Future of Securities Services (FSS) 2023 Whitepaper

Points to note:

1. Trends need to be aligned to developments within the broader Capital Markets ecosystem that are **relevant for the Securities Services** industry.

2. Consider drivers of future growth for instance, arising from **new asset classes** (e.g., digital assets) and **new technologies**, impacting Securities Services.

3. **Global/regional/in-country nuances** need to be factored in as Securities Services markets operate worldwide, influenced by myriad geo-political considerations.

Link to the previous Whitepaper, published in 2020: Future of Securities Services - Publications- ISSA (issanet.org)

Topics:

Group A	Group B
✓ Shift into Digital and Alternative assets (partially started)	✓ Increased adoption of new technology
✓ Financial deepening and globalisation	✓ Industry disruption by Big Tech
✓ Increased data and associated use cases	✓ Emerging new risks
✓ Increased sourcing and partnerships	✓ Loose monetary and expansionary fiscal policy
✓ Uncertain regulation	

Edit as required

Future of Securities Services - Framework

Trend: **Increased Sourcing and Partnerships**

		Sample provided below, please edit / add your inputs accordingly
1	**Relevance** Are the points mentioned in the previous paper relevant and are there any use cases?	*The points in the previous report remain relevant, where the summary themes point to cost-driven focus on improving efficiency, by forming strategic partnerships or sourcing of lower cost vended/managed services and solutions.* *The perspective that there is room for further expansion remains true, and the emergence of next generation software and platforms. The WG discussed the emergence of shared data platforms that carry a network effect and solutions like Proxymity, Kingfield market claims, and AccessFintech as use cases of the focus on next generation solutions.*
2	**Correlation** Is there a link to other trends from the Whitepaper?	*There is a link to the trends on Geopolitical and Globalisation trends, where we see a growth in the level of conflicts, sanctions and government restrictions impacting how outsourcing is undertaken, and the depth of due diligence required to fully understand the operating models of any partners used in outsourcing (e.g., 4th party risk).* *There is a link to Increased Adoption of New Technology, with firms partnering to acquire new or advance existing capabilities (e.g., LSEG and Microsoft 10 yr strategic partnership to leverage Microsoft Cloud and AI capabilities)*
3	**Outliers** Are there any sub or underlying trends and have we critically examined them?	*One of the Sub-Themes is Innovation through Mutualisation, and the emergence of Consortiums. We are seeing more examples where competitors are co-investing in broader consortiums where this drives towards a broader industry benefit.*
4	**Factuality** Are there any data points, visualizations, reference publications, to support the trend?	*While the current paper mentions an Oliver Wyman view that 30-50% of Tier1/2 post trade operating costs that could be outsourced, were actually outsourced, we have not seen the underlying analysis on this and it would be useful to request an update on assumptions for this model and chart.* *We have seen very little traction in the Sell Side/Investment Banks where there is acute customisation of models, barriers to rapid development of multi-client models, and challenges extracting processes despite focus from Securities Services providers. However, there is likely to be increased interest in Tier 2 reconsidering their outsourcing model. Tier 2 ROE has trended lower than COE (high front, middle and back office costs, as well as, falling margins due to automation and electronic trading, now for FICC and FX, as has been the case for Equities for some time). Outsourcing enables cost reduction, and the ability to offer clients breadth and quality of products[1].* *On the Buy-side the sentiment is that there has been growth in outsourcing of technology and operations with the continued emergence of middle office services and asset manager platforms solutions, which continue to get traction.*

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Trend: **Increased Sourcing and Partnerships**

		Sample provided below, please edit / add your inputs accordingly
4	**Factuality** Are there any data points, visualizations, reference publications, to support the trend? – *continued*	*A 2021 BNY Mellon survey to* 200 Asset Managers found that outsourcing is an area of focus in the next 3 years (97% had interest in outsourcing data management infrastructure, 90% their back office capabilities, 78% data operations, 61% middle office, 41% front office capabilities[2]). There is interest from the buyside to partner with outsourced trading providers, and in response, the number of providers has increased from 10 to 40 from 2018-2022[3]. *Within the Securities Services providers, we have seen continued trends in outsourcing technology and infrastructure, and we have seen the emergence of highly specialised service providers such as Proxymity and AccessFintech, where the concept of central data platforms is driving a new focus on collective benefits. These specialised service providers focus on narrow pain points and are getting traction because they are not requiring a wholesale lift and change of infrastructure.* *But there are also examples of re-insourcing by players in recent years, both in terms of BPO focused JVs that have been unwound, and full outsource*
5	**Effectiveness** What predictions came true from the previous whitepaper and what has not?	*The predictions were relatively general in terms of a continued trend for outsourcing. On the whole these have come through, as firms reconsider what they should retain and customise as a differentiation versus areas to collaborate around common industry problems.* *We can't see anything specific that has not come through.*
6	**Granularity** Have the opinions, arguments covered all key factors relevant for the time-horizon?	*We could dig deeper into what we see succeeding versus stalling. A view that the industry needs a stronger lense on models that drive material incremental benefit (for example through data sharing and aggregate insights) versus a simple segregated outsource.* *We are also seeing more focus on microservice outsourcing and more specialised services that can deliver value and scale clients rapidly, versus the historical focus on highly complex and broad platform outsourcing that have proven to be expensive to migrate and very challenging to scale.* *T+1 is not discussed in the previous paper. It is highly likely that this will accelerate outsourcing both to bridge technology gaps, but also the need for more concentrate resourcing to resolve matching and settlement issues.*

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		Sample provided below, please edit / add your inputs accordingly
6	**Granularity** Have the opinions, arguments covered all key factors relevant for the time-horizon? - *continued*	*We also do not discuss the acceleration of Cloud, and how this is impacting the access to shared services. The key hyperscalers are actively partnering with key industry service providers and looking to position themselves as a platform for data sharing and service access.* *There is also a view that focus on utilities has stalled, and that the industry is re-looking at this and learning from previous experiences. This seems valid and there is (post Symposium) a stronger appetite to revisit this.*
7	**Time-Horizon** What's the time-horizon for the predictions, trends - 2030?	*There is no mention of a time-horizon for this theme, and it is quite hard to insert one.* *It seems viable that we would expect to see more developed utilities by 2030, and a far stronger coverage of the core processing model, that will lift the views on areas that can be included in scope.*
8	**Specificities** Are there any specific implications for Securities Services industry? [strategic, financial, operating model, technology stack, macro-economic, risk & regulatory]	*We have seen almost no new entrants to the "Global Custodian" industry in the past 10 years, and instead a list of firms exiting or considering exits. There is a possible POV that the more we create utilities and common solutions around core solutions the lower the cost of market entry or even retention of players that consider the ongoing core operating costs and individual investments required too high. We may attract more players.* *Risk – do we drive new concentration risks in the industry if we central activities into single common platforms and with single entities. How should the industry protect again this to ensure we do not create a new set of problems while we are addressing the cost and efficiency problem.* *The focus on Tokenisation of traditional securities may also bring an opportunity to introduce new common operating standards in a way that is very hard to roll across existing traditional custody models.* *What can the Securities Industry learn from the Payments industry as we develop our models. For example around Open Banking and hyper-connectivity and services access? Are we ready for an Open Securities equivalent and what will drive this? Also, are there lessons that can be learned around UTI adoption, digital identity and collaboration with fintech? There was discussion that payments are further ahead because a lot has been driven by regulation, and players have embraced regulation.*