International Securities Services Association

New ISSA Board Member

We are pleased to announce that, on 01 January 2021, Andrew Luscombe will replace Nicola Kane as the ISSA Board Member for Credit Suisse. We would like to thank Nicola for her support and contributions over the last two years and look forward to Andrew joining us.

Changes in the ISSA Operating Committee

We are delighted to announce that the following experts were appointed as representatives on the ISSA Operating Committee:

- Mike Thrower, Broadridge
- Timothy Tilley, Citigroup

We welcome Mike and Timothy to our Association and wish them all the best in their new roles.

New ISSA Member

In the fourth quarter 2020, the following Member joined our Association:

- Australian Custodial Services Association ACSA

Board of ISSA

Welcome

Dear ISSA Members and interested parties

Welcome to our fourth quarter Newsletter. It seems incredible that we are already coming to the end of 2020. Certainly, when we look back to the beginning of this year, we could not have envisaged how it would turn out. Having said that, despite the challenges of the pandemic, we have had great success in driving forward the ISSA agenda – a lot of which has only been possible due to the significant support of our Members and Sponsors.

As mentioned in our earlier Newsletters, one key focus this year has been on exploring the strategic themes that are expected to drive Securities Services over the next three to five years. These findings, from the partnership between Oliver Wyman and the «Future of Securities Services» Working Group, have now been brought together in a White Paper and shared with our Membership through a series of webinars. The White Paper has also been issued to our Member Representatives and other key individuals. This does not mean that our other Working Groups have not been busy - they are also continuing with their efforts to bring our Members informed articles and reports on multiple topics of interest.

To round out 2020, the following articles are included in this Newsletter:

- Year-end message from our Chair, Phil Brown, and CEO, Colin Parry
- Future of Securities Services – what comes next?
- Asset Servicing survey report – read about our collaboration with The Value Exchange and the key findings from the recent survey
- Regulatory Insights – ISSA releases an updated version of our regulatory report
- Working Groups updates on their quarter three activities and plans for the rest of 2020

We wish you all the best for the rest of this year and a happy and healthy start to 2021.

Sincerely, ISSA CEO Office

Dear ISSA Members and Friends

I would like to thank all of you for your support of ISSA during 2020; a most extraordinary and difficult year both for our industry and for us all personally. However, I am by nature an optimist and believe we will all come out stronger and more appreciative of the opportunities available to us.

In my LinkedIn video, on becoming the Board Chair of ISSA, I stated that our aims remain to increase communication in the industry, facilitate collaboration and drive change for the better. Despite the travails of 2020 I look back on the year and recognize the many successes we have achieved.

This year-end message would not be complete without thanking Josef Landolt and Urs Stähli for their years of service for ISSA and, whilst we would have preferred to say goodbye and thank them at the Symposium, the pandemic prevented the event from occurring. So to re-iterate our thanks here is both appropriate and heartfelt.

Colin and Karen have admirably filled the space that Josef's and Urs' retirements created and that handover has been seamless. As always change creates the opportunity to challenge ourselves, to take risks and find new ways of working. The creation of the PMO function run by the CEO Office has allowed us to both relieve the administration on the Working Groups and start a number more. This has resulted in substantially higher output across all the Working Groups and hopefully you are seeing the benefits of that.

We have also refocused our communication, combining our historic practices with shorter and more frequent updates, papers and LinkedIn and website posts, allowing the content to be more accessible and timely. The first ever Virtual General Meeting was well attended and a success, so our intent is to carry on with these in the non-Symposium years.

My final message in the video mentioned above is still pertinent. ISSA's Membership is its strength. The Members who actively contribute drive the quality of the output and increase our ability to improve the industry – please therefore join Working Groups where you can and help us to achieve our goals. The Board will not rest in our quest for improvement and we would like your support to help us.

I wish you Happy Holidays and a restful break.

Phil Brown, ISSA Chair

Dear ISSA Members and Friends

When you take on a new job, you have certain expectations in your mind. Having agreed both the 100 day plan and strategy with the Board in advance of becoming CEO - and having Josef & Urs available to help me with my first Symposium - I believed I was set up for success. 2020 however has run a very different course than I could have ever planned.

No plan survives contact with the enemy - and this one was no different - so we have adapted, changed and I would like to think that we have succeeded. I come out of 2020 disappointed that we could not have the Symposium this year but otherwise brimming with positivity.

Our Members have created a wave of content during 2020. Additionally we have had publicity on the content like never before. You will read later in the newsletter about the Future of Securities Services work which has created numerous opportunities for us to all engage and push our ideas across the industry, but that is only one of the Working Groups (WGs). Almost every one of the nine WGs has produced valuable collateral for our industry during 2020 and you can read the highlights of each later in this newsletter.

Personally, I have tried to drive collaboration with others in the industry for mutual benefit. Again, we have had success. This has ranged from the relationships we have forged with other trade associations, our work with Value Exchange in running the two big surveys of 2020 in partnership with Members and others through to the engagement with Global Custodian and Asset Servicing Times. I hope that you, as our Members, feel this brings you value.

Our successes of 2020 are due to the efforts of the Membership in turning up for meetings and providing input and content. This effort is supported by the dedicated team of Karen, Ursula and Hanna and I thank them for their tremendous efforts in this most difficult of years. My appreciation is also deep for Josef and Urs who retired from ISSA in 2020 but laid a strong set of foundations and relationships for Karen and I to inherit.

My expectations for 2021 still brim with positivity. Although not sure what the world will bring, I know with the support of the Membership and our Board we will continue to communicate, collaborate and change the industry for the better.

Kind Regards

Colin Parry, ISSA CEO

Future of Securities Services (FSS)

Successfully Engaging with the ISSA Membership

William Hodash
Managing Director, DTCC / Co-chair of the FSS Working Group

Member Webinars

With the publication of the ISSA & Oliver Wyman joint paper on FSS to our Membership we also issued invitations for a series of webinars. The aim was to ensure that not only the firms who were on the Working Group had the chance to contribute to the future direction of ISSA but that the whole Membership has the opportunity to be involved.

60 people, from 4 continents, registered for the webinars over the four sessions and we had a very good interaction on the polling tool. The conversations at the webinars have led to the revision of the FSS document to incorporate some great suggestions from the attendees. We have also altered the priority on the groupings of the initiatives to reflect the feedback from the polls and from the Survey Monkey poll which was sent with the invitations.

If you missed the webinars, a series of videos have recently be published and you can see what you missed. Our thanks to the team at Oliver Wyman for taking the time to support the webinars and running the polling.

Publication of the Document

The new version of the FSS document was distributed to our Members on the 16th November. The paper has additionally been published on the ISSA Website and on LinkedIn in order that non-Members can also read its important findings.

Next Steps

In the first quarter of 2021, an update on the FFS paper will be given, including details about the initiatives identified as part of the FSS paper. These will then be debated in various on-line sessions. This will culminate in a final decision on the next areas of focus for ISSA and, where appropriate, new Working Groups will be established.

Capacity, Scalability and Agility

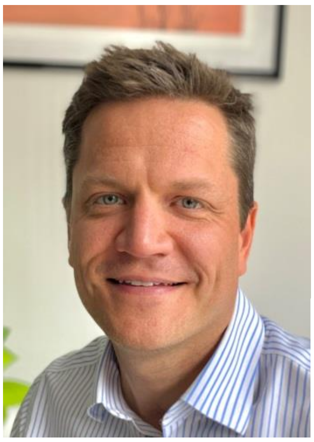
The new Principles of Corporate Actions in 2020

In September 2020, ISSA partnered with The ValueExchange, Broadridge, ASIFMA, The Network Forum and Global Custodian magazine to take an industry-wide check on how we are dealing with a unique range of corporate actions challenges today.

The feedback from over 200 organisations has been remarkably clear. Whilst corporate actions have been a long-standing centre of risk, it is the changing nature and behaviour of corporate actions in 2020 that has made transformational change almost inescapable.

«This year's Covid-19 pandemic has combined with regulatory triggers (such as SRD II, SFTR and UMR) to create a 'perfect storm' of pressures on a part of our industry that has changed little in 20 years» according to Mike Thrower of Broadridge. With new technologies and new standards now readily available, the corporate actions industry has more opportunity than ever to transform.

The survey's leading findings and data dashboards were released to ISSA Members in November – and centre on 7 key points:



Barnaby Nelson
CEO of The ValueExchange provides his perspective on the findings from the industry

1. Corporate actions are a multi-million-dollar risk centre

Over 60% of business units across our industry have paid out more than US$2 million each in corporate actions compensation in the last 24 months – stretching to 78% in Asia-Pacific. This makes corporate actions one of the largest risk centres in any business – especially when losses can spiral significantly in some firms.

Whilst surprisingly few people contest these levels of errors, our survey highlighted that costs aren't even the biggest problem – with customer revenue losses, overtime costs and management time all seen to be more impactful than the direct dollar-sums involved.

2. We're not telling the story properly

Despite these huge costs, few outside the back office have properly grasped the scale of the issue. CEOs and Sales traders believe their corporate actions to be 98% automated, falling further with COOs and Product Managers until you reach the back office – who see a 40% automation level to be more accurate. Equally, few investor segments agree on the size of their corporate actions problem: with investment banks estimating automation levels to be 92% and fund managers closer to 25%.

This huge variety in perceived corporate action-quality is of great concern: how can our customers and pay-masters support meaningful change in our industry when they are not even aware of the problem?

3. There is no single issue - but «garbage in» is a fundamental challenge

One reason for this disparity is because there is no single corporate actions problem. In Asia-Pacific, all event types present a challenge (from mandatory to income to voluntary), whilst Europeans appear to struggle most with income events and North Americans with voluntary events.

Yet we do all agree on some things: most of all that sourcing and validation of event data is the biggest problem across the corporate action lifecycle. Despite having an entire industry to help us clean and validate event information, we continue to struggle with manual sourcing, multi-eye checks, enrichment and re-keying – all of which undermine the quality of everything that follows. If the original event is incorrect, then settle-ments, cash flows and customer servicing all suffer.

Nowhere is this more so than in the prime services and securities lending spaces – where multiple layers of data reconciliation and interaction cause significant (and ex-pensive) distortions for banks and fund managers daily.

4. Capacity, flexibility and agility: The new principles of 2020

But we probably all knew most of that already. What is driving a step-change in attitudes towards corporate action transformation in 2020 is the fact that this year's events have behaved entirely unlike previous years. Instead of simply running more of the same events through our fragile macros and EUC's, we have this year been faced with corporate actions that are more com-plex and more unpredictable. Owing to a lasting shift in market dynamics, we can no longer basket all rights issues into a simple set of event types, nor can we assume that dividends will be paid once they have passed their Ex date – and our position-keeping or cash flow macros simply aren't able to cope with this change.

These changing behaviours have been highlighted as more impactful even than SRD-II or CSDR in 2020 – and most investors expect 2021 to be no different. Corporate actions are no longer a simple capacity game – they now require scalability and agility as well.

5. It's time to transform: We know we can't keep tinkering

Whilst many might have tried to simply add more re-sources to address this problem historically, this new dynamic appears to be driving a more fundamental level of change.

From the front to the back office, organizations are allocating 10% more resources to corporate actions in 2021 – as the single largest investment priority in the year ahead. Their objective is amazingly consistent: system transformation. Not incremental change – but transformational change – with the primary objective of «future flexibility, risk reductions and timeliness improvements». This is not (directly) about costs and it is no longer about just keeping the lights on. The world of corporate action processing is changing.

6. But it's not all about system transformation: Beware the appeal of «Robotics»

Whilst the industry sees «system change» as the preferred solution across every part of the corporate action lifecycle, other (more tactical) options also form part of the plan. New connectivity (APIs and use of ISO20022) is seen as a viable solution to problems in sourcing and client notifications – and is potentially quicker to realize than deeper system transformation.

Yet robotics and RPA (Robotic Process Automation) also seem to be gaining attention - particularly in the sourcing, validation and entitlements spaces. Whilst thankfully no sector or region has identified «more hiring» as a lasting solution, the popularity of RPA (especially in Asia-Pacific) is a concern as it is unlikely that robotics can offer the scalability and agility that are so crucial today. In the face of unique challenges today, we need to avoid turning to the same technologies that have caused today's impasse.

7. Transformation means working as an ecosystem

No single solution offers a silver-bullet to the corporate action problem: We cannot switch on a new corporate action system or API and suddenly fix the issue. Beyond internal automation, the use of industry standards ac-ross the ecosystem is highlighted as the single biggest dependency for future-proofing our corporate actions – most importantly by those upstream of us in the pro-cess. Bringing scalability and agility tour corporate actions is an ecosystem challenge – and it is an urgent one.

If you would like to know more about our Asset Ser-vicing Innovation research, you can download the Key Findings at: thevalueexchange.co/assetservicinginnovation.

Regulatory Impacts on the Securities Services Chain

2020 Update to the Regulatory Report

ISSA published its first post-crisis Regulatory Report, titled «Regulatory Trends and Initiatives Affecting Custodians, Clearers and (I)CSDs: Impacts and Implications» in 2012. The 2012 report was written in the relatively recent context of the 2008 financial crisis. ISSA issued a further, updated report in 2018.

This new 2020 report provides a further update; taking into consideration recent regulatory developments as well as the current Covid-19 pandemic. The aim of the report is to provide its audience with an overview of the main changes in existing, as well as new, regulatory initiatives. Please note, though, that the report does not look to specifically address financial crime compliance.

Here is the link to the report:

Alternatively, please visit our Website or LinkedIn for a copy.

Progress Reports on ISSA Working Group Activities

Please see below ISSA's progress report on its Working Groups.

Corporate Actions and Proxy Voting

The Corporate Actions and Proxy Voting Working Group's focus during the third quarter was on the following key topics:

- **Asset Servicing Survey:** Many of the WG participants completed the Asset Servicing survey run by The Value Exchange
- **Proxy Voting:** The WG is analysing and documenting Proxy Voting market practises
- **Pandemic Issues:** The Working Group is preparing articles on issues that arose due to the pandemic and how these could potentially be addressed:
    - Proxy Voting
    - Tax Reclaims

Refer also on Barnaby Nelson's article in this Newsletter.

Cyber Risks in Securities Services

The Working Group's main efforts were focused on preparing two scenarios where a Cyber-Attack impacted a large CSD and a Custodian.

The WG also completed and published a document that outlined the Cyber risks and provided guidance and best practice to the Securities Services industry.

The focus of the present effort is the creation of an article about the risks and mitigants of extensive Working From Home.

Distributed Ledger Technology

In the third quarter, the DLT Working Group:

- Started three new sub-groups:
    - Voice of customer
    - CBDC/Stable Coins
    - Standards
- Arranged presentations on:
    - CBDC, by Accenture
    - Tokenisation for Real Estate by Consensys
    - Project ION and Whitney by DTCC

The group is now focusing on creating and delivering on the sub-projects that were started from the information gathered during the survey.

Financial Crime Compliance

During the third quarter, the Financial Crime Compliance Working Group focused on the following key topics:

- **FCC Principles Questionnaire:** The FCC DDQ sub-group has completed its review of the original Due Diligence Questionnaire (DDQ) that was published in 2017. The DDQ has been updated to incorporate the feedback provided from multiple sources and the document will be finalised this quarter.

  The aim is that the updated DDQ will be available for distribution and use early next year.
- **UCITS Fund Markets:** The UCITS Funds Markets subgroup has been looking specifically at AML related KYC with regards to investment funds. In particular, they have considered:
    - How funds should be handled against the FCC Principles
    - The level to which due diligence is undertaken

  The effort has resulted in a more consistent approach to how Luxembourg funds complete their due diligence. The CSSF has provided the market with guidance that is consistent with the ISSA Financial Crime Compliance Principles. This has eased the KYC-related operating burden on market participants whilst enabling a greater focus on risk-based activity.
  The subgroup is now planning similar meetings and calls with groups in other key fund markets to socialize the findings.

Future of Securities Services

During the fourth quarter, the FSS WG has refined and edited the discussion document that explains the hypothesis to ISSA Members. They then held a series of webinars for the ISSA Membership to present the findings and then published the final paper to the Membership.
Refer also on William Hodash's article in this Newsletter.

ISO 20022

The three subgroups in the ISO 20022 Working Group (Banks, FMIs, Tech) have now received, collated and analysed the survey results. During the fourth quarter the group plans to:

- Agree core conclusions and priority theme and summarize these in a findings report
- Issue papers and follow-up questions raised in the survey
- Consider and agree the merits of a broader industry survey beyond the ISSA Membership

Recovery, Resolution and Resilience

The Recovery, Resolution and Resilience WG has now created and signed off on a document entitled «Common understanding of terminology and regulations deliverables». The group is also finalizing the structure and format that will enable them to define and develop a standard set of materials for liquidity and capital scenarios.

During the fourth quarter the WG will complete participant analysis, sequencing and open points in order to sign off the standard set of materials. This will then enable the WG to review and develop simulation text processes for various scenarios as well as a RAIDs (Risks, Actions, Issues and Decisions) log.

The New Norm

The New Norm Working Group is focused on publishing a series of short articles that look at the impact of the pandemic on the securities services industry. Specific topics include:

- Working Methods
- SSIs
- Operational Models and Resilience
- Automation
- Digital Signatures

The Working Group will outline how the pandemic initially impacted each area as well as offer potential solutions and guidance on best practice to help institutions manage the current situation and position them positively for the future.

The first article, Working Methods will be published in January 2021.

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