

8 August 2023, via Teams

ISSA – Future of Securities Services 2023 - Group A Meeting, 8 August 2023

Minutes

Participants:

Alan CAMERON	BNPParibas	
Alex Dockx	JP Morgan	
Alexander Duggan	Cognizant	
Carlos Fan	Macau CSD	
Colin Parry	ISSA	Co-Chair
Cryan, Jennifer	Citi	
Gemma Balasingam	DTCC	
Giles Elliott	TCS	
Sameera Dada	STRATE	
Joanne Healy	Digital Asset	
Matthew Jimenez	Northern Trust	
Prakash George	DTCC	
Stefano Galletti	Intesa San Paolo	
Emmanuel Alao	FMDG Group	
Goran Fors	SEB	

Bill Hodash (PMO)

Agenda

- Introductions
- Brainstorming Group A Trends

Introductions

Colin welcomed the Group and handed off to Bill to facilitate the meeting.

Bill reminded the Group A members that on July 27 he had distributed a Template, designed by Mat Kathayanat, to be used to collect our thoughts on each trend assigned to the Group. Also included was a paper from Global Custodian on Trends in Securities Services out to 2030, published in 2020 ,around the same time as the ISSA FOSS Paper.

The purpose of today's meeting was to brainstorm one or two of the Group A topics sufficiently for a member of the Group to then complete a draft of the Template for that topic and distribute to the other members for edits/additions. Bill suggested that

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we begin with “Increased Sourcing and Partnerships”, a trend that is also impacted by one of the other trends: “Financial Deepening and Globalization” which we would turn to if time permitted.

Brainstorming -- “Increased Sourcing and Partnerships”

Key Points Made

- The industry is exploring partnerships with Fintechs to leverage capabilities that we do not have at the level we need to grow the business moving forward.
- The platform model will be more important in the future as it is for adjacent industries like Payments.
- Common data sets, common data standards will be built to facilitate much wider data sharing via shared platforms, but not necessarily a jointly owned and governed utility.
- While adoption of new technologies and scale are benefits, the more important benefit is larger network effects.
- The industry will benefit from innovation through mutualization.
- Consortiums may form to facilitate all this.
- Perhaps countering some of this, there is an increased focus by regulators on firms’ resilience, especially of core services and on the Third-Party Risk and even Fourth Party Risk associated with outsourcing elements of core services., including concerns about concentration risks with multiple financial firms outsourcing activities to common providers.
- The original FOSS paper estimated that about 30% of activities related to Core Services were outsourced, which now seems low given how much more financial pressure there is to lower costs.
- There has been less progress with investment banks and brokers outsourcing to Securities Services firms than by Asset Management firms outsourcing to them.
- The investment banks all want to do it, but when it comes to implementation, they all have different economic models and liability concerns, so many back off when it comes to implementation.
- There are large in-house differences in the way firms do business and that makes it very hard to wholesale lift core services and have it done in a common way.
- It takes a lot of pain for firms who compete to then get together to perform a key activity, even a non-competitive one, in a singular fashion.
- Success may require a very small group of firms to adopt a common approach, prove the economic and risk case, and then expand both to additional firms throughout the industry and to adjacent services. Limited initial scope might cause incumbents to move quickly.
- Will competitors partner to serve common clients? There is a lot of demand on the investment manager side to do this.
- Many firms partner with Blackrock/Aladdin and firms seems to be announcing new partnerships on a weekly basis. But are these true partnerships or really just commercial supplier/customer relationships with some marketing spin? In any event, the firms will need a more scalable way to manage all those relationships.
- Real strategic partnerships are getting much more scrutiny than ever before.
- **Does this create an Opportunity for the Securities Services Industry?**
- Are there parallels in the Payments industry that we can discuss in the paper that might provide an impetus for our industry? For example ,UTI adoption, ISO 20022 adoption, digital identity in trade finance? Are these being driven by economics or regulation or a combination of both?
- In our industry, incumbents move slowly, but may speed up considerably if new entrants start to grab a significant share of the industry’s growth, as has happened in Payments.

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- The barriers to entry in Securities Services have been high, but could emerging technologies and strategic partnerships lower them significantly?
- Change in Payments has been led by retail payments and retail customers and the new entrants' abilities to meet their needs. However, Securities Services is mainly driven by the institutional investors' needs.
- We have learned that in driving innovation in asset classes, it's not so much the inherent risk of the new asset class that slows down adoption, but perhaps the riskiness of the service providers servicing the new assets.
- Perhaps the tokenization of existing assets will drive the incumbent players to adopt common processes to be in the strongest position versus potential new entrants,

Next Steps

Bill asked for a volunteer to take the results of today's brainstorming session and draft the Template for this topic and then circulate it to all Group A members for edits/additions, with the goal of having a finished template in advance of the next full FOSS WG meeting on August 21.

Giles and Emma volunteered to take on that first draft, using the minutes of today's meeting as the starting point.

AOB and Close

As there was no AOB raised, the meeting was then closed.

Summary of Follow Up Actions

No.	Action Description	Responsibility	Deadline
1.	First draft of the template and distribution to all Group A members	Giles, Emma	14 August 2023
2.	Edits/additions to the draft template by all Group A members	All Group A Members	18 August 2023