



ISITC
EUROPE CIC

POST TRADE FORUM

Discussion Outcome June 2021



Introduction

The inaugural meeting of the ISITC Europe post trade forum (PTF) was held on the 16th of June 2021, with the newly appointed co-chairs initiating a discussion with members/representatives of the advisory board and invited guest attendees. This represented a good cross-section of the capital markets industry, with attendees from wealth managers, custodians, investment banks and financial market infrastructure (FMI) providers contributing to the discussion around the future of post trade.

The objective for the forum – to provide a dedicated platform for post trade leaders from across the industry to share best practice and drive operational efficiency – was re-emphasised at the outset to provide a scene-set for the discussion and to set the tone for the conversation.

Discussion

Members initially discussed some of the historical direction for post trade transformation, commenting on the role of the larger industry trade associations in driving industry best practice. These had been largely effective at influencing bigger-ticket items – such as regulatory reform – but had been too high level in their approach to be impactful around some of the lower-level challenges that the industry faced. Similarly, the post trade task force initiated by the Bank of England last year had been positive in raising the profile of the challenges that the industry faced but had yet to create momentum across the post trade community around driving change forward.

The debate then moved onto some of the specific challenges that the participants felt that the industry should be addressing, which could be impactful around solving some of the complexity that persists within post trade. Standardised or homogeneous processing has long been discussed as a way to bring market participants together on shared, mutualised platforms but these constructs had failed historically as they failed to take into consideration the unique system and business complexity that exists within different organisations.

Process standardisation between market participants clearly had a role to play in the post trade model of the future but past experience from the panel must be learned from if the benefits were to be realised.

'I don't think utility-type constructs are the answer. There is an inherent assumption that everyone is the same and that they have the same issues, which I don't think is quite the case.'

'You can have as many industry standards as you like, but if each organisation is having to deconstruct these standards to drive their own inbound internal processing and then reconstruct them on the way back out then clearly that is going to be a problem.'

'We have got bits of standards everywhere – FIX being used by the front office, SWIFT perhaps for the back office, LEI's and UTI's being used for regulatory reporting – but a real lack of commonality in how they are used. There are clients with different capabilities and abilities – some of whom still use faxes – and others who want to use a Fintech - which we then have to integrate with. But there is a real inconsistency around how these are deployed'.

This need for market standardisation is clearly going to be critical as the industry moves towards compressing market deadlines and the increasing need for real time data. This theme started to emerge in response to the IOSCO rules around uncleared margin back in 2016– with mandatory exchange on T+1 of collateral – and will continue as the industry focusses on shortening of settlement cycles. As a result, the pressure for real time data to drive this shift will only increase, with the role of technology becoming critical overtime to enable this change.

'Everything is moving towards real time, from inventory management through to settlement as the industry starts to look at T+1 and even T+0. Technology should be the enabler of this shift towards more real time processing, providing the solutions that can support this.'

Integration of new technology is itself an ongoing theme for all industry participants, where often the in-house legacy systems and processes are unable to interface into newer, more modern solutions. This creates a blocker to change, as the cost and risk associated with implementation can stymie innovation efforts.

'The practicalities around how you implement new Fintech toolsets are not really taken into consideration.'

'There are a lot of vested interests and legacy technology, which makes moving the industry forward very difficult.'

Finally, the discussion focussed around the emergence of new assets and the criticality of being able to deploy them in a scalable and efficient manner. Much of the challenges of the post trade environment of today had been created by the rapid development of new products that forced manual processes to be adopted to support them. As the industry explores deployment of digital assets and growth of non-standard products continues, automation of settlement and custody processes will become critical.

'5% of revenue taking 20% of the time, be it digital assets or new things clients want to trade. There is a lot of value in driving standardisation upfront, to make sure that 'edge' assets can fall into a straight through process'.

'Within the UK, the old and antiquated processes that still sit within post trade need to be addressed. Paper cheques for dividends and paper shares create significant processing costs for the industry. And as the UK moves outside of the remit of CSDR, the drive for de-materialisation of assets will need to come from elsewhere'.



'There is definitely going to be an uncomfortable period when some of that technology starts to be used, while the majority of processing remains on the legacy platforms that we have today.'

Conclusion

Action Areas for The PTF Moving Forward

In keeping with the objectives of the forum, the group proposed a focussed set of initiatives to create a platform for driving forward practical change across the post trade landscape. These were:



Enabling Standardisation

How can post trade systems and processes adopt standardisation more seamlessly, to maximise the value that these standards can provide in terms of adoption of innovation (either through FMI's or FinTech's)?



Journey To Real-Time Processing

As the industry demands faster and more accurate data to enable the move to T+1 and potentially T+0 processing, what is the blueprint that post trade leaders should be pursuing? How can they leverage automation to support this?



'Digital-ising' Assets.

What does the UK need to do to tidy up its own back yard, in terms of eliminating high touch, manual processes for physical assets? How do custodians and FMI's avoid fragmented processes as new, digital assets come on line?

The forum will reconvene to review the next steps around how to take these initiatives forward.



ISITC
EUROPE CIC

**ISITC Europe would like to thank the authors of this paper . Post Trade
Forum Co-chairs - Alastair Rutherford and James Maxfield from
Ascendant Strategy**

For information on how to join the post trade forum please email:

admin@isitc-europe.com

