Message From Singapore

Coinciding with the Singapore Fin-Tech Festival and the ASEAN gathering of regional leaders, The Network Forum (TNF) Asia Meeting took place in a turbocharged atmosphere, which was arguably quite fitting for an industry going through so much change. Attended by more than 130 people drawn from banks and infrastructures across the world, TNF concluded 2018 on a high, following a series of successful conferences in Cape Town, Vienna and New York. TNF takes a look at some of the burning issues facing the securities markets in Asia.

Custody makes a digital play

In December 2017, the price of Bitcoin was trading at around $20,000, whereas today the cryptocurrency is valued at around $4,500. For most institutional investors and custodian providers, such levels of volatility make the asset class a somewhat toxic, unstable construct. Together with the anonymity of the transactions, most custodians would rather stay focused on servicing the more traditional financial instruments. Some audacious providers are, however, bucking this trend, and are attempting to monetise crypto-custody.

For digital assets to institutionalise, custodians need to have some sort of a role in the entire process. Few institutional investors in digital assets will even touch digital exchanges, a number of whom are unregulated, preferring instead to put their private keys into new crypto-custody solutions, a product which is offered by a few up and coming tech firms. While these crypto-custodians are more secure than digital exchanges and usually have fairly watertight insurance policies, they do not have the balance sheet of a large bank.

Blockchain keeps on rolling

Over the last few TNF Meetings, a number of industry experts have said their organisations are in the process of initiating Blockchain proofs of concept (POCs). TNF's timing was fortuitous, happening shortly after Hong Kong Exchange and Clearing (HKEX) said it was working on incorporating Blockchain in order to facilitate more seamless processing of northbound Stock Connect trades. Simultaneously, Australian Securities Exchange (ASX) is also on the cusp of re-engineering its post-trade equity platform with a solution offered by Digital Asset.

Very few people in the securities industry do not take Blockchain seriously. A poll at TNF found 22% of respondents believed DLT would be the norm for market users when interacting with their infrastructure providers moving forward whereas only 7% of people said not much will change. However, the securities industry's paranoia about indiscriminate disintermediation by start-ups – a common theme at previous TNF Meetings - has evaporated, as participants choose instead to work with fin-techs to create client-centric solutions.

Nobody's insulated from cyber

During the 2000s/early 2010s, cyber-incidents were usually seen as nothing more than an easily avoidable irritant caused by opening a corrupted attachment from a dubious source or clicking on a link to an untrustworthy or unsavoury website. Nowadays, cyber-security is a systemic risk which – if serious enough – could seriously disrupt or destroy the activities at market infrastructures and custodian providers. Experts only need to look at events in Bangladesh and Ecuador to see that such hacks are a lucrative revenue source for criminals.

According to experts at the TNF Asia Meeting, the problem with cyber is going to get worse before it gets better. A noxious mix of cyber-criminals becoming more astute, people sharing personal information online without restraint and organisations attempting to digitalise their businesses aggressively is arguably creating a recipe for disaster. While it is obviously a good thing that financial institutions are becoming more innovative, there are certainly concerns that banks are opening themselves up to new cyber-risks which they barely understand.

It is certainly an issue that is keeping network managers up at night. While network managers are highly proficient in understanding concepts like asset safety and account segregation, cyber-security is a topic which many find too academic. As a result, some network managers are delegating cyber-matters to colleagues who are better versed on the subject, while a handful have advised that questions covering cyber be expunged from the Association for Financial Markets in Europe's due diligence questionnaire (DDQ)

A quick update on Asian capital markets

Despite the complex geopolitics and unflinching US trade tariffs, APAC is holding up quite well. Stock Connect has extended beyond Hong Kong and Shanghai as a link between the UK and China – once described as being operationally impractical – and is edging closer to launch. MSCI's inclusion of A Shares was in part a recognition of China's reform drive. Tweaks to Bond Connect have also been given the seal of approval by index providers, in what could lead to greater active and passive flows bringing increased liquidity to China.

In terms of regional-wide developments, T+2 is increasingly becoming the normal settlement model with Thailand and Japan the latest markets to accept the international standard. Outside of Stock Connect, trading links are also being discussed between Malaysia and Singapore although very few experts at the TNF Asia Meeting predict it will succeed, as a previous, similarly well-meaning initiative designed to boost stock exchange connectivity did not materialise. Even so, these efforts are welcome and will help boost investment in the region.

Farewell 2018, hello 2019

After a barnstorming 2018, which took the TNF family to Vienna, Cape Town and New York, TNF will be venturing to Cape Town once again in March, before jetting off to Athens in June for the Annual Meeting. We look forward to seeing you all there.