that is expensive, he explained.

In a recent white paper, Northern Trust stated: "Instead of carrying the cost and complexity of running an in-house solution, firms move to an outsourced one, free up capital to invest in strategic growth and move costs from a fixed to a variable basis in line with the direction of travel for revenues."

Paulin also noted that that investors never had to deal with a pandemic before.

"Prolonged staff absence, sickness, social distancing, remote surveillance – all these come into play. COVID-19 has accelerated some of the changes already occurring."

"Working remotely challenged the assumption of proximity between dealing teams and investment teams," he explained, noting that when outsourcing occurs there is no break in connectivity between teams. "The only difference is who is paying the bills."

Perceived risks

The perceived risk of outsourcing being seen as reacting to cost pressure is changing and has "evolved to something more of an optimal future state", Paulin continued.

Increased benefits in terms of fulfilling governance requirements are also evolving to become an equally compelling reason for asset owners to outsource their trading function.

Transparency and accountability are the cornerstones of good governance and regulators are already trying to improve those aspects within the investment industry.

Another common concern among asset owners is that "they fear that connectivity to the street will be lost, but in fact is the opposite. Those relationships are actually enhanced," Paulin said, adding that the working remotely element has certainly strengthened teams' relationships as challenges are overcome.

Northern Trust's paper said: "As regulators require greater transparency in order to restore trust, and as investors become more digitally conversant (with the fastest growing cohort being digital natives), decision-making is becoming more evidenced-based.

"The presumption now is that deci-

sions should be based on full information, and not beliefs or preconceptions, for these often blind us to accepting reality, change, or new ideas."

Contract with Border to Coast

Border to Coast Pensions Partnership appointed Northern Trust back in 2018 to provide administration and depositary services to the investment pool.

The Partnership was created in 2018 and had the advantage of a "blank sheet of paper" when considering the appropriate operating model for securities dealing for its internally managed assets, says Mark Lyon, head of internal management.

"Our analysis pointed to an evolving trend for asset managers to outsource their dealing arrangements to specialist third parties both from an efficiency and a regulatory/compliance perspective," he said.

Outsourced dealing services were included as part of a formal procurement with a provider that was able to supply a wide range of administration services. "Northern Trust was selected as the provider of those services," he added.

"Our experience since the launch of our investment offerings, which have current assets under management of c. £9bn, has been positive. The process is more efficient than historic arrangements without losing the benefits of market intelligence, and Northern Trust is able to source liquidity across a wider range of market participants," Lyon said. ■

This article first appeared in Investment & Pensions Europe – November 2020, [link here](#).

Read Northern Trust's white paper: From Niche To Norm: The Accelerated Adoption of Outsourced Trading – [click here in pdf](#).

The world's most important asset

BNY Mellon has combined new technologies, partnerships and a philosophy that data has become the world's most important asset class, according to Steve Taylor, head of BNY Mellon Data Vault, who explains the custodian's approach.



Contributed by BNY Mellon

What change have you seen in client demands that has sparked this acceleration in your strategy and investments in data services?

I think it's scale of the transformation that has been the biggest change. This has been brought on by macro and systemic industry changes. You've got increased competition in markets, more diversified asset classes, increased M&A activity and obviously the pandemic.

We've seen first-hand that our customers' needs are evolving quickly, and we believe we can offer a more comprehensive, more modular platform that gives them the flexibility and insights they need to grow.

They are asking us 'how can you help future proof my business? And how do I re-imagine it?'

We recently completed a study with

about 200 asset managers globally on trends and what was amazing to me was the pervasiveness of themes around data, with 93% of respondents indicating that they are expanding plans to increase the use of analytics and insights in portfolio management. Many of their growth strategies rely on leveraging advanced data and analytics. That level of laser focused activity really speaks to the comprehensiveness



Steve Taylor, head of BNY Mellon Data Vault

of these changes. There was also substantial acknowledgement of serious hurdles they need to overcome. Many of them are still living with siloed data. They don't have access to the data in the way that they need it and the quality is inconsistent. I should say, coupled with that, they have a user population that is much more data hungry and more tech savvy than ever before.

Do you think custodians are in the rare position of being such a trusted provider for asset managers, and therefore you are relied on to aggregate and partner?

We know data very, very well. We believe we're uniquely positioned because we've delivered investment data software and services to clients globally for more than 25 years through our Eagle product suite. We continue to invest heavily in that business, while also harnessing the rich intellectual capital developed there to take our capabilities to the next level. This includes our complementary Data Vault, and our ability to deliver differentiated data sets that can help our clients grow. Being able to pair that deep software and data expertise with exceptional BNY Mellon services creates unique value for our customers.

How do you keep pace with these fast moving client demands when it comes to your own strategy and technology?

It's really important to have a sound and well understood architecture strategy and I don't mean just a kind of technical



PIET LUNFORTH / PIXABAY

architecture – but an understanding of where we fit within the industry.

That's very much aligned to the core principles around OMNISM – our open, modular, networked and integrated platform. It connects a portfolio of capabilities and solutions together.

Ultimately, we want to give clients choice. They are all at different stages of their journey, and they want optionality that allows them to plug into a broad ecosystem of providers and suppliers.

How we keep pace is by recognising that we alone can't build everything, but focus on building a platform that allows our industry to come together in more meaningful ways.

So allowing our customers and our data suppliers to build meaningful content on the platform is a big, big part of how we see ourselves keeping pace. I have talked to my team a lot about how we have probably interfaced with more systems than any other firm in the industry.

Finally, I should mention that working with Microsoft and adopting Azure services has allowed our product and engineering teams to focus on differentiating our capabilities while leveraging Microsoft's expansive, global technology expertise. By collaborating with Microsoft, we can extend our capabilities faster than if we built everything ourselves. So it's a win for us and a win for our clients.

Why have you decided to also focus on front-office data and why are you well

positioned to provide this in addition to middle- and back-office data, which you've been more traditionally known for?

We really hone in on how data can deliver business outcomes for our clients. So I think of the front-office no differently. Everyone is grappling for faster access to data to drive an information advantage. They want to know how they can access new datasets or combine them to create new insights. Those same recipes or ingredients are critical, regardless of where someone sits within the organisation.

We've spent decades building products and services for the middle- and back-office so we have deep relationships with those customers and over time they've provided us with invaluable insights and experience in terms of what they want to see next. And they're telling us that data management and insight discovery can help them drive better investment decisions or improve sales efficiency. That's what we're hearing and reacting to.

I see it as a continuation of the journey. The lines are blurring, and we're helping break down silos of data, and making that data more accessible to them. This is what our clients want. They want to be able to interact with that data in new and more natural ways. The more accessible the data is, the more they can explore the art of the possible.

What do you think the future holds in this space from both a client perspective and for your services?

If we think about some of the motivations around our strategy – and also specifically with our Data Vault product, which functions as the backbone of OMNI – what's really important is to create a platform that allows our clients to quickly acquire and interact with larger, more diverse data sets and remove a lot of those traditional technology hurdles that you see with onpremise data management solutions.

Using ESG as an example, I think that we see an industry that's shifting to a much more agile way of thinking about how that data is used. Fast experimentation followed by rapid or robust industrialisation of the data is a key point that we see and hear from our customers. To make that data more accessible – that ultimately unlocks more opportunities, which has historically been something that's quite challenging.

Through our relationship with Microsoft, we're providing cloud-based capabilities that allow our clients to run faster, cheaper and ultimately gain insights sooner. This lends itself to a future that will focus on the acceleration and creation of analytics to drive investment, risk, operational and cost optimisations.

But this requires integrated platform capabilities operating cohesively, from data acquisition, to discovery, to quality controls and dissemination. The adaptation of artificial intelligence has helped our capabilities keep pace with that explosion of data our clients are seeing. ■

An end to end solution for financial intermediaries

Financial intermediaries – namely traditional banks and retail brokers – are dealing with a number of difficult headwinds. With Sweden's Avanza as one of the reference points, Gary O'Brien, Global Head of Banks and Brokers at BNP Paribas Securities Services, discusses how these can successfully rethink their model.



BNP PARIBAS

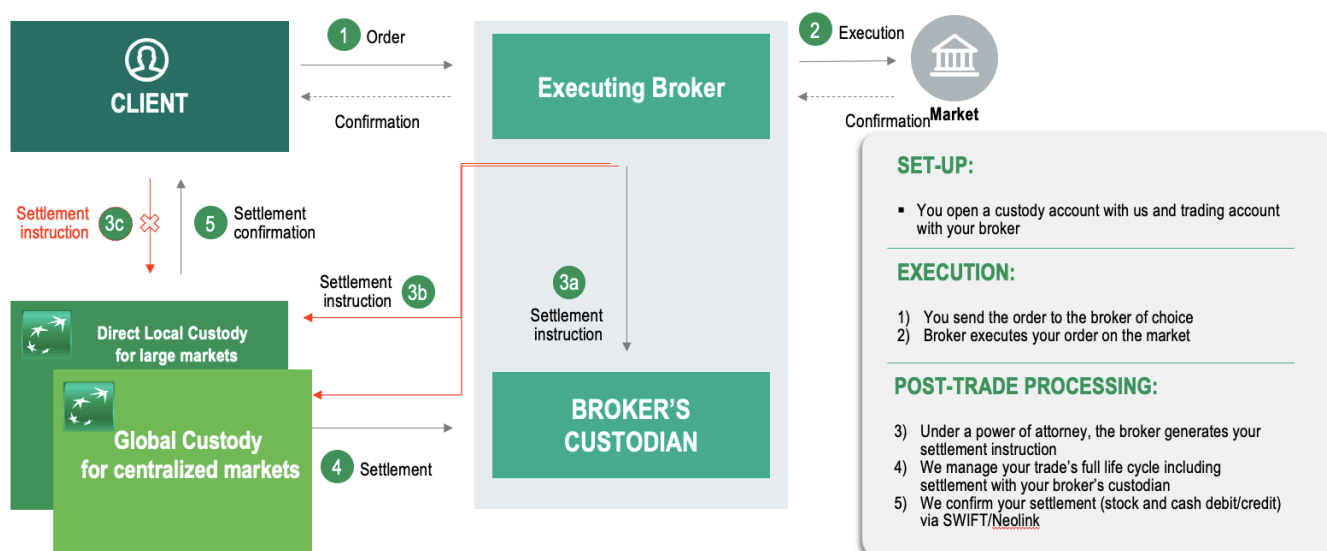
Contributed by BNP Paribas

In order to flourish amid today's challenging market environment, many financial intermediary organisations are now looking to leverage "Broker to Custody" solutions to obtain operational efficiencies and improve their own underlying customer services. Gary O'Brien, Global Head of Banks and Brokers at BNP Paribas Securities Services, shares his insights on how the bank's Broker to Custody product can support intermediaries – as they look to future-proof their businesses and grow revenues.

Could you please give an overview of some of the main challenges facing your intermediary clients?

O'Brien: Right now, intermediaries

are under intense pressure. Banks and retail brokers are facing mounting competition from new entrants, many of whom are expanding their market share at the former's expense. There are several reasons explaining the success of these new entrants. Firstly, they are unconstrained by the legacy technology problems inhibiting the incumbents, which has enabled them to more seamlessly integrate cutting-edge digital features into their front end solutions. Through the adoption of digitalisation, new entrants are making in-roads by winning mandates from tech-savvy retail investors. It also allows providers to offer retail clients highly bespoke services. This is vital - given that investors are increasingly seeking out returns in new markets and products, owing to some of the challenging performance conditions in traditional fixed income and equity markets. As these providers continue to expand wallet share, the incumbents are looking for ways in which to respond.



How are the incumbent providers attempting to future proof their businesses?

O'Brien: In order to compete with these new players, some incumbent brokers and banks are doing one of two things. They have either reduced fees to maintain their client base, or invested into their technology systems and processes so as to remain competitive. However, both of these approaches are likely to have a negative impact on margins. Others have opted to identify cost efficiencies within their core business. For instance, some banks and brokers are looking to rationalise their sub-custody networks by working with fewer providers to keep supplier oversight costs down. Alternatively, other intermediaries are creating partnership solutions – whereby they purchase more services from individual banks. The exponential growth of the integrated execution, settlement, and asset servicing solution – otherwise known as the Broker to Custody model – is indicative of this trend.

What does the standard execution/custody model look like, and what are its benefits?

O'Brien: Traditionally, retail brokers have integrated their execution and asset servicing requirements with one provider. This effectively creates a single counterparty relationship covering all of the brokers' activities. So how does this model typically work? A retail broker will send an order to an investment bank's execution desk. The order will then be executed and a settlement notification is subsequently sent to the custody department to facilitate

This is because it relies on a centralised custody relationship, which supports asset servicing in one location – normally through the global custody structure. This means that brokers can obtain easier access to new markets

settlement on behalf of the retail broker. This structure enables the retail broker to net operational synergies as they no longer need to perform back office processing to support trade settlement. This also helps brokers reduce the risk of market failure – due to the integrated settlement instruction. Furthermore, this model is highly effective among retail brokers focused on specific markets and those looking to achieve scale. This is because it relies on a centralised custody relationship, which supports asset servicing in one location – normally through the global custody structure. This means that brokers can obtain easier access to new markets.

What challenges does the traditional execution/custody model pose for clients?

O'Brien: While the traditional execution/custody model is a sensible option for brokers to take, it does have limitations, not least because the entire set-up is wholly

dependent on the capabilities and coverage of the investment bank's execution desk and custody arm. This can sometimes result in brokers being constrained in terms of the markets and financial instruments which they are able to fully access. For instance, if a bank's execution desk can only cover 12 markets and a handful of blue chip stocks, then that intermediary can only invest in those 12 markets and blue chip securities. This is a serious weakness, particularly as retail investors are becoming more sophisticated, and are seeking out better performance and risk diversification through exposure to new markets and instruments.

Please give an overview of BNP Paribas' Broker to Custody solution and what are its core strengths?

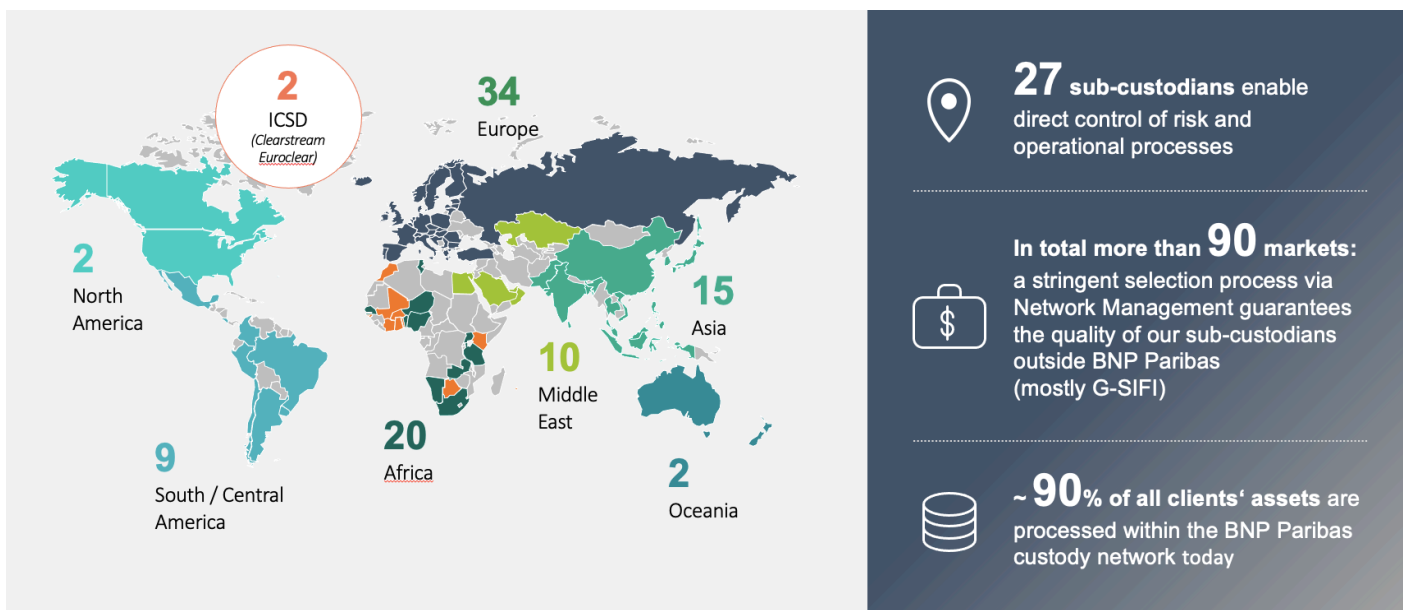
O'Brien: BNP Paribas has strengthened its core electronic execution capabilities. The bank has a truly global offering – which supports flexibility in terms of the booking location for execution. The bank's custody model enables intermediaries to enter into contracts with its branches in local markets. We provide access to 90+ local markets – together with a centralised global custody set-up for some of the less strategic markets. In addition, we offer access to all of the major asset classes – principally equities, bonds, warrants and funds. We also have capabilities in place to help retail brokerage clients expand into new markets and asset classes – in what should help them win more investor mandates.

What differentiates BNP Paribas Securities Services' solution relative to those offered by your peers?

O'Brien: Most significantly, BNP Paribas Securities Services' Broker to Custody tool lets clients leverage other execution providers on demand in addition to the bank's own in-house execution desk. This gives clients a level of flexibility not normally available to them through other providers. By partnering with multiple, top rated brokers, our clients can benefit from a best of breed and tailored solution. It is advantageous from a risk management perspective too, as clients can port business to a different execution desk if there are issues at their primary provider. Opera-



Gary O'Brien



tionally, this set-up has limited impact on intermediaries as they can continue to pass settlement instruction responsibilities to their chosen brokers. Beyond that the solution supports automation, simplifies the trade lifecycle process for clients, enhances STP (straight-through-processing) thereby minimising the risk of trade fails, and reduces cost and risk through netting, aggregation and book entry settlements. Furthermore, BNP Paribas Securities Services provides standardised and agile reporting capabilities – meaning clients now receive reports in the same format irrespective of

the individual custody arrangements which they have implemented.

How do you see the product evolving moving forward?

O'Brien: As retail investors evolve, brokers will need to offer clients a wider range of services. A number of intermediaries are looking to augment returns for their underlying clients through BNP Paribas Securities Services' securities lending capabilities. Retail investors – who may traditionally sit on long positions with low transactional volumes – can now lend

out their assets via BNP Paribas Securities Services' securities lending desk, thereby generating a return on their investments. Other services such as foreign exchange can also be integrated into the offering in a way that provides total transparency to end customers. Elsewhere, sophisticated asset owners are becoming more empowered and are bringing asset management activities in-house. We anticipate that the Broker-to-Custody solution will be very attractive to these investors as they look to obtain a one-stop shop for their custody and trading needs. ■

Case study: Sweden's Avanza

Avanza, a leading Swedish online bank with more than 1.5 million retail customers, outlines why it selected BNP Paribas Securities Services' 'Broker to Custody' product.

Please give an overview of the challenges you were facing

Avanza* (Client): As a fast growing provider to retail clients, our main chal-

lenge was to find solutions and partners that could keep up with the evolution of our product. As our end customers increasingly sought out new markets and instruments, we looked to BNP Paribas Securities Services' agile "Broker to Custody" solution.

How did BNP Paribas' Broker to Custody solution solve your issues?

Avanza (Client): BNP Paribas Securities Services' solution is incredibly agile, and it enables us to expand into new markets and instruments

with ease. We have worked with BNP Paribas for more than 6 years and it has continuously supported and adapted its solutions in tandem with our business requirements.

Through its excellent reporting functionalities, best-in-class custody and execution capabilities, BNP Paribas has helped us deliver a premium end-to-end service to clients.

We see BNP Paribas Securities Services as a partner who are continuously catering for our evolving business requirements.

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"I foresee a lot of bespoke solutions in the next five years"

Ulrik Modigh is the chief operating officer of one of the Nordics' largest securities operations: Nordea Asset Management. In PostTrade 360° Stockholm, he shared details on his successful centralised operating model – including where it came from, and where he aims for it to go next.

By Alexander Kristofersson,
PostTrade 360°

"Clients are asking for more and more bespoke solutions, including bespoke data solutions," says Ulrik Modigh, interviewed by **Bastiaan Aalders** of consultancy Alpha FMC.

"I think an agile way of working is a good answer to those requirements, and that you stop these big 6- and 12-months projects to deliver something."

Although the whole session is only 16 minutes, it offers a lot of candy for securities operations professionals. Some personal background leads up to his current employment with Nordea Asset Management, going 15 years back. A determined move into a central operating model has proven over time to be the right choice.

"We have an operating model where a portfolio manager can sit on the moon, he can manage a fund in Luxembourg and it can be sold in Sweden. But it's the same settlement team in Copenhagen that is servicing everybody. And that was a smart move at the time," says Ulrik Modigh.

"When I joined, they were in the process of implementing a new portfolio management system. As we are in Denmark, the natural choice at the time was Simcorp Dimension; Simcorp is located one kilometre from our headquarter. Basically, we closed or decommissioned six,



Ulrik Modigh, chief operating officer of Nordea.

you can say, legacy systems across Nordea, in Denmark, Norway, Sweden, Finland. I think we made tons of mistakes in making this implementation – but what we did right was to decide from the beginning that we wanted a central operating model: central teams, each team servicing everybody. We had a high focus on scale, scalability, automation ... As we know, we have an outset in the Nordics with high salaries. And you can say that these decisions are actually what we are benefiting from today."

Bastiaan Aalders: "Then in the last five years, what are the changes you have made to become even more flexible and more client centric?"

"The first thing I think we decided on was to increase the bandwidth in terms of instruments to get more flexibility into the investment processes. So you get more alpha capabilities. And at the time we started it, we did not have a lot of demand for it, but in hindsight it actually turned out that it was a wise decision," says Ulrik Modigh.

"We also formalized, you can say, our decision making in bodies and committees. You can say a forum where we could discuss with sales and investments what to do – and what not to do. I think that has facilitated the work a lot (and I think that is what is done all over the place). The last important thing we did, I think, was that we changed our operating model in terms

of project execution, something we have done over the last one, two years. So we have also taken in this agile way of working – and I think this bringing-together of business and IT technology has been a wise decision from an execution perspective. And I think it's quite an efficient model and I can also see that it creates a bridge between the business and the IT – where maybe IT in the past was a kind of a group sitting in the corner, ensuring that all the batch job was actually executed during the night. Their role is is definitely changing these days.”

“Agile transformation projects are big projects. What was your trigger? What made you think that, as an organization, you had to go through this transformation to a new way of working?”

“There were a couple of elements to the decision and we tried it out small-scale before we rolled it out to a bigger part of the company; we are actually still in the process. The main thing was that I could see that, first of all, the solutions that we have to develop requires more different domain competences. So you need more different kinds of people in the project, when you are developing. And there was this tendency that we were spreading out too many people on too many different minor and small projects, and I could just see that it was not efficient.”

“The second thing was, I think the scope is becoming more difficult to to basically clarify, upfront. You could say that in the good old days, you basically made a very detailed description, then handed it over to IT – and then something came out which was basically out of date when it was done. So when you do it this new way, you can basically change the direction much, much faster as the scope is changing. I mean, it's a moving target all the time. I think that is that is one of the good elements in this operating model. And then I think the last thing is about, you know, bringing IT and business together.”

“Exactly, that is what we say as well: Think big, start small and scale fast afterwards is probably the right way to approach such a project. And if we look at the future of the industry itself, do you think that this is a trend that will continue in the asset management space:

“There is this transition from a black to a green economy, and integrating this into investment processes across all asset managers in Europe is a tremendous task lying ahead of us.”

becoming more client centric, data centric and agile? (Those three go hand in hand, in my opinion.)”

“Yes, I think it's about the changes that are coming to the entire industry: ESG and all the other components that are driving in the same direction.”

“Does your SimCorp-based operating model fit well with your agile transformation? Or do you see that your provider may have difficulty following your speed and your agility?”

“It is a general issue that requirements are expected faster. I mean, it's all about speed. So I think that software providers across the board have challenges following their clients' requests. And therefore I also believe, as you were saying, things will become more data driven. So you can say clients don't want packages of reporting, they basically want the data so they can fit them into their own models. That is one element. Our platform, from that perspective, is quite flexible, because we could configure it ourselves. I think that is very helpful when we are driving in this direction. What will be important for the software providers in the future, and that goes also for our platform, is that they have full API support – because as data is the driver, you need fast access to data. You don't want to be the one who changes your own infrastructure and programs because the software provider is changing his.”

“And what is on your roadmap for the next five years?”

I think it is what is being said in all the conferences; we basically follow the same as everybody else: it is the cloud journey. It is about tapping into scalability

from a storage and CPU perspective, I believe it's cheaper, it's more flexible. And you get access to solutions, softwares and technology which you don't have on your own servers.”

“Then it's a data data game. I mean, it is clear to everybody now that data is an asset to a much bigger extent than five years ago. And this is what everybody wants. So we need, as well, to make sure that our data infrastructure can support all the needs from the clients across the board. And the complexity added is this entire ESG journey. There is this transition from a black to a green economy, and integrating this into investment processes across all asset managers in Europe is a tremendous task lying ahead of us.”

“I believe that this is also somewhere you can see that the software providers don't have the solutions yet, because it's not a mature market yet. Everybody's trying to find their feet in terms of their product offerings, but also how they can make sure that they are compliant with the legislation, which by the way, is still incoming and new. So I see a lot of bespoke solutions in next five years.”

“Yeah, we did a survey last year on data management. What was funny was that the asset management industry seems to be behind other financial services, and only a few other industries were lower on the scale than asset management in terms of the evolution of data management. One last question, because it's also very important, the integration of ESG data into that environment ... Is that something that you already have, or is it on your roadmap?”

“We are a bit lucky in that as a Nordic company. Especially in Sweden, we have had these ESG products for the last 10 years. So we have an offering and have worked with this for many years. So for us, it's a matter of scaling it up to the products which have not had the green stamp and the green characteristics yet. And then of course, make sure it's compliant with the incoming legislation. So it is on our roadmap, it will be for many years, but we have fortunately been working with this for some time already.” ■

A video of the interview is available by [clicking here](#) in your pdf.

THE TIPPING POINT FOR CROSS-ASSET, AGILE POST-TRADE PROCESSING

by Brian Collings, CEO, Torstone Technology

Better Client Servicing Hinges upon an Efficient, Adaptable Cost-effective Back Office as Digital Assets Become Mainstream

Banks across both developed and emerging markets can gain significant operational advantages over their peers, by streamlining their back office operations to better manage flow and over-the-counter trading in a single platform.

The benefits are clear; more streamlined risk analytics, real-time feedback into front office processes and aggregated position keeping allow for a nimbler and more dynamic trading operations. They also support the increasing demand for cross-asset trading support from buy-side firms. As digital assets become more mainstream, incorporated into trading by institutional investors and wholesale banks, the breadth of instruments traded is moving into entirely new areas.

When engaging with these clients, speed and accuracy are real value adds. Processing trades efficiently is crucial to supporting optimised risk management, hedging and client servicing. However, this can be very challenging for firms to achieve if they are using legacy technology and product-based post-trade siloes.

Breaking with evolution

The evolution of trading operations within siloes has happened organically. While equity and FX markets became increasingly electronic over the past decade, front office platforms evolved to support trading algorithms and order routing based upon trading for those specific markets, including any local nuances in delivery vs payment models, primary exchange and alternative venues and margin requirements for trading. Transaction cost analysis built up as a post-trade element to be fed back into pre-trade decision making.

Conversely, trading across over-the-counter (OTC) markets has become electrified in a far less consistent manner. Trade execution typically carries a greater blend of both voice and electronic trading.

These different patterns of trading have shaped the variety and maturity of market structures, with trading systems mirroring those nuances to become highly tailored by asset class.

Now trading has reached a tipping point. Sell-side firms are seeing very tight margins in flow products which typically execute orders at high volume and speed. Those instruments which have developed high-volume throughput built on straight-through-processing have necessitated a significant technology spend, are seeing shrinking returns.

OTC markets, which include illiquid derivatives and cash fixed income products have more complex post-trade processing for several reasons: the instruments' own characteristics which include tenor, credit ratings and interest rates; the lack of automation in trading, which reduces the flow of post-trade data; and the additional capital charges these instruments carry on banks' balance sheets. While these instruments typically offer better margins for secondary trading the ability to automate trading and processing is far more complex and expensive, making them a more challenging operation.

Banks need to step past the organic evolution of post-trade systems, led by front office development, and engage in the strategic development of systems, designed for leaner and smoother cross-asset capabilities.

For the investors and wholesale banks whom they service, getting access to a single view of trading activity is invaluable. As these clients are also faced with tighter margins and greater cost controls, there is a real pressure to support a digital workflow in capital markets.

The modular approach

Tying older legacy platforms together will not deliver efficient processing and reporting. The complexity of trading process and workflow has created widening gaps between systems and their ability to interoperate. These can

be patched over approach to create bespoke bridges, feeding data across the sprawling architecture, but this increases inefficiency and risk.

A one-size-fits-all approach to processing will not support the many varied instruments that are traded by banks, ruling out the adaptation of monolithic legacy architectures that were developed for a single asset class.

Only a post-trade solution that is built using cutting edge components will support multi-asset processing, by compartmentalising the tasks within a larger interoperable system.

This modular design approach allows a single system to handle each instrument within a discrete workflow, while flowing data into an aggregated view of risk. Moreover, it can be developed for a single instrument, to replace the existing post-trade technology, and then be built out, module by module, to replace older legacy systems.

The most immediate impact of this approach is to improve performance of the front office through better back office processing. Clients can be better supported with data from securities servicing such as settlement, they can be provided with pricing for trade more rapidly and they are less likely to suffer settlement failures and margining challenges.

New approaches to development allow for comprehensive understanding of the bank's risk position, creating a centralised risk book to trade from, and reduce the cost and complexity of the post-trade model. Getting a holistic picture of positions and risk exposure via single platform that can create a consolidated picture both for the bank and clients.

A single modular platform also lowers costs significantly by reducing the skill sets and vendor licensing needed to manage what is typically seen as a cost centre.

A call to action

As trading of OTC instruments becomes more electronic and ultimately automated, STP in the back office will become increasingly prevalent, and post-trade processing will need to adapt to this new reality. Digital assets need new trading connectivity, risk models and post-trade processing.

Building a modular post-trade architecture will set the groundwork for handling these changes with a flexible, cloud based platform that significantly reduces the fixed costs and ownership overheads seen with legacy systems today. The gap between high-touch and low-touch trading between assets is decreasing each year, making the deployment of a single model for post-trade a priority for leaders in capital markets.

About Torstone Technology

Torstone Technology, a leading SaaS platform for post-trade securities and derivatives processing. We simplify the complexities of post-trade, by connecting global financial industry expertise with post-trade technology innovation. Combining many decades of investment banking expertise with in-depth global financial market and technology industry knowledge, we offer agile, secure, scalable, and cost-effective solutions. Torstone's Cloud-based, award-winning Inferno technology enables global financial firms to reduce costs, achieve greater operational efficiency, drive revenue growth and minimise risk.

We are a fast-growing company headquartered in London, with offices in New York, Toronto, Hong Kong, Singapore, and Tokyo.

For more information please visit www.torstonetech.com

What innovation is next for your collateral?



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)

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.

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.”



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.

Dig where you stand

Craig Pearson turns to Deutsche Bank’s Maurice Leo with the question how collateral optimization has evolved, and what

“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.”

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 inven-

tory 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.” ■

Funding a sustainable future

In August of this year, the UN's Intergovernmental Panel on Climate Change (IPCC) released a report that made headlines around the world. In what has been called a "code red for humanity", the report stated that "unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5 °C or even 2 °C will be beyond reach."



By Bjørn Crepez, Head of Issuance Products & Data Analytics, VP Securities

Slowing climate change is nowadays definitely on the top of everyone's agenda. We've already seen some of the ambitious targets set on EU and national levels. For example, the European Green Deal aims to make Europe the first climate-neutral continent. Coming closer to home, Denmark has set the goal to reduce CO₂ emissions by 70% in 2030. Delivering these "rapid, large-scale reductions", will require significant investments from both the public and private sectors. In fact, the European Commission estimates that the EU needs to invest an additional €260 billion a year in order to achieve the collective commitment to cut carbon emissions by 55% by 2030. In this context, the role of investors is key in urging decision-makers and businesses to commit to sustainable investments. And financial markets have a central role to play in the transition to a net zero carbon economy: for example the European

Central Bank (ECB) has been implementing this year a "centre for climate change" which has also recently set an action plan with nine accurate measures.

How we finance the transition

So how can we, as market participants in the post-trade industry, do our part to fund the transition to a blue and green economy? As early as 2018, the EU's Technical Expert Group (TEG) highlighted that the financial sector would need to play a significant role in facilitating this transition. More than any other industry, we have the capacity to influence the reallocation of private capital towards more sustainable investments. Our role is to promote the transition of companies to more sustainable business models, and as such we advocate for improvement. That is why we support the TCFD, and we are signatories of the UN Global Compact and the UN Ocean Principles.

One of the most effective instru-

ments at our disposal is the green bond, which the United Nations has called "one of the most significant developments in the financing of low-carbon, climate-resilient investment opportunities."

The Nordic region: first-movers in green bond investing

The Nordic region actually features quite prominently in green bond history. It was a group of Swedish pension funds that approached the World Bank in late 2007, looking for a way to invest in projects that would help the climate, that led to one of the world's first green bonds. And it was the Oslo-based Centre for International Climate and Environmental Research (CICERO) that provided the now standard second opinion for that bond – verifying the positive impact the potential investment project would have on the environment.

Nordic exchanges have been pioneers in this space as well. For example, Oslo

In other words, there's never been a better time to enter the ESG issuance space. As we see it, embarking on the ESG journey involves three key elements: strategy, visibility and communication.



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Børs was the first exchange to implement a list for green bonds back in 2015. They created the list in response to increasing investor interest in sustainable investment opportunities, with the goal of making it easier for investors to identify green bonds. The day the list went live, it contained five listed bonds having a combined issued amount of over NOK 3 billion. To qualify for the list, the issuer needed to have an independent evaluation of the project for which the bond's proceeds would be used. The evaluation needed to be made public so market participants could understand the project's environmental impact. Issuers were also obligated to keep investors informed about updates to the project the bond was intended to finance. These requirements are now a part of established best practice and standards for issuing green bonds.

Interest in green bonds accelerates

In 2020, the Oslo Børs green bond list became an integrated part of Euronext ESG Bonds, an online platform which combines all eligible and consenting ESG bonds issuers and securities in our markets in one location (ESG standing for environmental, social and governance). The list now contains over 850 ESG bonds from more than 280 issuers across the globe.

This platform connects investors and issuers, creating an international financial community for those actively involved in sustainable investments. Issuers on this platform have raised in excess of €600 billion, representing approximately 44% of total global sustainable issuance.

Since the start of the year, Euronext has added over 250 ESG bonds – which shows that investors' appetite for sustainable investments is only accelerating. Based on our experience with green bond investing, we see that investors are not only interested in supporting established green bond issuers. They're also looking to invest in companies just starting their ESG transition. In other words, there's never been a better time to enter the ESG issuance space. As we see it, embarking on the ESG journey involves three key elements: strategy, visibility and communication.

A clear ESG strategy helps companies avoid the "greenwashing" trap

Investors are becoming increasingly critical of sustainability and eco-friendly claims. In fact, one of the aims of the new European Green Bond Standard (EUGBS) is to protect investors from "greenwashing" – when companies claim they're doing more for the environment than they actually are. While compliance with this standard is voluntary,

it demonstrates the importance of incorporating ESG principles into your long-term corporate strategy, as opposed to approaching ESG initiatives as standalone projects. And, as with any strategy, this needs to be developed in cooperation with your company's stakeholders and include concrete targets that investors can easily follow.

Visibility is crucial to attracting the right investors

The growth of the green bond market over the past 10 years testifies to private and professional investors' interest in sustainable investment opportunities. However, work is still needed to make green investments more visible, and to help investors understand what "green" actually means. The biggest issue barring investments into a greener economy is the lack of visibility and transparency for market participants. This is one of the reasons the EUGBS is introducing a shared EU Taxonomy – a common classification system for sustainable economic activities. The hope is that by creating a shared standard for issuers, investors will be able to identify sustainable investments more easily.

The need for greater visibility is also one of the driving factors behind our dedicated bonds platform. By consolidating green bonds in one location, and employing a shared taxonomy based on recog-

nised standards, we can help investors who have the capital to find the ESG projects they want to finance. This visibility is also key for issuers, as it helps you connect with an international investor pool and get the funding you need.

Life beyond Green: the Blue Economy

Being a leading listing venue for companies that operate in ocean industries and other businesses related to Blue Economy, Euronext became in 2020 the first and only Exchange signatory of the UNGC Sustainable Ocean Principles that provide a framework for responsible business practices across sectors and geographies. Furthermore, it has contributed to the UNGC Blue Bond Reference Paper, with the scope of identifying opportunities to use the ESG bond market to secure capital for ocean-related projects and companies that have made, or are planning to make, a significant contribution to the UN SDGs especially the Sustainable Development Goal 14 “Life Below Water”. Mid 2021, we had 162 companies listed in sectors related to the Blue Economy, in all Euronext countries. These companies had a market capitalisation of over 675 billion euros, with total revenues of over 840 billion euros, and employed over 1,4 million people.

Communicate the right information to the right people

For investors interested in sustainable investments, analysing a company's relevant ESG criteria is a fundamental part of assessing the value of an ESG investment. This information gives them insight into how the company is performing with relation to its ESG goals and the company's level of commitment regarding its ESG projects. However, different investors require different types of information. And depending on a company's jurisdiction, a wide range of ESG reporting requirements might apply. So, as an issuer, when determining how much to report, you need to identify your stakeholders and investors, analyse their interests and needs, and consider which information is relevant for them. This will help you define the scope of your reporting and put the necessary reporting tools in place to capture the right data.

As an example, we offer issuers tailored programmes to increase ESG

What is clear is that there has never been a better – or more critical – time for issuers to solidify their ESG strategies and do their part to fund a sustainable future.

knowledge, connect them with relevant stakeholders and advocate for their goals and interests, and also a set of guidelines on ESG reporting. This last one draws on recommendations from the UN Sustainable Stock Exchanges Initiative, and are designed to help listed companies structure their approach to ESG.

Board the ESG train before it leaves the station

Globally, green bonds have been issued for over €850 billion. Of that, €227 billion was issued in 2020 alone. Analysts expect €340 billion in green bond issuance in 2021. And the bond market isn't the only area where we're seeing an increase in ESG investment. The same trend is evident in stocks and indices as well. For example, the recent launch of the CAC 40 ESG®, a sustainability-oriented version of the French national benchmark index, CAC 40®; the MIB ESG Index on Borsa Italiana, Italy's first blue-chip index dedicated to ESG practices; and Euronext's ESG WORLD Index chosen by the German Government, all demonstrate that ESG will be the dominate theme in the investment market for the foreseeable future. Whether we'll see similar dedicated indices in the Nordics remains to be seen. What

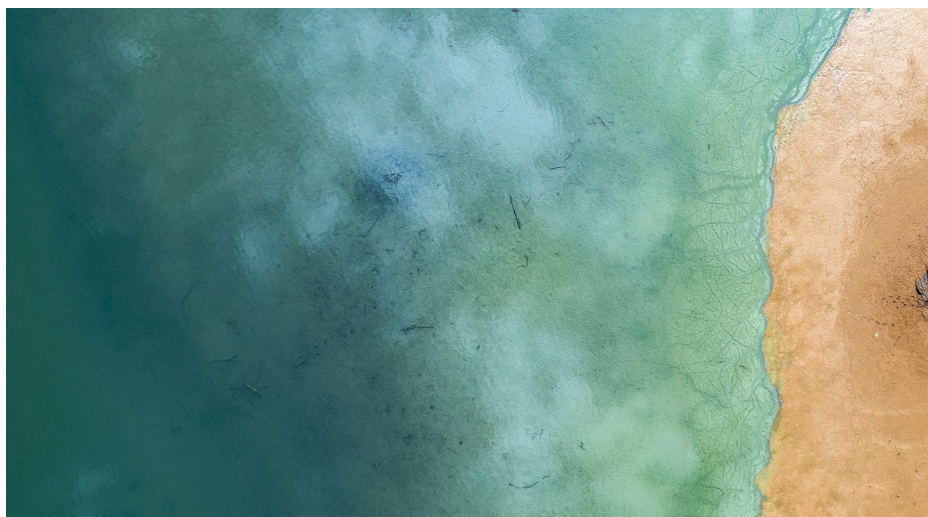
Fact box: ESG is about more than the environment

While projects to reduce carbon emissions and switch to green energy sources garner most of the attention, there are other types of bonds in this category. For example, 2021 has been a good year for social bonds (the ‘S’ in ESG) – where the proceeds finance socially beneficial activities, such as affordable housing or building essential facilities. In the first four months of this year, Euronext listed 18 social bonds, as compared to 18 in all of 2020.

is clear is that there has never been a better – or more critical – time for issuers to solidify their ESG strategies and do their part to fund a sustainable future. ■

Source

- [Climatebonds.net](https://climatebonds.net)
- worldbank.org
- [Euronext.com](https://euronext.com)
- [Ec.europa.eu](https://ec.europa.eu)
- [Forsikringogpension.dk](https://forsikringogpension.dk)



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Euronext, a pan-European CSD network

Connecting local economies to global capital markets,
accelerating innovation and sustainable growth

- Be part of the leading pan-European market and CSD infrastructure
- Access 20 countries through investor CSD links connected via our network of CSDs
- Benefit from value-adding products and services
- Take advantage of economies of scale and local presence thanks to our 4 CSDs in Denmark, Italy, Norway, Portugal

~€6 trillion

Assets under Custody (AUC)

>5 million

Securities accounts

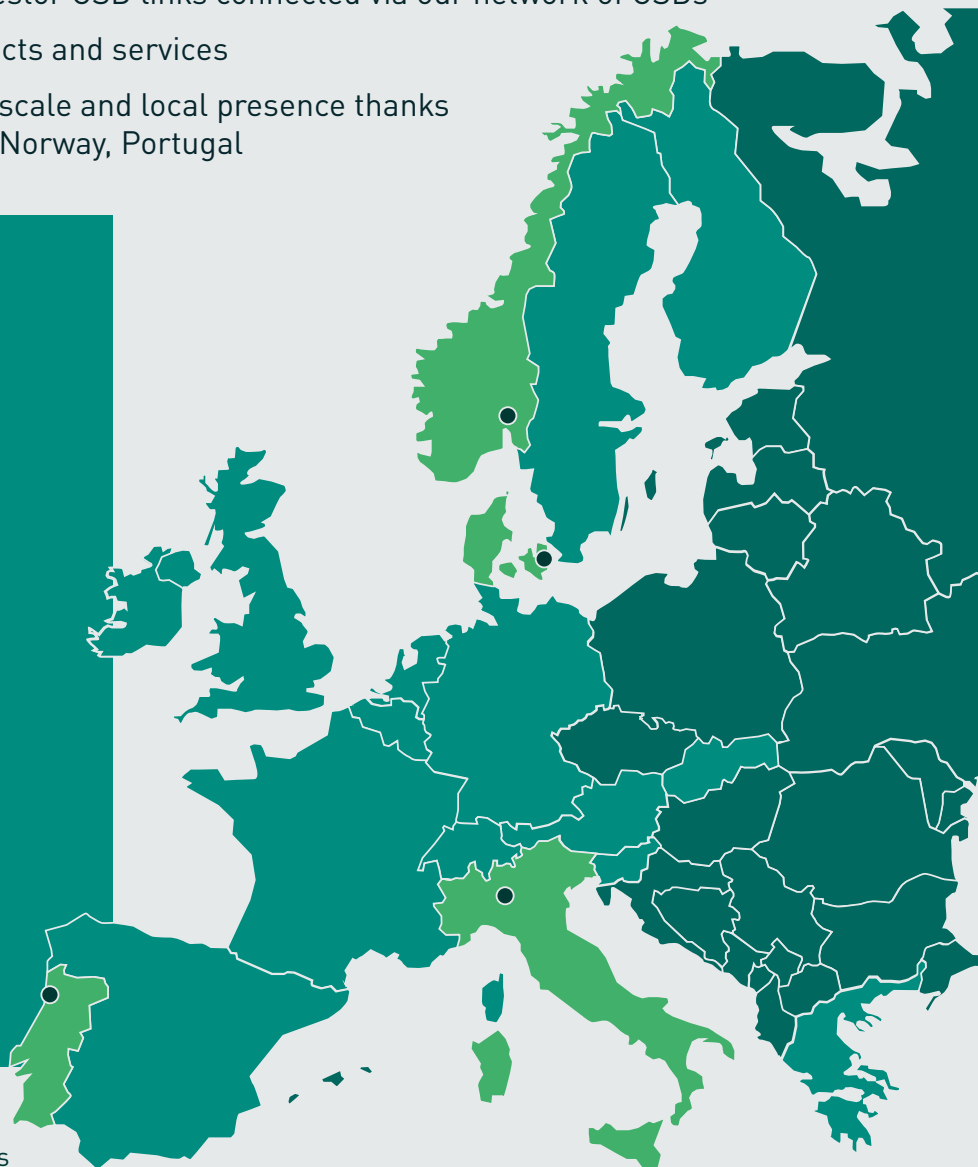
>6,600

Issuers

>120 million

Settlement instructions in 2020

- Countries with the four Euronext CSDs
- Countries connected via investor CSD links



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ESG Investing: It's all about the data

The world of ESG investing has undergone a sea change. Once seen by some as a niche strategy, philanthropic experiment or even a clever marketing tool, it has since seen a raft of scientific and geo-political developments, which have shifted opinion on both the magnitude of saving our planet and the role we all play. This has impacted the way industries operate today, including the financial markets, with the introduction of the triple bottom line – people, planet, and profit.



Contributed by
Sim Corp

Read the article to learn about:

- The geo-political momentum driving greater demand for ESG data
- Why non-standardized ESG data has a detrimental impact to ESG investing
- The critical need for investment managers to retain control of proprietary insights
- How Data as a Service can drive successful ESG data management

Why safeguarding the secret sauce is critical to ESG investment success

More than ever before, many investment managers are looking to ESG to meet their clients' needs on several levels: from delivering risk-adjusted financial performance, to creating an impactful platform, where they can take positive action. This renewed sense of corporate citizenship, where asset managers and asset owners are reflecting moral values within their investments, has led to a surge in inflows. According to Morningstar¹, money invested in ESG funds grew 10x between 2018-2019 and has more than doubled from 2019 to 2020, despite the pandemic.

This unprecedented investment momentum has not only driven greater demand for ESG data, supplied by both traditional players and newer, niche ESG data vendors, but has also firmly placed ESG data among the more traditional financial data, used for measuring systemic risk and predicting financial performance.

But while demand and desire are escalating, the capacity of investment managers to process multiple, non-standardized data sets and make coherent sense of it all, is fast becoming unsustainable. Asset management is now facing a classical data management challenge. To understand how this could stall sustainable finance progress, and why safeguarding custom insights and scores (the asset manager's value add - their secret sauce), is critical to ESG investment success, we first need to look at the nature of available ESG data in the market.

Why standards matter

Today, most firms are getting data from multiple providers, such as data vendors, ratings agencies and analytics and research providers, which has created the unfortunate issue of fragmentation in the ESG data management process. Add to this, the differing formats, standards and methodologies and you begin to get a glimpse of the ESG data puzzle.

In short, investment managers have a significant task in standardizing all different categorizations of data points.

In reality, many are turning to manual processes when it comes to typical ESG



Paul Ravenscroft,

In short, ESG is no longer just an investment strategy, it has now gone mainstream and is fast becoming a de facto component in fundamental research.

Paul Ravenscroft, Offer Manager, Data Management, SimCorp



data management exercises. From data acquisition, to normalization, cleansing and publishing, investment managers are arduously piecing together data to create the big picture, from which they can base their investment decisions. But if anything, this combination of non-standardized data and the manual and error-prone workflows that create that picture and the insights gained from it, are becoming questionable.

Adding the SFDR into the mix

While industry associations and regulators play a pivotal role in driving standardization, there is nothing to suggest any immediate change in the near-term horizon. What is coming however, is the introduction of the Sustainable Finance Disclosure Regulation (SFDR). Perhaps the most comprehensive and ambitious initiative from the European Commission's 2018 action plan, for financing sustainable growth. The evolving nature of the regulation and the more recently speculated delay from the European Commission, make the SFDR a considerable force to reckon with. If anything, the impending delay now aligns the deadlines for both the regulation and EU taxonomy more closely. This means the SFDR reporting obligations will be even more ambitious from the off.

SFDR will by no means be the end of ESG regulation, nor will it be confined to the EU. It is expected to have global impact, not only because global investment managers offering ESG funds in the EU will have to adhere to it, but also because companies outside the EU, which have been invested in by those EU funds, will now be asked to provide ESG information. It will also spur further legislative efforts from regulators in the UK, US, and in Asia, so that the data management

problem outlined will only be compounded by a future filled with a multitude of data mapping and regulatory reporting requirements. And while this may deter some firms from offering ESG investment products altogether, it will raise the bar significantly for what does constitute an ESG product. That transparency is both vital for investors and for the planet.

Changing the game in ESG data management

The present reality tells us that there is a very real need for safeguarding the value-adding capability for Asset Managers to derive their own scores, while removing the arduous workarounds that form ESG data management today. Investment managers can no longer continue to spare their resources struggling away with deeply manual processes like cleansing and reconciliation, and that too at a scale that will only increase with time.

Firms have a clear need to retain governance and control of proprietary insights, while being able to outsource the operational burden. Even if we reach an eventuality where there are only a handful of converging data vendors to manage, we believe service providers can play a significant role in taking on the operational responsibility, with enhanced services that will drive successful ESG data management. Given the current options, there is certainly a need for this, and already a number of software providers, including SimCorp, are universally turning to a service-delivery approach to offer more value.

ESG is a classic use case for Data as a Service which flexibly delivers both a service and an interactive solution. At its core, the managed service needs to en-

able investment managers to keep 100% control of their data, while taking the pain and risk out of the process. It does this by fully automating the in-bound ESG data a firm receives, while ensuring its validity to create an accurate and ready to use single source of truth for the entire organization.

This game-changing service not only adds transparency, but also offers advisory through industry experts that can help investment managers navigate and implement the run of future regulations, including the SFDR. By leveraging a data-driven approach to ESG investing, where one source of reliable and accurate truth acts as a solid foundation for the whole organization, firms can spend more time creating proprietary insights from ESG data, and reliably act on them to enhance their ESG investment decisions.

If we consider EDM as the beginning, then Data as a Service is most definitely a valuable, future-proof solution, reinforcing firms with the agility needed to respond to markets, as they evolve. Furthermore, by digitalizing demanding processes, it also opens the doors to the adoption of innovation that can optimize and scale operations in the future.

Ultimately, with ESG becoming mainstream, the ability to scale and drive business critical outcomes is now essential. Central to this is addressing the status quo of inefficient ESG data management, to protect and augment the secret sauce that will successfully drive the future of sustainable finance. Especially so, with standardization still a way off and pressure mounting from regulations like the incoming SFDR. With Data as a Service available to address this conundrum and deliver the means to ESG investment success, the question investment managers must ask is: *What harm are we doing to the firm's success, as well as to people and the planet, by not taking action now?*

Source: SimCorp Journal. For more information on Data as a Service, including an interview with Zurich Insurance Group please [click here](#) or contact [Paul Ravenscroft](#), Offer Manager, Data Management, SimCorp

¹ *A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights, Morningstar (January 2021)*

CSDR – fail to prepare and prepare to pay



**By Heiko Stuber,
Senior Product
Manager at SIX**

"The clock is ticking" – an infamous catchphrase now synonymous with seemingly every Brexit update from EU chief negotiator Michel Barnier. As applicable as this line is to every twist and turn of this political psychodrama, the countdown to October 31st is by no means the only deadline front of mind for European financial institutions right now.

Devised at an EU level, the Central Securities Depositories Regulation (CSDR) will force European CSDs to take measures to prevent settlement fails. These include penalty schemes, as well as forced buy-in and sell-out procedures which require trading parties to deliver either cash or financial instruments in the event of non-delivery. This can be used to avoid the potential liquidity risks that can occur due to failed settlement instructions.

CSDs will apply financial fines for failing to complete transactions on the Intended Settlement Date. The rule, enforced on 14 September 2020, means that there will now be a legal obligation for one side of the trade to pay a hefty fine. There are multiple facets to this most complex of rules. But two of most immediate concerns include the reporting and calculation of cash penalties, and the settlement of transfer orders on behalf of clients on a bank's own account, rather than through a CSD. The latter, referred to as internalised settlement reporting, is of particular concern to custodian banks right now.

Not just a price tag

The main challenge is that custodians are struggling to access the granularity of information needed to assess the financial

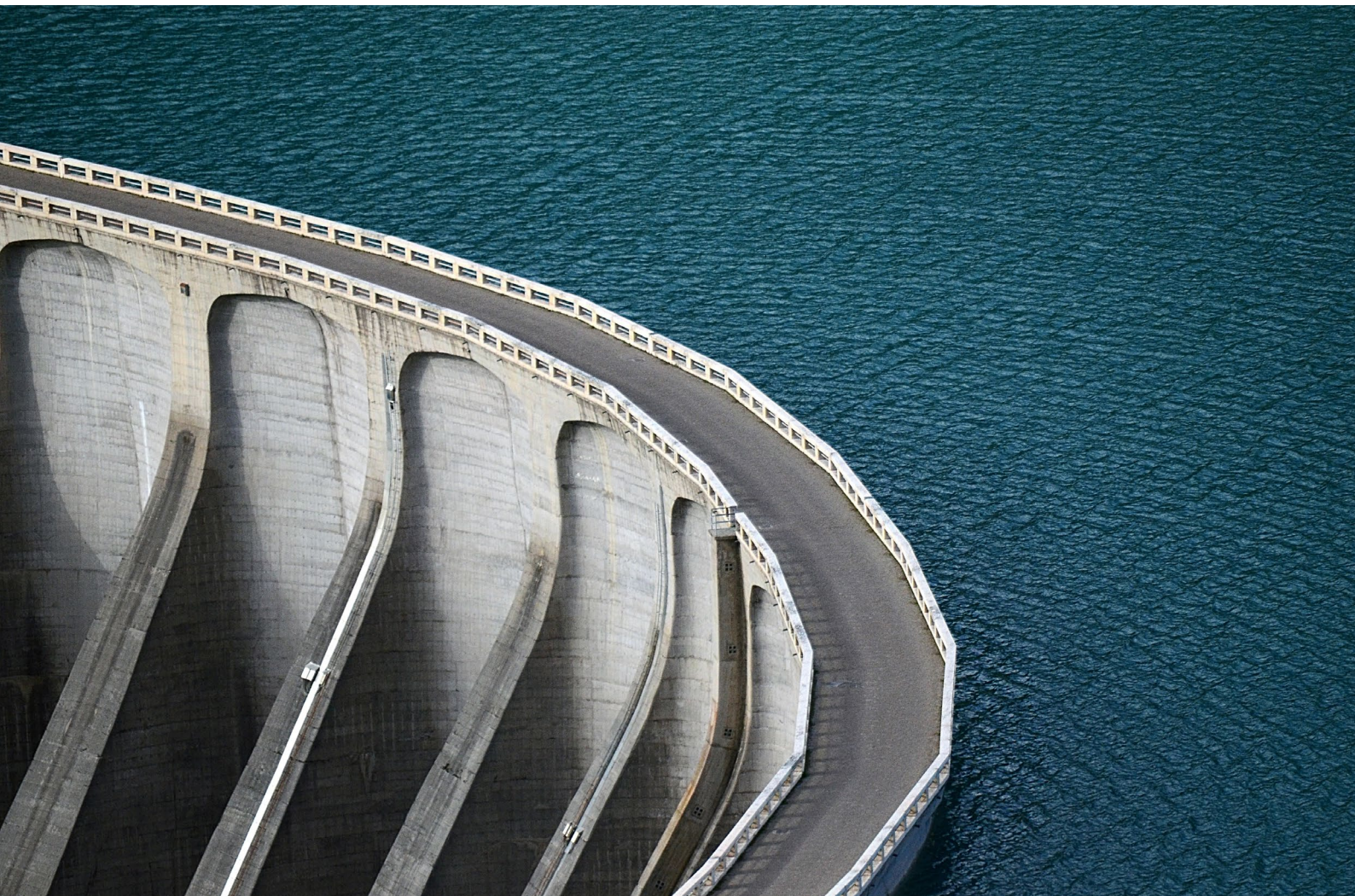
instruments that could fail to settle under CSDR. While they may be able to get cash amounts from CSDs, a custodian can't easily get hold of the reference and price data being used to work out exactly how the penalties were calculated. This includes really important insights such as how to determine the market valuation of any given instrument, not to mention the closing price of the Most Relevant Market within the EU.

An issue is that not all trading venues provide closing prices. So, what does a custodian do for price information? Normally the price information would be based on final trade of the day. However, some trading venues do not even provide this information. If this wasn't enough, how does a firm arrive at an accurate turnover figure? As such, in order to be compliant, there needs to be a way to get all of the trade information summing up the volume and multiplying by the price in order to get the turnover figure. All this before then needing to compare the turnover figure with another venue where the same instrument is also listed or traded.

With no trade, can there be a price?

And here lies the Pandora's box of problems that could open up not just for custodians, but also for anyone involved in a trade chain for a CSDR instrument. Trade fails and resulting penalties are, of course, less likely for say liquid equities or equity style instruments like ETFs or warrants. But for the more illiquid instruments, it is a different story.

Take trying to identify the market value on the closing price of a credit bond as a prime case in point. It could be weeks,



or even months, before the bond is even traded. The trouble is, with no accurate liquidity level for the instrument because it trades so infrequently, it becomes almost impossible to assign the correct penalty rate.

A race to get the data right

So, what can the financial sector as a whole do to ensure they do not fall foul of CSDR when it comes into full effect in September next year? Twelve months will go by in a flash – which means the industry really needs to be gathering the information needed to test of the impact of trading in a “CSDR-like” regulatory environment. For CSDs, they will need the most up to date reference and pricing data in order calculate extra compensations or cash

penalties. As for custodians and any other market participants potentially involved in a CSDR sensitive trade, the focus has to be asking CSDs for detailed analysis about

The trouble is, with no accurate liquidity level for the instrument because it trades so infrequently, it becomes almost impossible to assign the correct penalty rate.

the likely instruments “in-scope” under CSDR.

So much work to do and so little time – perhaps this should be ESMA’s Barnier-style catchphrase for CSDR. It may just force the industry to accelerate its perpetrations. After all, no EU financial institution wants to face the inevitable consequences from a lack of preparation.■

As Senior Product Manager for Reference Data at SIX, Business Unit Financial Information, Heiko Stuber is responsible for identifying market trends and customer requirements in the regulation area, and to define solutions that mitigate clients’ risks – such as for CSDR, MiFID II, SFTR and AIFMD.

Risk management is **crucial** as more instruments flood into CCPs



Contributed by
Brendon Bambury

Appetite for centralised clearing is on the ascendency, fuelled by the emergence of new, exciting products together with the imposition of the final two phases of EMIR's (European Market Infrastructure Regulation) tough initial margining requirements for bilaterally traded OTC (over-the-counter) derivatives. With more exotic and arguably dicier financial instruments being centrally cleared, central counterparty clearing houses (CCPs) must demonstrate that they have robust risk controls in place.

New instruments enter the market

With investors looking to diversify beyond fixed income and equities, many are building up their allocations to digital assets – including through crypto-currency exchange traded products (ETPs). Data from TrackInsight found that crypto-currency ETPs' market capitalisation increased four-fold in 2020 to reach \$3.1 billion, before surging to a record \$4.4 billion in early 2021¹. This growth shows no sign of losing momentum with 53% of European institutional investors telling ETC Group – a provider of digital asset-backed securities – that they would prefer to trade Bitcoin through an ETP wrapper.² If the crypto-currency ETP market is to continue expanding, then the infrastructure support-



ing its trading needs to be of institutional quality. In response, a growing number of CCPs are increasingly clearing crypto-currency ETPs. For instance, SIX x-clear is now providing clearing services to the ETC Group Physical Bitcoin, a recently launched crypto-currency ETP.

Demand for CCPs will also be driven by EMIR, which should be fully implemented by September 2022. Under phase 5 of EMIR, financial institutions with an AANA (Aggregate average notional amount) of non-centrally cleared OTCs totalling more than €50 billion will be subject to stricter margining obligations from September 2021. With the introduction of Phase 6 of EMIR from September 2022, the AANA threshold will reduce to €8 billion capturing around 1000+ entities from across the buy-side and sell-side. This is likely to result in a number of non-standardised, bilaterally traded OTCs being pushed into centralised clearing.

A strong risk model is non-negotiable

With a wider range of financial instruments being centrally cleared, CCPs need to ensure their risk models are watertight. Although CCPs have long demanded

members post initial and variation margin on their trades, instruments such as crypto-currency ETPs will be subject to tougher collateral requirements. In addition to their own risk waterfall mechanisms, EU regulators have instructed CCPs put greater skin in the game [i.e. their proprietary balance sheet capital] to mitigate the risk of member defaults. Complementing EMIR is the EU's recovery and resolution requirements, which stipulate that CCPs should have measures in place to facilitate an orderly wind-down should it fail. Again, these regulatory obligations – along with CCPs' stringent internal risk management practices – will be integral in safeguarding the market's integrity and security as more instruments are centrally cleared. ■

Brendon Bambury is Head International Client Relations & Sales, SIX Securities Services.

¹ ETP Stream [February 16, 2021] Are ETPs the perfect vehicle to gain exposure to the crypto market?

² Aquis [June 1, 2021] ETC Group launches first Bitcoin ETP in UK on Aquis Exchange.

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