Message from Vienna

After a thoroughly successful Africa Meeting in vibrant Cape Town, The Network Forum's (TNF) flagship Annual Meeting event swapped Warsaw for Vienna in 2018 and was attended by over 450 delegates from across the entire post-trade industry. During the course of the dynamic two-day conference, industry experts provided their insights into some of the major changes and challenges that are currently impacting the securities services' landscape.

Technology: Innovation with a hint of doubt

While previous TNFs have extolled the benefits of Blockchain, robotic process automation (RPA) and artificial intelligence (AI) were far more prominent in this year's line-up. The benefits of robotics are well documented (i.e. the speed and accuracy of its processing of repeat or regularised operational activities), but banks and infrastructures are starting to ask more pointed questions about the technology's actual applicability and usability.

The industry has spent years automating inefficient processes and experts are beginning to have doubts about integrating RPA into operational procedures, which have already achieved STP. AI brings its own advantages nonetheless (i.e. chatbots, identifying risks or behavioural irregularities), but many in the custody industry believe its real value is in data analytics, namely the aggregation and dissemination of market information to clients.

One buy-side firm said that in a world where custodians are racing to the bottom on fees, he would willingly pay for good quality market data, something which would help the industry as it grapples with a decade of sustained poor growth. However, monetising data is not without its challenges as many firms are beginning to discover.

Historically, custodians said the biggest impediment to the successful delivery of big data analytics to clients was the accuracy of the information being fed into AI machines. That concern still holds true, but some organisations are beginning to question whether the information they have is actually of any value to clients given the commoditised nature of the securities industry. If this turns out to be the case, then clients will not pay for data.

Custodians go crypto

An industry veteran once commented that when the local barber starts dolling out stock buy recommendations, it is probably wise to unwind your holdings. Crypto-assets (which includes crypto-currencies such as Bitcoin, ICOs, and securities issued via Blockchains) are virgin territory for many investors, but in a world of depressed interest rates, they are proving to be appetising for people looking to make quick, fast returns.

Crypto-assets are not short of critics who argue they are unregulated and susceptible to fraud and money laundering risk (as is the case with ICOs); volatile (Bitcoin was priced at $19k in December 2017 but is now trading at below $6k); vulnerable to hacks (too many to list here) or simply not understood (who honestly can eloquently explain the fundamentals behind some of these perverse valuations and price movements?).

For these reasons, custodians are in no rush to service crypto-assets. While a handful of institutions (mostly hedge funds and family offices) have invested in crypto-assets, most of the money flows from private individuals, meaning the risk-reward for custodians makes little sense, particularly given the liabilities they incur under AIFMD and UCITS V (in the very unlikely event a UCITS actually invests in crypto-assets).

But is this mindset short-termist? One expert pointed out the majority of mutual fund investors were aged 55, whereas most crypto-asset holders were under 30, adding that he expected the bulk of hedge funds and asset managers to be trading in crypto-assets in the next two years. If this happens, banks will probably start servicing crypto-assets, but for now the market is too small and too unknown for the business case to be entertained.

Harmonisation: Where are we at?

Regulation has been synonymous with post-trade over the last decade, but now is the time for reflection. Initiatives such as CSDR were praised at TNF for achieving industry-wide standardisation and for improving settlement discipline across markets. The same is true of EMIR, although some TNF participants said the regulatory focus needs to be more concentrated on preventing CCP failures in the first place and strengthening default waterfalls as opposed to the current emphasis on risk and resolution planning.

While not a regulation but rather an ECB sponsored initiative, Target2Securities (T2S) has been a prolific subject matter at conferences since the idea was first conceived in 2006. The final migration wave concluded in September 2017 as CSDs from Spain and the Baltics joined the platform. Despite the lofty ambitions of T2S, the results are proving to be sobering for the industry, having invested so much of their resources into the project.

While T2S' harmonisation successes – such as the use of ISO 20022 SWIFT standards, uniform treatment of collateral and execution of partial settlements, are welcome, cross-border transactional volumes have been subdued and below expectations, meaning some of the promised settlement cost benefits have yet to be realised. In fact, transaction costs are actually rising as T2S has said it plans to increase the 15c transaction charge to 19c, while it is also introducing an additional surcharge on top of that fee.

TNF: Where next?

TNF will cross the Atlantic to New York for its Americas Meeting on September 25, 2018, before heading off to Singapore for its Asia Meeting between November 12 and 13, 2018.
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