POSTTRADE 360°

STOCKHOLM 2021

Includes agenda for 25–26 March 6

Didn't you say it's this way?

Service fragmentation and cloud connectivity give you great opportunities to get lost.

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Inhouse edge

Helena Hillström, CEO of 60-billion SEK fund house Didner & Gerge, knows the value of her admin. She was its employee number one.

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Let’s do it properly

Last year’s PostTrade 360° Stockholm was our latest physical conference. We were 300 people in the room and doesn’t it feel like it must have happened on a different planet? Now, at the time of writing in March 2021, vaccine distribution is rapid, and who knows … is this year’s PostTrade 360° Stockholm our last purely digital event? Early to say.

The strong forces shaping the post-trade landscape are almost too many to list, and under this year’s veil of covid-19 urgency they have kept moving.

Post-Lehman regulation efforts will continue, but could it be that they are slowly sinking away – so that stakeholders can now focus increasingly on their voluntary efforts to develop their product portfolios and boost their efficiency? The ready availability of new interlinkable services “in the cloud” is giving us unprecedented room for process innovation. Blockchain technology is making its mark both as a capability (leading United States CSD DTCC to propose a T+1 cycle as standard for equities settlement by 2023, just as one example), and as carrier of the new trillion-dollar cryptocurrency asset class.

We could go on.

A keynote speaker at an earlier PostTrade 360° Stockholm (indeed Alan Cameron of BNP Paribas, quoting Donald Rumsfeld) pointed out the distinction between different forms of “unknowns”. This year’s conference may or may not predict the next big “unknown unknown” (as different from “known unknowns” such as the stock market).

But the point here is that we are not here to bet on the weather. We are here to discuss the principles of robust building that will withstand any. Evaluations of 2020 indicate that infrastructures and market participants stood up well against the challenges, so it seems we have done a good job lately. Now let’s lay the foundation for the coming decades and centuries. Discussions at PostTrade 360° Stockholm should offer a good starting point.

Find the 25–26 March agenda on pages 6–9 ▶

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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 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 QR code leads to **our LinkedIn flow**. Please click Follow – then 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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A slalom world cup winner breaks his back and gets numb from his waist down. Thomas Fogdö decided to face it as a next-level battle. Meet him in PostTrade 360° Stockholm.

Many talk of overcoming challenges. **Thomas did it**

PostTrade 360° Stockholm
Thu 25 March, 16:15 CET

Meet your difficulties and you will grow. This is one of the main themes throughout the productive work of Thomas Fogdö – a much-appreciated speaker and mental-training expert, and co-author of two books.

A slalom world cup winner breaks his back and gets permanently numb from his waist down. Thomas Fogdö decided to face it as a next-level battle – forcing him to deepen his ability to focus on the small steps of progress that eventually sum up to victory. After a challenging year for the world and the industry – let him inspire us at PostTrade 360° Stockholm on 25–26 March.

Life before and after his trauma in 1995 seem different indeed. Even so, it is the similarities that are in Thomas Fogdö's focus. Your circumstances will differ, but you can train your ability to take on challenges with a constructive attitude. ■

Custodians grow their offers

Do you know what you seek?

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

PostTrade 360° Stockholm on 25–26 March will see Vinod Jain, consultant with Aite Group, line out how custodians as well as their clients are forced to ask themselves new questions.

By Alexander Kristofersson, PostTrade 360°

PostTrade 360° Stockholm
Thu 25 March, 13:00 CET, track B

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

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

What is your opportunity?

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

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

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

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

Enjoy consciously

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

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connect modules of software service across the internet, a new world of operational opportunity has opened up. But how do you choose?

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

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

Climbing up the value chain

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

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

AITE

"On the custody bank side, you see the upward chain of integrations. I think the rise of BlackRock and its investment into Aladdin as the platform for its funds processing, and State Street's acquisition of Charles River, are the game changers because – in terms of having an ability to execute, process and service the trade – that gave unique combined offerings," says Vinod Jain.

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

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


AXEL ANTAS-BERGKVIST / UNSPLASH

Nope, no physical attendance this year – but hopefully next.

Two days of post trade – Swedish and global

THURSDAY 25 MARCH

08:25 CHAIRMAN OPENING REMARKS
Göran Fors, Deputy Head of Investor Services, SEB

08:30 MARKET OPENING KEYNOTE: Current structures and trends in the Nordic trading landscape
Bjørn Sibbern, President, European Markets, Nasdaq

09:00 PANEL DEBATE: Future Post Trade in the Nordics – structure, T2S, harmonization
Moderator: ***Göran Fors***, Deputy Head of Investor Services, SEB
Panelists;
Niels Hjort Rotendahl, Interim CEO, VP Securities, a Euronext Company
Hanna Vainio, CEO, Euroclear Finland
Roger Storm, CEO, Euroclear Sweden
Audun Bø, CEO, Euronext VPS

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

09:30 CASE STUDY: A successful strategic partnership – Part 2 : Monitor and govern
Successful strategic partnerships requires a well-structured monitoring. How is SEB preforming 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 ›

There are so many ways you can network in the breaks

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

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

10:00 Break – Let's network!

Hang out in the Kitchen, take our PostTrade Chat Roulette – or just have a chat with a delegate or expo exhibitor. For detailed advice, read the fact box above.

10:30 PARALLEL SESSIONS

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

A: PANEL DEBATE - The Nordic OTC Clearing landscape

Moderator: ***Gabriel Vimberg***, Head of Derivatives Clearing, SEB
Panellists:
Julia Haglind, CEO, Nasdaq Clearing
Philip Whitehurst, Head of Service Development, Rates, LCH
Brendon Bambury, Head International Client Relations & Sales, SIX

B: CASE STUDY FIRESIDE CHAT- The use of blockchain for moving billions in repo market trades

Scott Lucas, Head of Markets DLT, J.P Morgan

11:00 PARALLEL SESSIONS

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

A: PANEL DEBATE - Innovation in Collateral Management

Moderator: ***Craig Pearson***, Director, Margin Tonic
Panellists:
Marco Knaap, Strategic Partnerships, Cassini Systems
David White, CCO, CloudMargin
Maurice Leo, Director, Agency Securities Lending, Deutsche Bank

B: TECHNOLOGY KEYNOTE - Cloud, APIs and Low-code; A marriage made in heaven?

Amrik Thethi, Chief Technology Officer, Torstone Technology

11:30 PARALLEL SESSIONS

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

A: FIRESIDE CHAT - New Dynamics for Oslo Derivatives Markets

Delphine Feyrit, Head of Listed Derivatives, LCH SA
Anders Holen, Head of Derivatives, Oslo Børs

B: KEYNOTE - Supporting Issuance in the Nordic capital market

Post-covid 19 there is a huge funding need, for companies, states and supranational issuers. Where will that capital be raised? And how can we make sure that the Nordic capital markets get their fair share?
Bjørn Stendorph Crepaz, Head of Issuance Products & Data Analytics, VP Securities, a Euronext Company

12:00 Lunch Break – Let's network!

Hang out in the Kitchen, take our PostTrade Chat Roulette – or just have a chat with a delegate or expo exhibitor. For detailed advice, read the fact box above.

13:00 PARALLEL SESSIONS

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

A: KEYNOTE - Harmonisation towards Europe -Euroclear Sweden´s new normal

Ann-Kristin Fessé, Head of Commercial, Euroclear Sweden

B: MARKET REPORT - Front-to-Back-Office Systems and Custody Partnerships: Who Benefits?

This report highlights the various models available for outsourcing and compares the current and future state for these models, including how technology providers and asset servicers are making their integrations, which operating models are most viable for the buy-side, and what asset managers' operating models could look like in 10 years. Aite Group has identified two approaches to front-office systems: the data exchange approach and the full-service model.
Vinod Jain, Senior Analyst, Institutional Securities & Investments, Aite Group

Continues ›

13:20 PARALLEL SESSIONS

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

A: KEYNOTE - Euroclear Sweden´s take aways from the annual general meeting season 2020 and predictions for 2021

Torkel Edström, Head of General Meeting services, Euroclear Sweden

B: KEYNOTE - A bird's-eye view on Decentralised Finance

Johann Palychata, Head of Partnerships & New Platforms, BNP Paribas Securities Services

13:40 PARALLEL SESSIONS

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

A: KEYNOTE - DORA and the challenges of resilient innovation

Leen Vermeersch, Public Policy Officer, Euroclear

B: FIRESIDE CHAT with Cécile Nagel, CEO, EuroCCP

Cécile Nagel, CEO, EuroCCP
Roland Chai, Group Chief Risk Officer, Nasdaq

14:00 MACRO KEYNOTE: The view from here

Phil Mackintosh, Chief Economist, Nasdaq

14:30 Break – Let's network!

Hang out in the Kitchen, take our PostTrade Chat Roulette – or just have a chat with a delegate or expo exhibitor. For detailed advice, read the fact box on page 7.

15:00 FIRESIDE CHAT: The Future of Custody

How will digitalisation and innovation change the custody landscape in the coming years? Custodians must go beyond traditional service models to embrace the digital future and deliver near-real time, more transparent insights. In this session, BNY Mellon will share their vision on how these aspects will come together and pave the way for a more efficient future.

Continues ›

Caroline Butler, Global Head of Custody, Tax and Network Management, BNY Mellon
Rachel Turner, Global Head of Commercial Custody Product, BNY Mellon
Paula Avraamides, MD, Global Client Management, BNY Mellon

15:30 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: ***Tony Freeman***, Consultant
Panellists:
Richard Metcalfe, Head of Regulatory Affairs, World Federation of Exchanges
Oliver Sjølin, Chief Risk Manager, Nordea
Gert Ellerkmann, Global Risk Governance & Strategy Specialist, ABN AMRO Clearing
Rogier van Kempen, Executive Director, J.P. Morgan
Alex Krunic, Head of Equities, LCH

16:15 OUTSIDE THE BOX: Face your difficulties – and grow

A national-team alpine skier breaks his back and gets permanently numb from his waist down. Thomas Fogdö decided to face it as a next-level battle – forcing him to deepen his ability to focus on the small steps of progress that eventually sum up to victory. After a challenging year for the world and the industry – let Thomas inspire us.
Thomas Fogdö

16:55 CHAIRMAN CLOSING REMARKS & END OF DAY1

17:00 KITCHEN TIME

Grab a drink, switch on your camera and hang out with us. Click "Sessions", on the left in the conference platform, to find the kitchen.

FRIDAY 26 MARCH

09:00 CASE STUDY: How operational efficiencies and good use of technology can keep asset managers relevant in the modern world

Martha Fee, Chief Operating Officer, Northern Trust Asset Management

09:30 FIRESIDE CHATS with COOs: Target Operating Models

Moderator:
Bastiaan Aalders, CEO Dutch Office, Asset & Wealth Management Consulting, Alpha FMC
Ulrik Modigh, Chief Operating Officer, Nordea Asset Management

10:00 KEYNOTE: How and why to invest China: seize the opportunities

Christophe Beelaerts, APAC Senior Sales Specialist, BNP Paribas Securities Services

10:30 Break – Let's network!

Hang out in the Kitchen, take our PostTrade Chat Roulette – or just have a chat with a delegate or expo exhibitor. For detailed advice, read the fact box on page 7.

11:00 KEYNOTE: Regulatory ESG Data

Janine Hofer- Wittwer, CFA, Senior Product Manager Sustainability, Financial Information, SIX

11:30 CASE STUDY: Integrating ESG factors in THE Öhman Group investment process and reporting

Fredric Nyström, Head of Responsible Investment, The Öhman Group

12:00 PANEL DEBATE: Bridging the gap between issuers & investors in ESG

Moderator: ***Tomas Thyblad***, Vice President , Head of ESG Solutions, European Markets, Nasdaq
Panellists:
Christopher Flensborg, Head of Climate & Sustainable Finance, SEB
Fredric Nyström, Head of Responsible Investment, The Öhman Group

12:30 Lunch Break – Let's network!

Hang out in the Kitchen, take our PostTrade Chat Roulette – or just have a chat with a delegate or expo exhibitor. For detailed advice, read the fact box on page 7.

14:00 DIGITAL ASSETS FIRESIDE CHAT - Digital assets managers on investing in digital assets & implications on operations

Moderator: ***Olivia Vinden***, Head of Fintech & Innovation, Asset & Wealth Management Consulting, Alpha FMC
Michael Sonnenshein, CEO, Grayscale Investments
Michael Moro, CEO, Genesis

14:30 KEYNOTE: The alternative assets environment and impact on operations

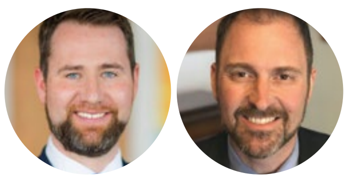
Brian McMahon, Global Head of Alternative Sales, Asset Servicing, BNY Mellon

14:55 CHAIRMAN CLOSING REMARKS & End of Conference

Real estate: Q4 confirmed a sharp sector divergence

The Covid-19 crisis has accelerated a number of existing trends in real estate, especially in retail, but uncertainty still overshadows much of the market.

BNY MELLON



Contributed by Dermot Finnegan and Neal Armstrong, BNY Mellon

The Covid-19 crisis continues to cause disruption in many countries, albeit with significant regional disparities. In Q3, many countries lifted lockdown measures allowing economic and social activity to resume, albeit at a 'new normal' level. To some extent, these developments fed through to sentiment in real estate. However, there were subsequent renewed Covid-19 outbreaks and lockdowns in many territories, with EMEA and the U.S. especially affected and Asia less so; a handful of countries started vaccinations at the end of the quarter.

The swift change in circumstances in Q3 and Q4 underscores that disruption is likely to continue for some time, with uncertainty remaining paramount for real estate throughout 2021. Nevertheless, the latter three-quarters of 2020 have revealed a number of clear trends that are likely to endure.

Most notably, much of the retail market has come under pressure from repeated lockdowns and the migration of activity from bricks-and-mortar stores towards online shopping. At the same time, industrial has been resilient given the increased need for logistics space (due to online shopping) and data center capacity (due to home working and schooling). Residential has been largely flat in many countries, with government support measures postponing the impact of slower economies on jobs and incomes. Meanwhile, there seems little prospect of recovery in hospitality and travel until vaccination programs have made greater headway, while uncertainty prevails in the office sector.

Low transaction volume hampers visibility

One prominent feature of the property market since Covid-19 began is low transaction volumes. During Q4, volumes recovered with 264 U.S. transactions reported by NCREIF members compared to a typical volume of between 100 and 200 sales of properties each quarter[1]. However, this recovery comes after just 50 sales in Q3 and 30 in Q2 of 2020. In other words, over the latter three quarters of 2020 combined, transaction volumes remain well below average. In Q4 2020, European investment volumes were €89.2 billion, down 27 percent on Q4 2019. CBRE expects that European commercial real estate investment volumes will end 2020 down 25 percent[2].

Transaction volumes have been low for a number of reasons. Firstly, during lockdowns, it is difficult to gain access to properties, which hinders due diligence and therefore makes it difficult for transactions to proceed; while virtual due diligence has been used in some instances, it is not a replacement for more traditional practices. Secondly, given the uncertain outlook for much of the real estate market, only those owners requiring liquidity or to exit an asset class are willing to sell. In this sense, low transaction volumes potentially become self-reinforcing. Nevertheless, the general improvement in sentiment and the speed of economic recovery in some markets in recent quarters have provided some reassurance that the impact to valuations for certain property types may ultimately be less than had been anticipated during the initial turmoil of February and March 2020.

One other emerging trend among investors – perhaps indicating a broader concern for more transparency and tailored risk profiles – is a growing interest in separately managed accounts as investors look for more control in a more turbulent market.

The cautious recovery continues

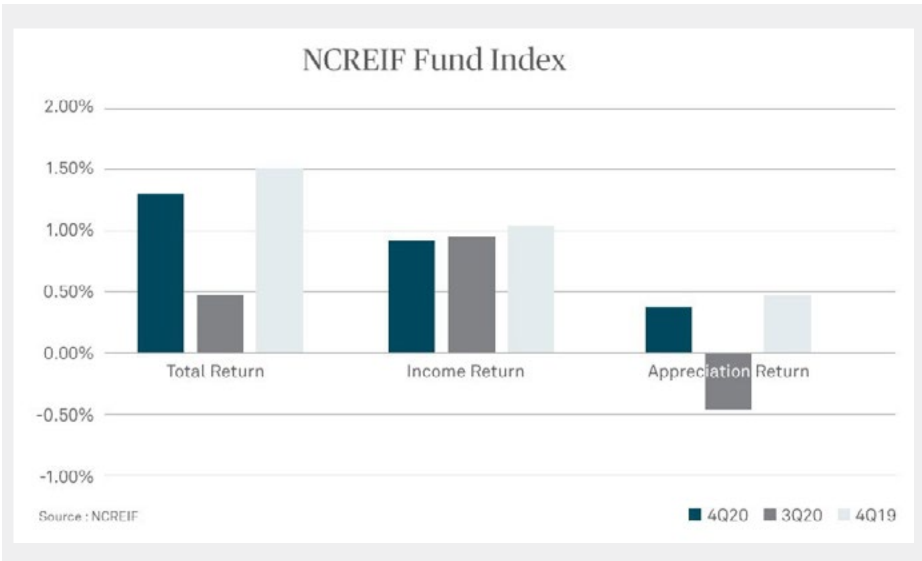
The NCREIF Property Index (NPI), which reflects investment performance for 9,289 U.S. commercial properties, totaling $700 billion of market value, delivered a total return of 1.15 percent in Q4, up from 0.74 percent in the prior quarter – the highest for any quarter of 2020, although lower than the highs of 2019[3]. Similar changes in value occurred in real estate funds. The NCREIF Fund Index of 26 funds, totaling $270.9 billion of gross real estate assets, generally showed stronger returns in Q4 than in Q3, but did not return to Q41 2019 levels.

Similar figures are not available in EMEA, although performance is likely to be broadly in line to the U.S. given the universal impact of Covid-19. However, there may be some national exceptions. German funds, for example, do not receive external appraisals and tend to follow a conservative, long-term approach; they are therefore likely to have suffered a more limited hit to valuations. Meanwhile, in the U.K. some open-ended real estate funds that were gated during the peak of the Covid-19 crisis have now allowed investor exits, although others are still preventing exits[4]. In the longer term, proposals by the U.K.'s Financial Conduct Authority for a notice period of up to 180 days for real estate funds to address liquidity concerns could well result in a shift toward REITs. Under the proposals, the consultation for which closed on November 3, investors' redemption requests would be processed at the end of a notice period, with the price received relating to the value of the investment at the first valuation point after the end of their notice period[5].

Retail sees mixed fortunes

Even where lockdown measures were eased during Q4, non-food retail – and in particular covered retail areas – in both the U.S. and EMEA have continued to be heavily impacted by the pandemic, due to:

- continued rise in online shopping;
- concerns about contracting Covid-19 in enclosed environments;



• social distancing requirements (the inconvenience of which has dissuaded some shoppers);

• the sharp rise in unemployment (which is reducing consumer discretionary spending);

• increased cleaning costs; and

• lower parking income.

Returns for U.S. retail fell by 1.24 percent in Q4 – the second largest fall by sector (after hotels with a 3.31 percent fall) – according to the NCREIF Property Index[6].

Covid-19 did not initiate this trend, however. The decline of malls has been underway for a number of years, as retail has gravitated toward e-commerce. The pandemic simply crystallized this change in terms of valuations. As the trend was already well underway, asset managers had begun to diversify away from non-food retail – although they believed the trend would play out over a decade rather than nine months. Consequently, this diversification softened the impact of Covid-19.

The acceleration of this trend does not mean that non-food retail is headed for extinction. As banks sell off retail real estate debt, a restructuring and repurposing of these assets will get underway, creating new opportunities for unique developments that can take advantage of opportunistic or value-add designated capital. New owners are likely to undertake brownfield conversions of malls into apartments or other viable mixed-use facilities. Value-add funds are already stepping into the market, as core real estate funds exit or sharply reduce their exposure.

It is important to note that not all retail has suffered. Grocery has performed strongly and grocery-anchored centers have suffered less than other retail.

Industrial is showing resilience

In contrast to retail (and especially hotels), U.S. industrial remained strong: returns for industrial properties were 4.68 percent in Q4 (over 17 percent annualized), as measured by the NCREIF Property Index[7]. There are a number of reasons for this outperformance.

First, while non-grocery retail has suffered during the pandemic, e-commerce growth has accelerated. Consequently, the need for warehousing, which was already growing, has increased dramatically. In the U.K., which has some of the world's highest levels of e-commerce activity, record quarters of logistics take-up in Q2 and Q3 were followed by a further strong quarter, which resulted in 10.4m sq ft of additional capacity, bringing the annual total to 43m sq ft – a new record[8]. Though U.K. supply is responding, there has been a significant decrease in availability, which fell 15 percent from Q3 to Q4.

Second, demand for data centers – including cloud capacity for companies facilitating remote working and capacity for home streaming, education and other consumer-focused services – has also increased. Just as in the retail sector, a digital transformation that many expected to gather pace over the coming decade was telescoped into nine months during the pandemic.

Given investor confidence in these fundamental shifts, no significant negative impact on pricing is anticipated and valuations of many warehouse and data center assets have received a boost.

The office sector is in a state of limbo

While there is now some clarity about the trajectory of non-grocery retail and industrial, the outlook for the office sector remains uncertain, as the return to work has been extremely slow. Many market participants appear to be adopting a wait-and-see approach, which is being reflected in performance. Prime central business district (CBD) office yields in the U.K. have experienced no change while those in Germany have only marginally compressed[9].

However, in the medium-term, some change seems inevitable. What form that change might take has evolved since the beginning of the pandemic. In the early stages of Covid-19, there was a widespread assumption that companies would need additional office capacity in order to facilitate social distancing. However, the success of remote working for many companies has challenged this assumption. Many high-profile technology companies, for instance, have indicated that employees will not have to return to the office in the foreseeable future – or even at all.

More recently, this trend has begun to spread to financial services. In November, Lloyds Banking Group

announced that it would redeploy 700 U.K. staff into full-time homeworking roles from 2021[10]. A CBI/PwC survey of U.K. financial services in October found that 74 percent of companies – particularly banks and insurance firms – are taking stock of their office requirements with a view to either using the space differently, or reducing it: nearly half of those surveyed said that more than 90 percent of their workers could do their job without being in the office[11].

At the same time, businesses are aware of the benefits of office working such as collaboration between co-workers, which can drive innovation. Companies may therefore ultimately seek to return employees to the office when it is deemed safe to do so. The most likely outcome is that employees will eventually return to offices but that many will work part of the week (possibly even a majority) from home; hot desking will therefore become the norm in offices, potentially implying lower demand for space in the future.

Another question as yet unresolved is where that office work will take place. Class A-type property – especially high-rise trophy offices – poses particular problems given the use of elevators and the need for employees to reach buildings via public transport. In contrast, smaller low-rise offices – perhaps located closer to employees' homes – could benefit from a change in working patterns. At the least, offices will need changes such as:

- Reconfiguration to eliminate the risk associated with open-plan spaces;
- Costly improvements in air quality and cleanliness; and
- Measures such as automated temperature checks or automated doors that can confirm if a mask is being worn.

"Class A-type property – especially high-rise trophy offices – poses particular problems given the use of elevators and the need for employees to reach buildings via public transport."

The outlook remains unclear for much of the market

Various Covid-19 support measures, such as the Paycheck Protection Program in the U.S. and the furlough scheme in the U.K., have been extended in recent months. At some point, probably as infections subside and vaccinations reach critical thresholds, these measures will be withdrawn. Any subsequent increase in unemployment could have repercussions for consumer and business spending, economic activity, residential rent collections and real estate valuations: the 0.99 percent return for apartments in the Q4 NPI – supported by both government stimulus measures and limited supply, as construction has slowed due to Covid-19 – may not be sustainable.

While the trends accelerated by the pandemic in the retail and industrial sectors are likely to endure – driving the continued recovery in transaction activity – there may yet be additional impacts in other real estate sectors. Certainly, the challenging economic outlook combined with limited business and tourism travel will hamper the recovery of the hotel sector. According to the Magid HTL Forecast Tracker, there will be a 29 percent decline in annual U.S. hotel occupancy in the 12 months to August 2021, resulting in a projected revenue loss for the industry of about $75 billion in room revenue alone[12]. There seems little prospect of a recovery in the hospitality and travel sector until late in 2021 or even until 2022, not least because many potential holidaymakers will remain cautious. Greater clarity may emerge in the second half of 2021 for the office sector once vulnerable groups have been vaccinated and large corporations begin to make decisions about the extent to which they will require employees to work in the office. ■

Dermot Finnegan *is Global Head of Private Markets Fund Administration.*
Neal Armstrong *is Head of U.S. Real Estate Services and a NCREIF Board Member.*

[1–12] Source links for all footnotes are available at the bottom of this web publication page: www.bnymellon.com/us/en/insights/all-insights/real-estate-q4-confirms-sharp-sector-divergence.html

Breaking new ground

From consolidation to new product launches, Nasdaq has most certainly kept busy in 2020 within the area of Post Trade. Arminta Saladziene, Head of Product Development Post Trade at Nasdaq, shares her insights from the year.

Nasdaq

Contributed by Nasdaq

2020 was a game-changing year in the CSD space for Nasdaq. Can you tell us more about it?
Last year we completed the last mile of a multi-year journey of merging, re-authorizing and re- platforming four national CSDs in the Baltics and Iceland into one European company – Nasdaq CSD SE. Back in 2017, we integrated the Baltic CSDs and were the first CSD in Europe to adopt the new standards under the CSD Regulation and acquire a renewed license to operate. In the middle of last year, we brought the Icelandic CSD under the Nasdaq CSD roof and migrated the local market on the shared CSD platform. This has been a unique cross-border transformation.

We are very proud of these accomplishments, especially since they were executed in a complete work-from-home environment not only for us, but also for our clients and vendors. They have been great partners in this journey and the feedback on what we have managed to accomplish together has been terrific.

How is Nasdaq CSD SE structured today?
Nasdaq CSD SE operates in four home markets – Iceland, Estonia, Latvia and Lithuania. We run a consolidated business model under one legal entity, under a fully harmonized governance structure and on a shared core CSD IT infrastructure. It is unique to run four markets by a single CSD, moreover whilst simultaneously catering both 1-tier and 2-tier account structures, and supporting T2S settlement in euro and local settlement in Icelandic krona. Nasdaq CSD SE's harmonized operational model allows us to work efficiently across borders, as well as share knowledge and experience. Centralized and effective operations are ensured by the Nasdaq Centre of Excellence based in Vilnius.

Nasdaq is on a mission to fuel client success. The infrastructure overhaul over the last five years puts Nasdaq CSD in prime position to deliver the best value to issuers, governments, and institutional and retail investors. It has made Nasdaq CSD SE more resilient, efficient and competitive, as well as provided our home markets access to next-gen post-trade services.

Do you have an example of the value that this unique merger and re-platforming has already brought to the local markets?
One example is that previously in Iceland, the CSD could only process a very limited range of corporate actions events and cash distribution was not done through the CSD. With Nasdaq CSD SE, we can handle all corporate actions in accordance with international standards and are able to offer both mandatory and voluntary events. The reaction from clients has been very positive. Icelandic issuers have expressed that the changes related to dividend payments and calculations through the CSD is a big improvement, since it relieves the issuer of the responsibility to calculate the dividend and conduct tax withholding.

Overall, we see Nasdaq CDS SE bringing great value to our local markets and foreign investors. To create traction for foreign investors, it is of utmost importance for smaller markets to establish as standardized practices as possible in accordance with industry standards. Implementation of settlement and central maintenance services in accordance with internationally recognized requirements, as well as ISO standards support and linkages to other CSDs, are essential. Nasdaq CDS SE promotes all these aspects to

Arminta Saladziene is the Head of Product Development Post Trade for Nasdaq. Her business unit provides a range of services to the Nordics and Baltics.

better benefit our local markets and to make it easier and more efficient for foreign investors to invest here.

Looking further ahead, are there any CSD market trends that you find particularly exciting?
As the EU looks for ways to promote innovation and drive digital finance forward, adoption of DLT solutions in the financial industry has certainly become a hot topic. In the future, Nasdaq could benefit from the access to the latest developments in the area of digital assets and DLT and we are continuously on the lookout for relevant use cases. From the regulation perspective, it is also important in our view to build new regimes upon existing frameworks in order to avoid the regulatory arbitrage and secure a level playing field.

Another big event for Nasdaq Post Trade in 2020 was the launch of Nasdaq's SFTR offering. Can you tell us more about it?
As a technology provider within the financial industry who also operates eight own markets in Europe, a CCP, CSD and also provides data reporting services, Nasdaq has a uniquely holistic view of the market trends and changing regulations which affect every part of the value chain. SFTR is one such new regulation. The addition of our SFTR offering expanded our already extensive Regulatory Reporting product suite, which includes delegated reporting services under EMIR, MiFID II and REMIT regimes.

We are especially pleased to have launched our SFTR offering on July 13, the same day the regulation came into effect. We want our solutions and services to always be as up to date as possible, so that our clients can spend less time and effort staying on top of ever-changing regulatory reporting requirements and more time on their business. By launching on July 13, I can with confidence say that we achieved this and the feedback from our customers has been positive from the get-go.

How else is Nasdaq Post Trade staying up to date within the regulatory reporting space?
The speed of change within regulatory reporting puts high requirements on the agility and shorter release cycles for IT systems and reporting infrastructure. I would like to especially highlight our proprietary technology TRACK, which addresses this well and is used by Nasdaq regulated entities, as well as our members and Regulatory Reporting customers. Furthermore, to keep abreast of industry developments, Nasdaq participates in the work of interpreting standards as a member of trade organizations and in responding to consultations.

Finally, what market trends stand out to you within regulatory reporting?
One market trend is an increased focus on data quality. ESMA will continue its implementation of the Data Quality Action Plan and according to their statement in 2020, data is now a core element of securities markets regulation and a vital component of data-driven approaches to supervision. Making progress in improving data quality is important to investors, market participants and regulators alike, as reliable and timely data is needed to deter and detect market abuse, provide transparency calculations and identify systemic and counterparty risk building up in jurisdictions. We can expect regulators to expand the monitored dataset and put in place procedures to monitor a broader selection of information fields on an on-going basis. This would make the need to work proactively with reported data quality and data reconciliation even more important.

Another market trend is greater consolidation within regulatory reporting. Last year we saw several announced exits, including middleware providers, licensed DRSPs, and even Trade Repositories. Brexit and the exit of UK service providers has shrunk the number of DRSPs even further. Looking into 2022, for ARMs and APAs the pressure of consolidation is corroborated by the upcoming changes in supervision where ESMA will take responsibility for supervision for many of them. This could affect the existing ARMs and APAs to revise their current business model and offering.

Our team is also keeping a close eye on trends simplifying operations, like multipurpose platforms and standardization. Due to the inconvenience in handling multiple RegTech solutions, we can expect a transition towards multi-purpose platforms or collaborations where different providers join their forces. Similarly, given the influence of regulators and industry bodies, there is a general drive towards standardization of information with formal standards, informal standards and even some open source initiatives to simplify interoperability for even more complicated products. ■

The Drivers of the CSD Evolution

The Central Securities Depositories (CSDs) landscape has evolved significantly over the past several years as multiple external drivers such as emerging technologies, accelerating market requirements and new regulations drive globalization, standardization and innovation for CSDs worldwide. Nasdaq's Andreas Lundell, Head of CSD Products at Nasdaq Market Technology, shares his latest views on the evolution of the CSD industry.

Nasdaq
Contributed by Nasdaq

The CSDs' pivotal roles to provide the capital market with reliable infrastructure such as securities settlements, account structure, safekeeping and instrument management continue to remain critical while the CSD market has seen significant evolution during the past decade.

What are some of the new industry requirements that are driving transformation in the CSD business model?
One external driver is the increased requirement for trading, settlement and safe-keeping of non- domestic securities. There are examples where governments are issuing bonds with major international CSDs to reach new investor segments while still enabling safekeeping with the local CSD. In addition, we see a number of regional initiatives where markets are cooperating to facilitate trading settlements and safekeeping between the markets. While this used to be managed through complex setups with global custodians, local custodians and other types of intermediaries, the markets are increasingly relying on the local CSDs to enable access to those instruments.

With this increased reliance on CSDs, participants are honing in on cost pressure, looking for ways to streamline processing, especially on the market infrastructure side. That's why we've seen numerous initiatives in which market participants joined forces toward standardization and harmonization of the post-trade processes, locally, regionally and globally.

That's on the industry requirements side. How have emerging technologies influenced the CSD industry from your perspective as a technology provider to CSDs?
We have witnessed an unprecedented rise of new technologies in the past years. Sophisticated technology solutions will certainly be a key part of CSDs' future growth. The best example of a new technology adopted by CSDs that comes to mind for most people is probably blockchain or DLT. From its inception, blockchain quickly became one of the more important technologies for CSDs to explore – given its key characteristics of managing holdings of specific assets on the immutable ledger. While DLT might have initially been viewed as a potential threat to CSDs, it's now considered a supporting technology that has the potential to improve existing processes and help CSDs identify and launch new services. In addition to DLT other emerging technologies such as cloud computing, artificial intelligence and machine learning can be leveraged in the post-trade area. Cloud computing will grow even more important as data management takes a bigger and more central role.

Finally, what is happening on the regulatory side that is transforming the CSD industry?
New regulations certainly foster globalization in the CSD industry. Given the rapid evolution within the CSD industry with emerging technologies and evolving industry requirements, new regulations have come into play, particularly after the 2008 financial crisis. The most notable regulation that followed the 2008 crisis was the Central Securities Depositories Regulation (CSDR), a European wide regulatory framework, which aims to harmonize timing and standards of conduct in the European securities settlement industry.

Adapting to evolving industry requirements, embracing new technologies, and understanding recent regulatory changes will become crucial for the future innovation of CSDs. ■

ANDREAS LUNDELL

Andreas Lundell is the Product Manager for Nasdaq Market Technology's CSD solutions. He is responsible for the general development of the solutions, including functional coverage and the adoption of emerging technologies.

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Julia Haglind, *President Nasdaq Clearing*

For more information, please visit: https://www.nasdaq.com/solutions/nasdaq-clearing-central-counterparty-clearing-emir-authorized

Creating a Nordic gateway to the international markets

"This is how we help fund Nordic economies"

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

EURONEXT

Contributed by Euronext

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

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

Accessing a broader investor pool

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

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

Benefits of harmonisation

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

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

Quicker path to market

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

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

A clear path to the European investment market

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

Funding pandemic recovery efforts

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

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

To find out more about the role the Nordic capital markets can play in post-Covid-19 funding; watch Bjørn Crepaz's talk at PostTrade 360° on 25 March.

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World's top crypto asset manager speaks at Stockholm event

Join PostTrade 360° Stockholm on 25–26 March to get the grip on this bitcoin thing, from your post-trade pro perspective. On the digital stage, meet Michael Sonnenshein, CEO of $40 billion asset manager Grayscale Investments, and Michael Moro who heads Genesis – its prime broker and custody sister firm.

Michael Sonnenshein

Olivia Vinden

Michael Moro

PostTrade 360° Stockholm
Fri 26 March, 14:00 CET

By Alexander Kristofersson, PostTrade 360°

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

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

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

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

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


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DIDNER & GERGE

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

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

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

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

By Alexander Kristofersson, PostTrade 360

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

"I should honestly confess that I wouldn't make it for a single day in our administration department. Nowadays their work has become so complex and

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

Helena Hillström

qualified I'd be completely lost," she jokes.

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

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

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

Not just an anecdote

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

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

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

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

Investments became global

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

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

Other influential events include the introduction of ever-tighter EU regulation, including know-your-customer and anti-money-laundry processes. And then in 2019, an order-routing system was implemented – to streamline transactions that go through distributors who offer the Didner & Gerge funds to their clients. An im-

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

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

Emma Westlin Forsberg

provement that could be up next is a more automated NAV-setting workflow. Emma Westlin Forsberg has just started to compile her list of feasible solutions for the purpose.

Stays close to the client

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

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

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

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

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

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

A venerable Excel sheet

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

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

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

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

Inhouse model was challenged

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

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

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

No conflict with automation

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

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

The same goes for automation.

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

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

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

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

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

Helena Hillström


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Searching through the green

The industry-wide need for quality ESG data

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

SIX's Janine Hofer-Wittwer, Senior Product Manager Sustainability, will speak in the PostTrade 360° Stockholm conference on the 25–26 March (scheduled for 26 March, 11:00 CET).

SIX

Contributed by SIX

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

A recent survey by BlackRock found that 53% of respondents cited concerns over poor quality or availability of ESG data and analytics. Although more companies are carrying out ESG reporting, a fragmentation in reporting and lack of consensus on what defines "E", "S" and "G" means that the current data available is inadequate in its breadth, depth, and quality.

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

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

Get your data clean

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

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

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

Innovation is ongoing

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

Europe's new CCP clearing landscape:

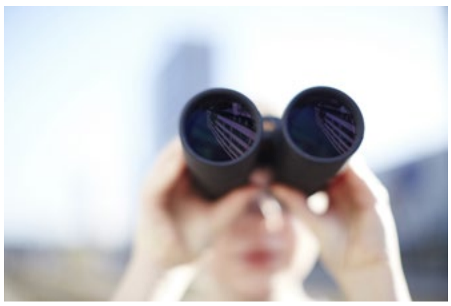
It could all end in tiers

Brendon Bambury, Head International Client Relations & Sales at SIX Securities Services, shares his insights into some of the changing dynamics currently shaping the European clearing marketplace.

Contributed by Brendon Bambury

CCPs have extended their services across markets, expanded their participant base through direct or indirect access arrangements, and built increasingly closer interdependencies with other market participants, infrastructures and critical service providers. In short, CCPs became increasingly important at a systemic level for the markets they serve. Economies of scale and of scope as well as liquidity and level of services remain key factor in the clearing domain.

Last year, the European Securities and Markets Authority (ESMA) gave temporary equivalence to three UK-based central counter-party clearing houses (CCPs) mitigating disruption for those EU financial institutions which clear their derivatives trades in the UK, at least until June 30, 2022. Although this temporary recognition for UK CCPs is welcome, a number of third-country CCPs including SIX x-clear have expressed reservations about some of the regulatory complexities contained within EMIR (European Market Infrastructure Regulation) 2.2 text. Under EMIR 2.2, ESMA has developed a classification system which splits CCPs into two separate tiers - tier 1 (non-systemically important CCP) and tier 2 (systemically important CCP). Under this framework, tier 2 CCPs in third countries could be subject to significantly higher



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> **"These EU provisions could potentially lead to difficulties with other major markets"**

supervisory fees and greater ESMA supervision. These EU provisions could potentially lead to difficulties with other major markets. Elsewhere, market participants have stated that some of the reporting requirements for non-EU CCPs are disproportionate while ESMA's right to carry out on-site inspections of non-EU CCPs could lead to reciprocal action from third countries. This could lead to arbitrages especially if different regulators have their own unique approaches.

Resilience in times of crisis

In 2008, the Lehman Brothers default demonstrated to global regulators the importance which CCPs play in protecting financial markets during periods of crisis. COVID-19 was a test of unparalleled magnitude and CCPs managed the volatility and record trading volumes exceptionally well - despite large numbers of core staff working remotely along with the initial capacity issues. Although there were a handful of CCP member failures reported to ESMA, stability prevailed at all CCPs, in what is indicative of their resilience. CCPs were also helped by the fact that members have boosted their own balance sheet strength since the 2008 crisis, while massive Central Bank liquidity injections helped mitigate the damage. Although there was a spike in initial and variation margin calls, this was to be expected given the volatility in the market. It is widely accepted that European CCPs have navigated the pandemic incredibly well. This must be recognised while at the same time noting that complexities of the ecosystem surrounding clearing are still inherent.

Interoperability and the OTC conundrum

CCP interoperability in Europe currently covers cash equities, exchange traded funds, bonds and exchange traded equity derivatives although a significant proportion of OTCs are still off limits. In most cases, CCP interoperability can help users benefit from the additional choice and cost synergies of not having to clear a trade at a CCP linked to a particular trading venue. Again, interoperability has helped provide a boost to market liquidity. In the case of OTCs, interoperability is not suitable not least because the asset class has longer maturities and are inherently bilateral in nature. Regulators including the European Systemic Risk Board (ESRB) have repeatedly warned that CCP interoperability in the OTC market could exacerbate contagion risk because of inter-CCP exposures, potentially resulting in under-collateralisation if exposures are not properly margined or monitored. As such, it is improbable interoperability will ever apply to OTCs. But on the other hand, CCPs are a very good mechanism to mitigate risk to ETD so we should foster moving trading from the OTC space to transparent regulated markets.

The year ahead

OTC markets may have managed the COVID-19 crisis without much disruption, but the year ahead does pose several challenges. Most significantly, EMIR 2.2 could force new changes on the European clearing framework leading to multiple changes that may affect the set-up and design of the sector. Moreover, technological developments and new products for clearing may add complexity to the industry. Though challenging, this new parading will bring new opportunities for the sector. ■

In PostTrade 360° Stockholm, Brendon Bambury will be on the panel about the Nordic OTC clearing landscape.
Thu 25 March, 10:30 CET

Diversification next

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

Contributed by EuroCCP


MATT BOWDEN / UNSPLASH

What was the focus of EuroCCP over the past year?

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

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

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

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

What market drivers do you expect to see this year?

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

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

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

EUROCCP

Cécile Nagel, CEO, EuroCCP.

What will EuroCCP be focusing on in 2021?

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

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

The objective of this exchange is to bring a modern, transparent and vibrant pan-European model to the region's derivatives markets by leveraging Cboe's global derivatives expertise, our European cash equities footprint and world-class technology, along with both companies' European cash equities footprints. On the clearing side, we will be able to bring efficiencies and cost savings to market participants and end investors, including by allowing a broad range of pan-European index futures and options to be cleared at a single CCP.

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

Find your future faster

– with this post-trade map

Get ready for the future, whichever way it goes, by discussing these four alternative directions with your colleagues – and by watching out for the early indications of either. Dutch post-trade association DACSI, with chairman **Henk Brink**, wants to see us all better prepared.

By Alexander Kristofersson, PostTrade 360°

"Whichever scenario becomes reality, it will impact your profit-and-loss, your product lines and your innovation budgets," says Henk Brink.

Will technological innovation speed up or lag? And how fast will the EU financial market move towards integration on the back of political willingness?

A fresh 37-page scenario white paper, from Dutch securities-industry association DACSI, posts these two questions as the most decisive uncertainties that will be shaping our near future.

"So we came to these four plausible scenarios, to illustrate what the European post-trade sector might look like in the next five to 10 years," says Henk Brink, chipping in a reflection:

"I've been in this industry for almost 40 years, and five to ten years is not a very long period. Things take a long time in post trade."

"Whichever scenario becomes reality, it will impact your profit-and-loss, your product lines and your innovation budgets," says Henk Brink, urging industry professionals to take stock of the different possible future outcomes. He emphasizes that reality will not jump up looking exactly like one of the scenarios in the box, but that it will show a mix of features from several – to higher or lesser degrees.

"Use the early warning signals, because the scenarios are not set in stone."

Overwhelmed by the input

This interview was made just before Henk Brink would present his organization's scenario-planning efforts with the PostTrade 360° Amsterdam 2020 conference (28 October). Half a year of investigation and analysis, by a task force of five experts including himself, has boiled down to the 37 pages– and a set of slides.

"The problem was not any lack of data and information – but that the data and information, and the underlying reports and desk research, were overwhelming," says Henk Brink.

"There were so many studies and papers and strategy issues. We had to make a selection to come up with a focused document. We could have written a report of 300 pages but we said, well, nobody's going to read that much."

People in finance are familiar with forecasting, often to generate a single number for the value of an asset. But the mindset in scenario planning is different, and for many, it takes a little practice getting used to. Scenarios are not about valuations, but about a preparedness for quick and coordinated action whichever way the major uncertainties turn out. Henk Brink calls them "what-ifs".

"We hired a consultant with a profound knowledge of scenario analysis, and with knowledge of the ecosystem. He helped us tremendously in the method of scenario analysis – explaining what it is but also what it is not: it is not a prediction of the future."

Tech will drive – but which way?
Some trends can be expected with more certainty, showing effects in either of the scenarios.

"Technology will change the world as we know it, and waves of consolidation among the current market participants is also something we see in all scenarios – though not in the same way in all of them," says Henk Brink.

"Existing actors will continue to work with fintechs to, at least incrementally, innovate post trade. And we will see a continued interest in harmonization and standardization. We've come a long way, but we still have a long way to go." ■

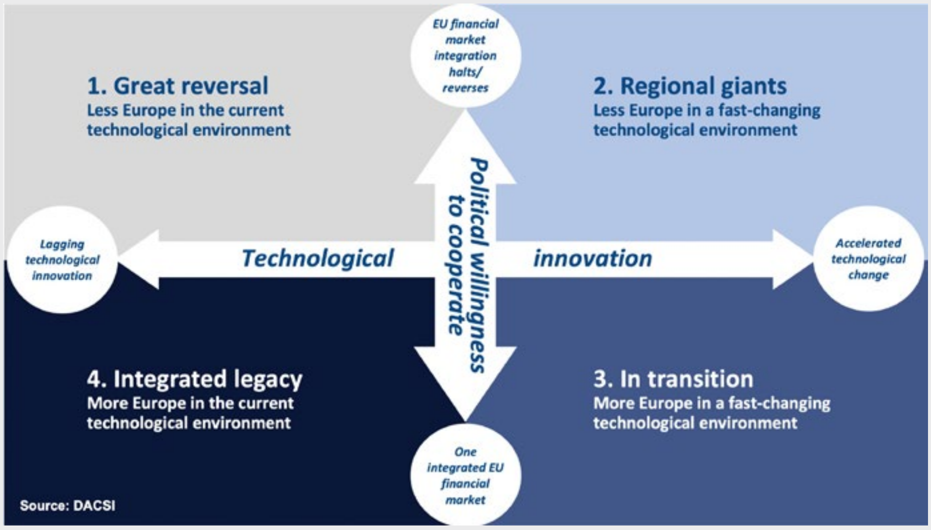
To receive the report, send a mail to ***secretariat@dacsi.nl***

Two axes makes four boxes

DACSI's new scenario whitepaper sketches four alternative scenarios for Europe's securities post-trade sector in a five-to-ten-year perspective. It discusses the implications that each of these could have on CCPs, CSDs, custodians and other actors in the field.

According to the analysis, the outcome will depend on two dominant uncertainties:

1. The degree of political willingness to cooperate. This determines the level of regulatory integration of European financial markets, including oversight and barriers.
2. The degree of technological innovation. The speed at which new and existing technologies will accelerate change in post-trade solutions and services.



With either of the two variables moving either back or forward, it makes for four combinations – four qualitatively different futures. If the movement towards market integration would halt or reverse, we are up either for a "great reversal" or a landscape of "regional giants".

If, on the other hand, the EU could actually create an integrated financial market, we would enter either an "integrated legacy" scenario or an existence "in transition".

In the DACSI report, each of these are accompanied not only by closer descriptions and lists of the impacts they would have on post-trade actors. There are also lists of the early-warning signs that ought to trigger closer planning or action. For example, the list of possible early indications of the "In transition" case (a technologically fast-changing, and financially integrated, market) includes, among other points …

- EU adoption of regulation for tokenised assets,
- an agreement on convergence of securities laws, agreements on tax withholding procedures, or
- the event that a FinTech/ BigTech launches an app that integrates pre- and post-trade into a user-friendly solution.

With this as inspiration, your organization could take the next step: to identify what would be the consequences for you, and what indicators you should look out for to know when you should trigger alternative activities.

This is how **digital assets** will make servicing change

Asset managers and asset owners are looking for new sources of alpha, pushing some to assess the benefits of digital assets, such as tokenised securities. As institutional investors gradually integrate digital assets into their portfolios, custodians are readying themselves to support a new type of asset, looking at partnerships with fintechs, and working on industry-wide standards.

BNP PARIBAS

Contributed by Wayne Hughes, BNP Paribas Securities Services

"Investors will want digital asset servicers to be well-regulated and well-capitalised."

Asset servicing revolves around three main pillars; namely safeguarding client assets; fulfilling regulatory requirements and simplifying the overall investment process. Custody of digital assets is no different. This makes major banks, which are subject to rigorous regulatory supervision and balance sheet capital requirements, the ideal partners for institutional investors.

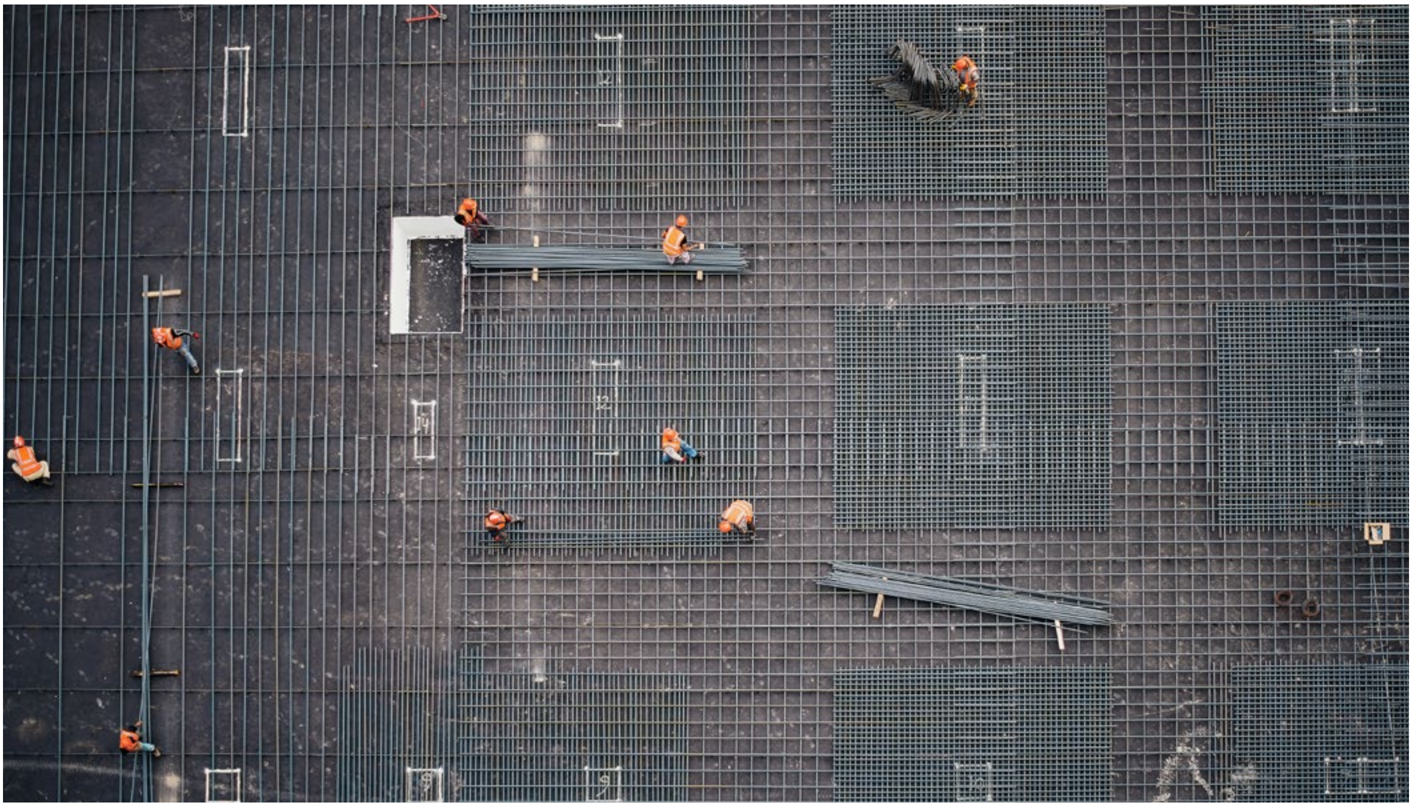
In addition, traditional and digital assets will need to co-exist within portfolios i.e. investors will need to manage both asset types in parallel. The potential operational impacts can be minimised, where investors use large service providers who can support multiple asset classes, including digital assets.

Digital assets could even open the door to new services and opportunities to enhance existing services. For example, custodians could play a vital role in facilitating interoperability between different digital assets and blockchain platforms. Furthermore, custodians could leverage the Blockchain to support clients with their tax and regulatory requirements; provide registrar services and compile analytical reports.

Partnerships are central to digital asset growth

Developing digital asset services will require a significant investment of capital and resources by banks. One solution is for banks to partner with Fintechs to develop new capabilities and conduct POCs (proof of concepts) around digital assets. These strategic partnerships are synergetic by design, allowing Fintechs to take advantage of the expertise, size and infrastructure at banks, while enabling banks to benefit from Fintechs' agility and flexibility.

BNP Paribas Securities Services partnered with Curv, a cloud-based digital asset security infrastructure for financial institutions, to complete a POC to transfer security tokens securely between market participants. As part of this activity, BNP Paribas Securities Services and Curv transferred a security token using Curv's multi-party computation solution



An interoperable future market for digital assets will have to have its solid foundation prepared today – including common standards for the assets and the DLT platforms facilitating their issuance, trading, custody and settlement.

to ensure the security of the private keys was maintained. Curv's solution enables for transactions to be signed securely in a mathematically-proven and distributed way. The successful POC has helped to demonstrate that tokenised securities can be transferred quickly, safely and transparently on a Blockchain platform.

Creating the foundations of a market

Central to the creation of any market is the existence of industry-wide standards and effective regulation. Without common standards for digital assets and the DLT platforms facilitating their issuance, trading, custody and settlement, market participants will struggle to interoperate. Just as SWIFT has created consistency in financial messaging through the roll-out of the ISO 20022 standard, a similar framework needs to be adopted for digital assets and DLT. This is an area where progress is being made. BNP Paribas Securities Services, for instance, is working with SWIFT to create a common market practice for digital assets, in what should help drive growth in this nascent market. Presently, the regulation of digital assets is disjointed across different markets. Again, if digital assets are to become widely-traded, greater harmonisation of regulation will be needed.

Asset servicing: 2030

Digital assets could offer institutional investors revenues, at a time when equity and bond markets are experiencing major volatility. However, the involvement of custodians will be critical if digital assets are to gather momentum. Investors will want digital asset servicers to be well-regulated and well-capitalised. Furthermore, providers who can concurrently support both traditional and digital assets will be at a competitive advantage, by offering clients a one-stop-shop solution. This will not only keep costs down, but will also make it simpler for investors whose portfolios are a mix of traditional and digital financial instruments. However, major challenges do remain, particularly around standards and regulation, which need to be overcome. What is clear is that custodians such as BNP Paribas Securities Services have recognised that digital asset investments will become increasingly important to their clients, and as such, are preparing themselves to meet future demand. ■

This article is the first of a series looking at institutional investors and their custodians as they prepare for the adoption of digital assets. As the regulatory framework continues to progress, we will explore the real value and challenges of digital assets for the capital market ecosystem over the coming months. Keep up with the latest through the BNP Paribas Securities Services website, securities.bnpparibas.com

Wayne Hughes *is Head of Data & Digital for FI&C, BNP Paribas Securities Services*

Beyond the digital frontier

"It's 2030, and it's the middle of the night ..." The industry's reality ten years from now is the starting point for a new vision whitepaper by Northern Trust.

Contributed by Northern Trust

It's 2030, and it's the middle of the night. Despite the time, a pension fund manager is awake, and wants to access settlement data for two digital currency transactions. They then want to see all the pension scheme's assets across all systems, geographies and platforms, in a single book of record, at T+0. They don't have to worry about reconciliation data, because reconciliation no longer exists. They want to leverage data from their securities service provider to run several investment scenarios to decide what hedging programmes to adopt across a range of assets. And they want to do all of this on their digital device.

A world where fund managers and asset owners can access data and gain actionable insights in real-time, wherever they are and however they want, may seem distant but it's closer than you might think.

The securities services industry is in the midst of an unprecedented transition to digital ecosystems, and client expectations of their custodians are widening to encompass a host of additional services around cyber security, artificial intelligence, cloud computing, data analytics, and blockchain technology. While asset servicers have always adapted their operations to keep pace with the ever-changing requirements of their clients, they will now have to be flexible, agile, creative, and digital in ways we haven't seen before.

The asset servicing landscape will have profoundly changed and technological advancements will require global custodians to act as digital conduits for their clients – enabling access to an ever-broadening array of markets spanning traditional geographies as well as emerging digital infrastructures. We are seeing the drivers for this already – for example, the Australian Stock Exchange's efforts to transition to Distributed Ledger Technology (DLT) or Deutsche Börse's work building digital asset market infrastructure.

Cannot be overstated

Digital assets – assets that are issued, exchanged and settled digitally – will be commonplace across all sectors, whether it is bonds, private equity, exchange-traded funds (ETFs), special purpose vehicles, precious metals, real estate, and more. Beyond these traditional assets, new market spaces will normalise digital currencies and foster the development of entirely new asset classes.

The importance of digitalisation cannot be overstated, and its impact will have been felt across the full value chain of the securities services industry. The complexity of this emerging landscape is likely to encourage co-operation between asset servicers with competition based on service and the ability to add value – in particular, from actionable insights – rather than the ability to execute on standardised process, which will be commoditised.

A transition to navigate

The next decade promises greater efficiency, immediacy and customisation of data and insight provision from custodians – the enablers of innovation – which will allow clients to focus on their core competencies. By 2030, successful asset servicers will be the ones who have bridged the gap between traditional and digital assets, and helped their clients navigate the transition between the two. Their evolution, as it always has been, will be client-centric and, in 2030, more time will be spent giving clients information on what they need to know, and enabling them to make better decisions. ■

Northern Trust's paper "Custody Reimagined: The Outlook for Global Securities in 2030" can be downloaded at [www.northerntrust.com/europe/ insights-research/editorial-articles/ asset-servicing/ custody-re-imagined](www.northerntrust.com/europe/insights-research/editorial-articles/asset-servicing/custody-re-imagined)

Now it is clear to all that crypto wasn't a fad

The last years have seen fast change in the attitudes to digital assets among established financial actors – such as institutional investors and regulators. Meet Samar Sen, Head of Digital Products and Data in Deutsche Bank's Securities Services team, for a summary of the state of today.

"We are seeing many more institutional investors now allocating portions of their portfolios to crypto, says Deutsche Bank's Samar Sen.

Deutsche Bank

Contributed by Deutsche Bank

Since Facebook's original Libra proposal in June 2019 and with further momentum among payment companies such as Paypal , Visa and Mastercard, which are using digital currencies in payments, central banks and governments have understood that cryptocurrencies are here to stay. And that their benefits can only be unleashed when integrating cryptocurrencies into solid regulatory frameworks and financial systems.

Institutional investors have also shown their support. The world's biggest money manager, Blackrock changed a handful of investment mandates to allow some of its funds to invest in the currency in early 2021 . "We are seeing many more institutional investors now allocating portions of their portfolios to crypto, and also large companies either building services around, or holding cryptocurrencies," says Samar Sen, Head of Digital Products and Data in Deutsche Bank's Securities Services team.

This acceptance has moved several central banks to retain monetary control by launching central bank digital currencies (CBDCs) to complement or replace cash. A Bank of International Settlements (BIS) 2021 survey found 86 percent of central banks developing a CBDC, with 14 percent already running pilot projects and 60 percent experimenting proof-of-concept. Central banks representing one-fifth of the world's population are likely to issue a general purpose CBDC by 2024. Deutsche Bank's Sen lists the changing attitudes to digital assets that are shaping regulatory behaviours:

- Cryptocurrencies: Institutional investors are now viewing some cryptocurrencies as a legitimate store of value, or a currency hedge during inflation, and are increasingly starting to allocate portfolios to this type of digital asset.
- Tokenised assets: multinational companies are excited about new ways to raise financing beyond standard debt/equity, and various banks in partnership with exchanges and regulators have started to pilot new client issuances via tokenised assets. There is still a need for viable secondary markets, platform standardisations, and ecosystem maturity.
- Stablecoins: Institutions recognise the enormous potential in having instant settlement, retail payments, and cross-border transfers via stable coins and settlement coins, but much work is needed in the regulatory space here to ensure that various countries' capital controls are not circumvented.
- CBDCs: China and Europe are currently leading the way in experimenting with and then rolling-out CBDCs. "I think that CBDCs will start to gain traction along with some approved stablecoins for use in settlement, payments, and remittances," Sen adds.

Many central banks are considering measures to minimise the risk of disintermediation and the functioning of the two-tiered monetary system that provides the liquidity for the economic growth. Besides issuing CBDCs and defining standards, regulators' key concerns around cryptocurrencies are consumer protection, financial stability and the fight against money-laundering and terrorist financing.

"Many institutions will need to invest in the right talent and technology to ensure they can participate."

Regulators in various countries are starting to release frameworks and guidelines about how various types of digital assets and their services will be regulated to ensure MIFID continuity, investor protections and licensing.

The role of banks

In a two-tiered scenario for the issuance of a CBDC, banks and other regulated intermediaries will be distributors of the digital currency and provide payment services involving CBDC.

In addition to the payment infrastructure, the custody of crypto assets is another area where banks can play a role in the adoption of these assets in financial services. "Regulators in many countries are providing clear guidelines and licensing paths on how to offer digital asset custody in a responsible and regulated way with investor protection in mind," says Sen. In the US, for example, the Office of the Comptroller of the Currency (OCC) announced that national banks can provide custody solutions for cryptocurrencies. "Institutional-grade custody and technology providers are more abundant, making hacks much more difficult."

What's next for digital assets?

With these initiatives paving the way for more digital asset use cases, further take-up hinges on a stable system to support them and the skills, knowledge and infrastructure, notes Sen. These include:

- Knowledge, skills, technology: building services within this ecosystem often involves deploying new skills and technology stacks. Many institutions will need to invest in the right talent and technology to ensure they can participate.
- Volatility and liquidity: cryptocurrencies still come with high volatility and limited liquidity. To get a fair and efficient market, all the various participants of this nascent ecosystem will need to bring the stability – from regulators, market makers, liquidity providers, to price discovery, brokers, exchanges, banks.
- Regulation: although various digital assets bring exciting new features, some of these also allow for circumventing existing regulatory norms. Regulators will need to up-skill and legislate quickly to catch up with the innovation and yet maintain control. Some markets are taking the lead here by investing in talent and participating in the pilots with banks, clients and exchanges to learn and legislate on the go, while others fall behind.

Given the momentum and as appetite for digital assets accelerates, it does appear that robust partnerships between banks, central banks and payment system providers will be evolving quite quickly to facilitate their increasing use in financial services. ■

"Central banks representing one-fifth of the world's population are likely to issue a general purpose central bank digital currency (CBDC) by 2024."

For the full version of the article, please visit: flow.db.com/more/technology/digital-assets-in-2021

Göran Fors and Niklas Nyberg work with SEB's custody since the 1990s. Already then they saw their business stuck in a dilemma over the need for a massive operational investment. "It is not until now that we feel we finally got it right," says Niklas Nyberg.

Decades in agony, then SEB got custody right

Eight years after the "go" in 2012, Sweden's SEB finally dared calling it a success: the huge integration project with custody outsourcing partner Brown Brothers Harriman. Now new mandates are won. Interviewed by PostTrade 360, SEB's **Niklas Nyberg** and **Göran Fors** tell the story. Of a rocky path, starting way back.

By Alexander Kristofersson, PostTrade 360

The project name was "P6", and there was a reason for it. This was the sixth time that SEB launched a reassessment of its global custody strategy. The focus was on institutional clients such as insurance companies, pension funds and fund companies. The previous five attempts had all left an itch.

With some 4,500 billion SEK in assets under custody (AuC) in its global custody business, SEB is a large player by Nordic measures. Adding its sub-custody assets, held for overseas investors, gives a total AuC above 10,000 billion SEK today.

But let us rewind. As SEB's global ▶

custody business emerged, on the back of Sweden's currency-exchange deregulation in the late 1980's, the global competitors had already had many years to establish their positions.

”Ever since the 1990's, SEB had been in agony about the size of the investment that would be needed to catch up operationally with the big global custodians. Because on the other hand we felt that we just couldn't let our key clients down," tells Niklas Nyberg.

Today head of institutional global custody, Niklas Nyberg can look back at a 22-year career in SEB's custody business which coincides in time with the relentless reconsideration of its existential dilemma. So can Göran Fors, currently deputy head of Investor Services, who came in at SEB around the same time in the mid-1990's. Plans existed, already then, to outsource some operational tasks to OM (the precursor of Nasdaq's tech division in Stockholm), but did not materialise. We meet at SEB's history-laden head office at Stockholm's Kungsträdgården, and Göran leaves it to Niklas to draw the interior.

"It was unthinkable for our owners to see their bank unable to discuss securities handling in detail with its corporate and institutional clients. This is part of our DNA."

Niklas Nyberg

"We kept putting make-up on the pig, so to speak – improving what we could – but by the early 00's many of the larger institutions had let go of us. We risked being perceived as the provider of an over-priced but under-performing product – which could hit back on the image of our services and brand generally," says Niklas Nyberg.

As a part of the Wallenberg sphere since the 1800's, SEB served as a catalyst for Sweden's global industrial impact over the next century. Today, this reflects in a leading position as house bank to a large share of the Nordic region's large corporates and institutions. (The institutional investor part in the segment is growing and now makes up nearly half of SEB's LC&FI business.) So SEB is a regional giant in the segment. But a giant which, on the scale-economy-driven market for global custody services, is battling with international giants a hundred times its size.

Around 2010–2011 the indecision had finally transformed into determination to do something. But what? Four high-level alternatives were sketched:

- build a state-of-the-art platform at the bank itself,
- outsource operation to a partner that already has one,
- keep on using the existing infrastructure, mitigating the drawbacks, or
- sell the global custody activity while doing the best to still keep the trading business – a strategic path with similarities to those later chosen by other large actors like Deutsche Bank, Barclays and Nordea.

"We quickly identified that our owners did not want to sell," says Niklas Nyberg.

”It was unthinkable for them to see their bank unable to discuss securities handling in detail with its corporate and institutional clients. This is part of our DNA. Additionally, it would cause a major income drop over-night, and the buyer would probably be a competitor to SEB also in other areas."

The mitigation path, too, was soon excluded. Virtually having done it for more than a decade had made things worse, not better.

So build or outsource? The two remaining alternatives were considered near equal both in terms of capability and investment cost. But building a new in-house platform would bring some drawbacks: Competitors would not stop improving their systems and products, so the imperative for more investments would stay forever. And then the build-up project would be so big, not even all the knowledgeable consultants in the Nordics would have been many enough to staff it.

"So was there any early-exit possibility, or just all or nothing?"

"That is a very good question," Niklas Nyberg answers. "In fact it is a question we spent about half a year evaluating."

The outsourcing would be for the technical platform provision – not leading to handover of any client relations as such from SEB. US custody bank Brown Brothers Harriman, BBH, was soon spotted as the particularly suitable strategic fit. It was a reasonably close match in size, rather than a giant, and had decided on a strategy to invest in its platform to provide just this type of capability for other custodians. BBH had long been SEB's sub-custodian in the United States so there were good personal relations too.

However, according to Niklas Nyberg, the integration for SEB was a much more complex venture than anything BBH had previously done in this area. At the peak, the project was keeping 350 people busy – 200 on SEB's side and another 150 at BBH.

"In hindsight we can observe that they were not mature for an outsourcing project at this level. They, too, have had a lot of learning to do," says Niklas Nyberg.

Several hundred million SEK had been budgeted on SEB's side, but complexity emerged along the way. In 2015 it was clear that the allocated resources would not be enough.

So was there any early-exit possibility, or just all or nothing?

"That is a very good question," Niklas Nyberg answers. "In fact it is a question we spent about half a year evaluating."

By this time the team was under heavy stress.

"There were hot discussions. We had invested a lot of money – but still had costs ahead. Many of our people had worked very hard for a long time. And then nobody could give answers, nobody had done this before us. We could only trust our gut feeling."

An exit scenario, limiting the implementation to Luxembourg-based assets, was pitched against the full scope. But the bank's top management kept trusting its custody people, and stayed committed to sponsoring the job until it was done. Around late 2015 the decision was made to prioritise the Swedish market with its key clients, and to go the full stretch.

"That turned out to be a very, very good decision", says Niklas Nyberg, evidently relieved.

By the time the first client went live on the new platform in October 2016, Niklas Nyberg knew his team was past the turning point.

"The first year we did put effort into the sales but also into ensuring the functionality. It is since 2018 that we have been public and confident in our sales activities – with success. So in the last two years, we have been seeing our dreams materialise."

He claims his business now enjoys a "hit-rate" around a remarkable 50 percent when bidding for new mandates, and despite a more than doubled total project cost he describes the overall outcome as "quite spot-on in relation to our 2012 business case". One result clearly exceeds expectations: the "straight-through processing rate" – that is, the proportion of transactions that are completed without need for manual intervention. This is up from below 70 percent to above 98 percent, meaning that less than 2 percent of transactions now require a human touch.

So the per-transaction cost must be down remarkably?

To this question Göran Fors cannot resist entering the discussion. "Overall, one would be wise not to think of this type of project as a cost-saving exercise," he cautions.

Göran Fors lists the overall success factors as he sees them in hindsight:

- going with a long-term partner, stable teams on both sides, with members staying throughout the project,
- commitment and trust from top-management, and
- being determined not to take any easy way out but to pursue what would be the best solution in a long perspective.

Since the project started, new challenges have risen.

"Regulatory requirements have increased, both locally and internationally, so we now have employees whose main task is to monitor the outsourcing," says Göran Fors.

The final touch is still to be added. 20 percent of the assets under the LC&FI business in Sweden still remain to be moved from the old platform. This old platform, in turn, will be staying in use for the retail business, which will then be able to adapt it more closely to its own needs in the future.

Then, in Luxembourg, the first clients will be onboarded with the BBH solution later this year.

"That will mean that our infrastructural tech-journey has reached its destination," Niklas Nyberg concludes.

"That will feel like a milestone." ■

SEB

SEB had a key role in the build-up of Sweden's corporate and institutional landscape.

IF

His new robots will do 2 million tasks this year

Asko Mustonen, Nordic head of robotics at If P&C Insurance, opened the door on his robot factory in PostTrade 360° Helsinki, explaining the basic ideas.

By putting employees across the corporation in the driving seat, rather than imposing top-down implementations for cost-savings, If has turned robotic process automation (RPA) into an everyday activity in just two years.

By Alexander Kristofersson, PostTrade 360°

"Our main focus with these tools is to improve customer experience and employee satisfaction. We don't have a goal for reducing cost as such, although it is of course an important measure too," says Asko Mustonen.

The work contribution by the robotic processes is continuously growing, this year reaching 2 million tasks. If humans would have carried out these robotic tasks, it would in recent months have required close to 60 full-time employees. The If group, all in all, employs around 6,800 people.

So what is robotic process automation – and what is it not?

"The idea is that we don't do any changes to the existing IT systems but the robots use the systems as humans would. This helps humans to concentrate on what they do best and not do the monotonic robotic tasks," says Asko Mustonen.

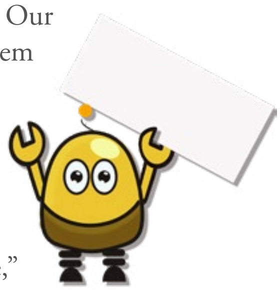
"Mainly we have released human power to do more meaningful tasks especially in the back office: things we would not have been able to do with other tools or that would have been extensively expensive to do."

He stresses that an automation implementation is never a purpose in itself, but it is framed in a change project with a broader business-process view. One of the most central questions for each project is where the freed-up human capacity should instead be applied next, to make for real improvements.

Business managers decide

Having worked full time on the topic for the last three years, Asko Mustonen describes his corporate function as small.

"We help, and we train and support, every unit in If to understand how you can speed up automation with these new technologies. Then we build and maintain robots for different business units. Our robots – we call them digital workers – are part of the different teams that they work in, and they work together with people," says Asko Mustonen.



His team has established a process to make sure ideas can be transformed into live implementations quickly and successfully, after the ideas are evaluated by certain criteria. Going forward, he sees opportunities for many more implementations – but that does not

True, If's "robots" are not actually physical, but software. Even so, Asko Mustonen uses human parallels a lot. Robots work as member of business teams, in collaboration with their people.

Cancellation robot makes changes in 5–6 systems

A consumer's insurance cancellation is a typical, but surprisingly complex, example of work that a robot can be put to do.

A Finnish consumer wants to cancel an insurance. That couldn't be too difficult for a robot to execute, could it?

You will be excused if you think along these lines – because it is actually how the people at If thought about it too, as their robotic journey was just starting a few years ago.

"We thought this would be an excellent case for RPA. It sounds like a straightforward project but it became one of our most complex ones. It involves five or six different systems, everything that is important for the customer. The insurance coverage needs to be correct, the invoicing needs to be correct and the customer needs to be informed. But eventually the robot does all of that, 7,000–10,000 times a month, seven full time equivalents," says Asko Mustonen.

Already the old process included a digital front end, the "My pages" where the customer logs in and enters the cancellation task. And having that structured digital information is a good, actually necessary, starting point for an automation process. But previously, that information needed to be manually adapted and entered into a variety of other systems.

"Every cancellation meant that you had to cancel the policy in the backend system, then correct the invoicing. And then you send information to the customer that 'I have done this task that you have requested', and then you log it in the customer contact information."

While the automated process now takes care of 70–80 percent of the cases, the more complex ones are filtered out for employees to take care of – giving them more time to focus on these.

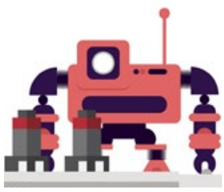
mean there is a long queue of projects waiting to get started. Building a robot takes 3–6 weeks, and Asko Mustonen sees no need for distant planning horizons.

Almost all implementation projects are managed by a person from the business where the robot will be working.

"Other companies could have CEO-driven goals that put thousands of people to develop robots with a 'now, do it'. We don't have that situation, we build this incrementally. We started, when we could still fly, by going to different countries, training hundreds of people," says Asko Mustonen, exemplifying that they could be from teams in customer services, claims services, different back end units or others.

They were mainly business developers and team leaders.

"This was to let them understand what this is about, why this would be a good idea and how this works – and then let them come up with their ideas of how robots could help their work," says Asko Mustonen.



These form a small local team, for which Asko Mustonen's central function then provides business training and support.

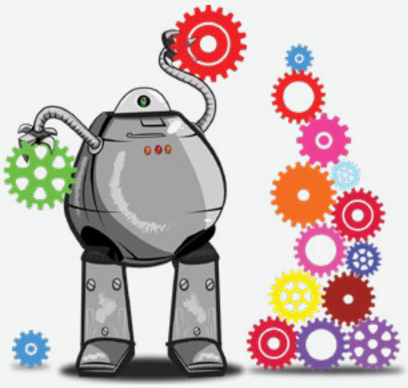
"Then it is us who make the technical implementation. Our robot developers, who have IT background, work closely with the business project managers in a very agile manner and build the robot. Then we technically maintain them but the robot becomes a member of the business team. That's how it works – and then we celebrate that and build the next one," says Asko Mustonen.

"So, it has been an incremental development from one robot to another. Now we are in all countries and have dozens of robots working in different units." ■

RPA is among the simplest IT solutions

Simply put, the robot is a piece of software which connects with existing IT platforms to execute a task. This could include fetching a number in one system and paste it into another. While a company's long-term IT vision could be to integrate both systems tightly, robotic processes don't start systematically from the IT architecture so much as from the specific task.

When there is a something that you do many times, in a routine way that does not require human judgement as such, there are good chances that an automation effort could pay off in terms of saved time and less errors. Does your back-office process include any standardised routine element that is repeated many times by employees?



ROBOT ILLUSTRATIONS: PIXABAY

"Most of the financial sector companies are in the middle of a huge transition, moving into one consolidated back-end system or two – and that's fine, that's what we also encourage them to do. But those are long-lasting, expensive programs. Some have said that robotic process automation is more like a duct tape type of fix to problems. And that can be fine too, when you don't have time and money, or the business case, for doing the whole thing," says Asko Mustonen.

"Yeah, duct tape is not my favorite comparison," he chips in. "But the idea is that it can do the trick. So that's what we do and this year robots will be completing 2 million tasks every month.

Can inform the big IT shifts

While the core IT architecture is thus a whole different issue, Asko Mustonen suggests one could 'sync' the robotic development with it.

"If you know that for two years nothing will happen with the old system, and you have a reasonable volume, it makes sense to build a robot and run it over that time."

Further, the robotic process can collect metrics that make it possible to design better core IT systems when that day comes.

"The robot tells you exactly how this process works, and what is relevant and what not. Even professionals rarely realise this. In a lot of these huge transformations of back-end systems, the main bottleneck is the access to people who can tell you what requirements are important. When you have a robot that has worked on the process for a year or two, that tells you exactly what is important. It might tell you a completely different story than a person doing the tasks." ■

Don't confuse RPA with the other buzzwords

These days, we hear about many hot IT concepts and it can be easy to confuse them. In moving from monolithic legacy systems, many financial companies seek to combine different best-of-breed parts, which they connect through standardized application programming interfaces, **APIs**.

Increasingly, these systems are provided as services across the internet, "in **the cloud**". While these cloud and API integrations can seem like lightweight in comparison to old systems, they are still a more ambitious route than a robotic processing implementation.

Another often-heard term today is **artificial intelligence**, AI, including **machine learning**. This applies to the improving capability in software to interpret data, and handle it accordingly, depending on its context. This can support translation of speech into text, for example, or make it possible to feed a data flow such as accounting with pdf files of unspecified structures.

Compared with these solutions, robotic process automation typically limits itself to data which is already structured enough to be handled without variation or ambiguity. This makes a radical difference to the need for software complexity.

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