ISSA

International Securities Services Association

Sibos 2019

The 2019 SIBOS in London was quieter for ISSA than the 2018 SIBOS but we hosted, in collaboration with SWIFT, two significant sessions. One was on DLT and the other took a novel look at the convergence of Cyber Risk and Financial Crime. These sessions are described more fully in this Newsletter. Our thanks go to SWIFT for allowing us these opportunities and for their commitment to the agenda of improving the industry for the benefit of all.

Josef Landolt, Karen Zeeb (refer to the separate announcement in this Newsletter) and I met with many of ISSA's existing and potential members. The key deliverables were to (a) introduce Karen and myself to as many of the membership as possible, (b) discuss and debate the present status of the existing Working Groups on Corporate Actions, Financial Crime Compliance, Distributed Ledger Technology and Cyber Risk Management, (c) introduce the Symposium agenda for 2-5 June 2020 and the new working group supporting preparatory work, and (d) solicit feedback on ISSA and what we could do better or differently. My personal take away was that the membership is committed to helping the industry through ISSA, that people have many ideas about what ISSA can do to drive the agenda and that 30 minutes really flies by when you are having great conversations.

In respect to new members and our push to attract more members from the Emerging Markets and Australia, we had a number of good conversations which hopefully will convert to membership. Interestingly the existing members are more than happy to offer their help in expanding in the markets which is a validation of the value they see in ISSA.

The SIBOS theme of "Thriving in a hyper-connected world" was everywhere to be seen in our conversations and with our membership but the article below by our new Board Member Ms Alexis Vasquez Meissner, Global Head, Banks & Broker Dealers at HSBC Securities Services, reminds us of the value of people within this world.

With best regards,
Colin Parry, ISSA CEO

ISSA Governance Update

ISSA Board

As of September 4, 2019, Broadridge Financial Solutions Ltd, an ISSA Member Institution since August 2016, became an ISSA Sponsor Institution. As of the same date, Samir Pandiri, President of Broadridge International, was appointed as Broadridge's representative on the ISSA Board.

We congratulate Samir Pandiri on this nomination and wish him all the best in this new role.

ISSA Operating Committee

Broadridge Financial Solutions Ltd has nominated Philip Taliaferro as their representative in the ISSA Operating Committee.

We congratulate Philip Taliaferro on this nomination and wish him all the best in this new role.

New Members

Since the Newsletter of August 2018, the following Members have joined our Association:

- Acupay System LLC, United States
- Entris Banking AG, Switzerland

We welcome these organizations and are looking forward to a fruitful relationship.

Board of ISSA

Ms Karen Zeeb

In several Newsletters this year, the ISSA community has been informed about the transition activities at the ISSA CEO Office.

ISSA is pleased to announce that its Board has appointed Ms Karen Zeeb as the ISSA Secretary-elect.

As a graduate of both Sheffield and Birmingham Universities, Karen has worked for a number of large US institutions, including JP Morgan, The Bank of New York, Northern Trust and – most recently - Citigroup. As well as having experience heading up Relationship Management teams, Karen has also held a variety of Securities Services product positions.

It is planned that Karen will start her function as the new ISSA Secretary as of January 1, 2020, succeeding Urs Stähli in that role. The ISSA Members have been requested to approve Karen's appointment by means of a formal ballot to be completed by October 31, 2019.

Karen Zeeb, ISSA Secretary-elect

Human Experience

Alexis Vasquez Meissner
Global Head, Banks & Broker Dealers
HSBC Securities Services / ISSA Board Member

Last year we moved our family of four, including a surly teenager, from New York to London. It was a big decision for us to make and it wasn't made without a significant amount of worry. There were so many new things to figure out – finding our way around a different city, making sense of London schools and neighbourhoods, learning to drive on the "right" side of the road… and those are just a few examples! But our biggest worry? That we could lose touch with our community in New York City or not feel connected with family on the West Coast of the US. The amazing thing, though, is how incredibly *easy* it has been to feel totally connected to our friends and family back home.

> *The key for us has been technology. Moving feels so much less disruptive today than it would have for previous generations.*

The key for us has been technology. Moving feels so much less disruptive today than it would have for previous generations. We Face-time friends and family, WhatsApp updates in near real time, and can call or text anyone in the world with minimal cost and effort.

I am extremely grateful for what technology has brought me and my family in terms of connectivity; it's for sure a different world to the first time I lived abroad in 1996! But I am also interested in technology's relationship to my experience. Is it because of Technology that these relationships sustain and thrive or does technology simply enable our ability to stay connected with those important people in our lives? Which is dominant – the relationships or the technology?

Client Experience is the Differentiator

The topic of this article is human experience and I am going to make the case that, in an age where technology is considered King, the experience that we give our clients is enabled - but not defined - by technology. Technology is important, and can provide an incredibly powerful strategic advantage, but it is an enabler. Client experience is the differentiator, and the experience is still fundamentally human.

Organizations worldwide have invested substantial amounts of money to improve the digital experience for their customers, to make things faster, easier, more convenient. The belief is that the more digital the experience, the more quickly customers will flock to it. "Tech is King" in the 21st Century, in every aspect of our personal and professional lives. To that point, I was recently reading an ISSA paper, and it said "the financial services industry is at a tipping point and the future is based on technology". And while I agree with the statement, I confess to being concerned about a future based wholly on technology, and what that could imply for client experience, particularly in our industry. Because while technology has expanded our reach and connected us globally in a revolutionary way that wasn't possible even a couple of decades ago, the question is: can it ever replace the Human Factor in delivering excellence in client experience?

Can Technology ever Replace the Human Factor?

As the Global Head of Banks & Broker Dealers for HSBC Securities Services, my role encompasses a whole range of front to back activities in custody and clearing: Sales, product, client management, operations, finance, risk, change, people, and, of course, technology.

> *Holy smokes, I am going to have to get up to speed on data this and digital that really, really quickly!*

I took this role on just about a year ago, and one of the first things I remember thinking was: "holy smokes, I am going to have to get up to speed on data this and digital that really, really quickly!" And that was true – for sure: there was and still is a lot to learn. But it became very apparent to me, almost immediately, that considering how we build and develop not only our technology stack, but also, critically, our relationships with our clients, was going to be the winning formula. We could see really early on that we had been building what **we** thought was important based on what tech could do, but we weren't always aligned with what mattered most to our clients.

And since I am no technologist, I leaned on what comes most naturally to me: relationships and intelligent insight that is based on careful listening, empathy and engagement. And we got really serious, really quickly about making sure this was **the** top priority for our team, across every discipline.

> *Clients, first and foremost, want to feel like their needs and desires are important to us.*

So, did we find out what our clients want? Clients, first and foremost, want to feel like their needs and desires are important to us; and, as in any relationship, core underlying needs must be met to create a deeper and more meaningful connection. They want to better themselves, they want to be successful, they want to feel confident, they want their lives made just a little bit easier and last but not least, they want to be heard and understood.

Technology is merely an Enabler

One could argue that with the advent of technology, all these things could be delivered via an App. But I can't help believing it's really the human touch behind the machine that creates these feelings, because it's this person, who engages with clients closely and carefully, and then leverages technology as a tool to deliver success. Technology is merely an enabler; client experience is the differentiator. And the experience is still fundamentally human.

If you take a look at the market in general, organizations that have the ability to understand the needs of their clients through active listening and engagement are usually the ones that thrive from a revenue and retention perspective.

> *We're all familiar with those killer brands -*

We're all familiar with those killer brands – the ones that make us feel like they know us inside and out and make us feel special. And do these companies use technology? You bet they do! But the tech is there to enhance the experience of their clients. At the end of the day, what these companies do and do extremely well, is make people feel good when they use their products or services, because they know and understand their clients and their needs and create an engaging user experience.

It is about a Conversation

The debate will continue on how much latitude innovators have to ignore customer input and feedback as they create the perfect machine. Our approach at HSBC seeks a middle ground: It's not simply taking what clients ask for at face value and blindly saying yes all the time; nor is it about building exclusively what is best for our bottom line. It's about a conversation, between developers and product experts on our end, and users on the clients'.

Central to this is the maintenance of close relationships, of trust, with our clients, so that the conversations we engage in are open and honest; and through these we can learn enough about their needs to visualize and innovate solutions together.

A huge part of this is going into conversations with truly open minds. We don't ask our clients literal questions, we ask them big, broad, tangential questions, which enable us to understand their needs, without limiting the size and shape of their problems. So we might ask questions like, "what would help you to do your job better?" not "do you want another field in your report?" This way of thinking is not necessarily new, but the runaway success of technology has given innovation centred on the client a renewed focus. In financial services at large and in my part of the industry too, this renewed focus is both timely and welcome.

We need to think about what it means to incorporate the Human Factor into our client experience.

We face a unique challenge in this part of Financial Services as we are not retail-facing or a start-up. We need to think about what it means to incorporate the Human Factor into our client experience while respecting the strict regulatory parameters we operate within and adapting our large, legacy systems, which may seem to limit innovation in this space. The purpose of my global team is to enable the success of our clients within these regulatory parameters and, where we can on the platform side, deliver modern, innovative solutions.

Co-Creation

HSBC wants to make co-creation much more standard and is co-creating the digital solutions with clients, engaging them in the testing, as well as the idea-generating phases, where we are seeing first-hand what they want. This approach is risky. Those that have experience of the creation of tech tools know that versions of these tools can fail in the testing phases. We want our clients to know we've got this covered.

…"fail fast and fail cheap"…

Failure shouldn't scare us off though. By involving our clients in the testing process, we create a deeper sense of shared ownership in what we are building and a deeper human relationship with the client. We are creating a space for honest exchanges. They feel understood and listened to and this creates trust. Our clients feel valued that we are looking for their input, they feel respected that we are asking for their expertise. As my sector CIO recently pointed out, this whole process enhances our client experience, because technology today allows us to "fail fast and fail cheap" meaning mistakes made and learning achieved through co-creation and collaboration are never fatal nor too expensive. Learning from our mistakes, he reminded me, is one of the ***most*** human experiences.

Technology is critical to everything we do in this fast-paced, modern world. However, it is still human relationships - enabled and supported by Technology - that are the driving force in any successful business partnership. The Human Factor is, and I believe always will be, the client experience differentiator.

ISSA at SIBOS 2019

ISSA was provided with the opportunity to host two interesting panels, where representatives of member firms debated the issues with respect to distinct ISSA topics addressed by its Working Groups. Two links take you to separate Youtube videos, providing you with detailed session recordings.

Distributed Ledger Technology (DLT)

Jo van de Velde, Euroclear, opened the panel with a very eloquent summary of the potential benefits of the promise of DLT and the challenges to overcome to ensure those benefits can be delivered. He closed by setting out a number of farsighted questions to the panel.

Jennifier Peve, DTCC, started the discussion by asking about the value that DLT brought to the securities world. Vic Arulchandra, Nivaura, explained the methods and approach that Nivaura had taken to create their product using the FCA's "sandbox" system and amalgamating the legal and beneficial ownership on a distributed ledger. Tom Zeeb, SIX Securities & Exchanges, talked to the SDX construct in Switzerland and stated that the value extraction from the legacy platform decommissioning is not quick, as replacing regulation & standards takes time and only then can systems start to be retired. The best way of bringing value is actually to "increase the size of the pie" and bring new offerings and liquidity to asset classes which previously had none.

Ryan Cuthbertson, Standard Chartered Bank, referred to Tom's comment about the possibility of releasing trapped liquidity for "the big end of town" and highlighted that this technology also provides opportunity to address the world's unbanked in the "small end of town", where Standard Chartered could deliver fast and economically. Eddie Astanin, NSD Russia, talked about the D3 open source DLT joint venture, its interoperability and how the idea started at the ISSA Symposium. The platform is being used for grain trading in Russia which previously was not a market being served.

The debate moved on to the value of DLT in removing some of the historic processes such as reconciliations and the hope that well written Smart Contracts could ease the burden of corporate actions. The efficiencies are challenged by various issues that are yet to be solved such as cyber, compliance, etc. ISSA is helping driving the solutions to these problems across the DLT environments.

Business cases are focused on the short term not on a ten year view. According to Tom, replacing the existing systems will not provide the return unless they are having to be replaced anyway. Vic stated that DLT is not a panacea but rather one of a selection of solutions which will provide the answers in a classic "innovator's dilemma". In SDX the traditional exchange matching occurs and then the trade moves to a DLT solution. Reinventing the process to see whether you need all the steps that have existed previously is the key and the part that Ryan finds fun today. Eddie restated that interoperability and standardization is useful and perhaps SWIFT can help with the standards, building on the work that ISSA is presently doing. Proactive regulators are helping the industry across the globe and most are appreciated.
Watch the full Youtube video on the DLT Panel.

Cyber Risk Management and Financial Crime Compliance

Dominic Hobson started the session by explaining that criminals are starting to focus on the opportunity in the securities markets where previously they had focused on cash.

The single slide of the session (posted at the end of this section) mapped AML risk locations to known and public cyber-attacks. The audience voting showed an improvement in understanding about Cyber over the year.

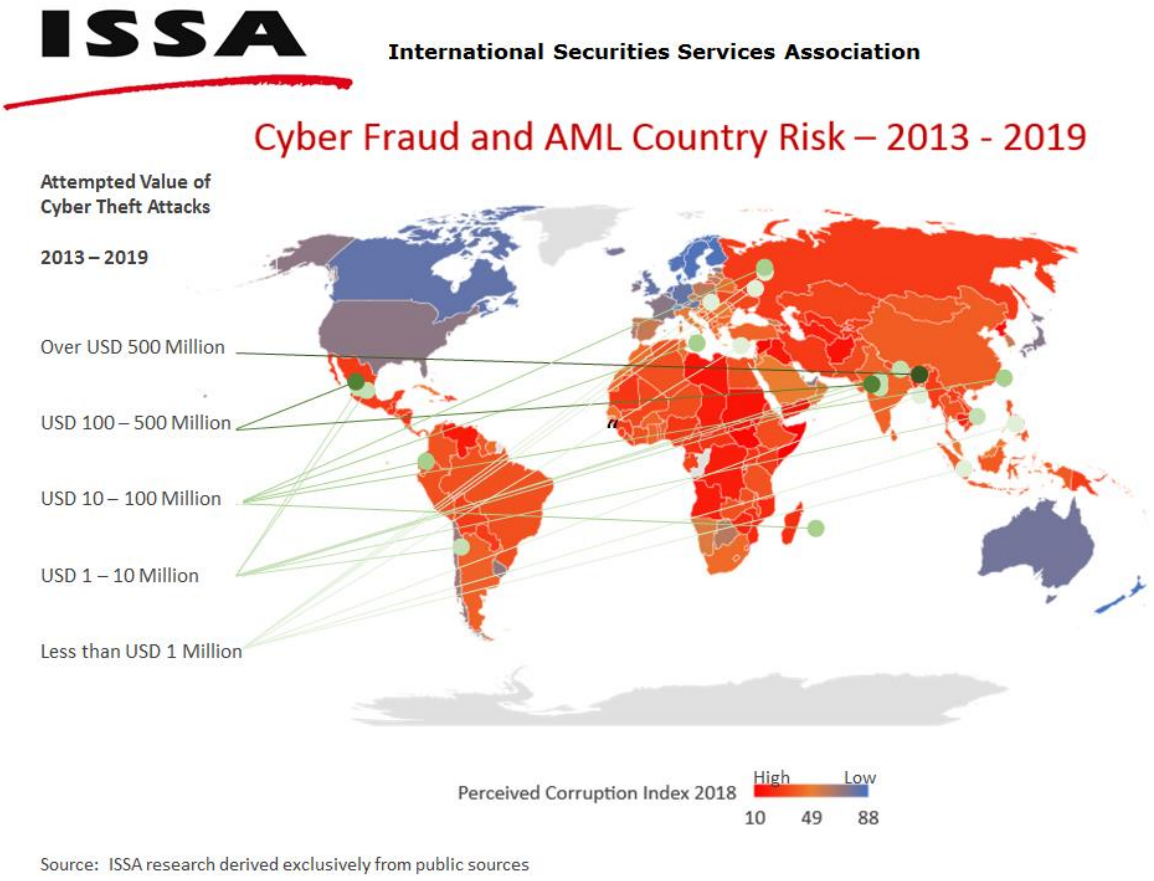
Andrew Gray, DTCC, thought this was good and noted that an increase in the understanding of resilience overall and particularly in Cyber awareness, which was a feature of an earlier panel he had been on. BNY Mellon's Andy Smith applauded the SWIFT CSP program. Mark Gem of Clearstream noted that the securities industry generates 40% of all payments volumes in SWIFT, and much more by value, with many known payment deadlines for high value movements.

The future may include a scenario where low frequency but high value cyber-attacks are made on the securities industry. One of the interesting votes was that many of the respondents rated their own preparedness as less good than their counterparties'.

Andrew felt this was a reflection of the move from the historic defence approach to believing that something will happen and how firms would provide more resilience.

ISSA's Cyber Working Group is providing a view of incident playbooks for the non-affected party if a CSD, global custodian or regional custodian is affected, in co-ordination with FSARC (Financial Systemic Analysis & Resilience Center, USA). Andy felt this was a great addition to the market's ability to respond. Mark questioned how many of the participants in the room were taking SWIFT's CSP results and implementing complementary controls as they would with AML exceptions.

Both patterns of transactions & the client are important to look at as well when looking for AML violations.

Additionally the patterns of settlement of a particular security itself maybe extremely revealing. Mark stated that much of the securities related money laundering is people investing in vehicles that they already control; therefore understanding the relationship between owners and investors is key. Lots of management attention and cash is being expended on Cyber Risk Management across both cash and securities in all firms. Andrew mentioned that DTCC is rolling out a CSP equivalent for their members. Best practice would suggest that the risks of Cyber and AML are managed holistically even if in different streams of an organization.

Watch the full Youtube video on the Cyber Risk Management / Financial Crime Compliance Panel.