ISSA – Future of Securities Services 2023 - Working Group Meeting, 11 September 2023

Minutes

Participants:

Abhijit Kulkarni	**Deutsche Bank**	
Colin Parry	**ISSA**	**Co-Chair**
David Petiteville	**RBC**	
Kelly Mathieson	**Digital Asset**	
Martin Watkins	**Montis**	
Mathew Kathayanat	**Deutsche Bank**	**Co-Chair**
Oraten Leterbele	**Strate**	
Andreas Lundell	**Nasdaq**	
Sameera Dada	**Strate**	
Giles Papadapolus	**Swiss Re**	
Bill Hodash (PMO)	**ISSA**	

Agenda

- Introductions
- Brainstorming Group B Trends - - Adapting New Technologies and Emerging New Risks

Introductions

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

Bill reminded the Group B 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.
The purpose of today's meeting was to brainstorm one or two of the Working Group topics. Bill suggested that we tackle two of the Group B topics B that Mat made an initial draft template on but was not discussed in the last Group B meeting. The Working Group agreed, and we went through those two draft templates.

Brainstorming - "Adapting New Technologies"

Key Points Made

- APIs- - most firms are using them; they are not part of the infrastructure. But the standardization of them and their underlying data models has lagged.
- Cloud- - Most firms have a Cloud provider and are looking to share data and applications on their Cloud instance or on their clients' instances.
- Automation Tools - - There has been an increase in adoption and maturity of capability.
- DLT - - while surveys indicate increased adoption, the big projects have not gone forward, with ASX discontinuing the DLT based CHESS replacement and HKEX's project having gone quiet. Some banks have successfully set up private blockchains for narrow purposes and specific use cases.
- These and other new technologies have started down the adoption path but have moved much slower than we anticipated. The drivers are there, but many business people see them as black boxes. Could it be that firms are still in the stage of looking for competitive advantage and are hesitant to work with other firms in the industry until after they

have mastered the technologies themselves and used them to gain an advantage. Might they not be mature enough to invite industry standardization efforts? Perhaps firms even are prohibiting wide internal use of the technologies until the firm builds up expertise and understands all the risks and how to mitigate them. We have seen this with Cognitive AI applications like ChatGBT.

- We should consider focusing on what the conditions are that will cause increased adoption, what problems the technologies are needed to address.
- Will faster settlements cause some of these technologies to be adopted throughout the industry?

Brainstorming - "Emerging New Risks"

Key Points Made

- The industry did not see the Pandemic coming, yet quickly coped with it and as a result has greatly increased resilience against many types of risk.
- Now the focus is on Third Party and Fourth Party Resilience.
- AI certainly presents new risks. The SEC Chair recently stated that AI could lead to a future financial crisis if many firms rely on the same model, which later turns out to have been flawed under certain conditions that then present themselves. AI also has the risk of using the technology for the wrong use cases (e.g., using ChatGBT as a search engine).
- There is a risk of AI technologies advancing without significant input by the Financial Industry.
- AI presents the risk of massive disinformation and the liability for that.
- The ESG movement has in some cases slowed with elements of it under political attack.
- Geopolitical Risk is causing even more de-globalization, on top of the pullback caused by the supply chain risks that the Pandemic exposed. This included whether firms truly have control of their data in all jurisdictions they operate in.
- As a result, business models are changing, and it may slow down getting businesses started in many countries. The economics of serving global jurisdictions is changing for the worse. Firms' locations strategies that served to lower their costs are being re-evaluated due to lessons of the Pandemic and the war in Ukraine.
- It may take significant time to change supply chains to manage these risks. There may be balance sheet implications for the new geopolitical risks.
- Pricing risk – there are asset classes that are now being made available to retail investors, which have a significant risk since they are overpriced. What happens if their valuations burst as transparency into their markets increases? The combined size of alternative investments is now actually larger than the entire mutual funds industry.
- Securities Servicing firms are providing services for asset classes that are opaque from a pricing perspective, providing prices to their clients based on transactions between a small group of buyers and sellers. This is driving regulators to react and limit growth in this area.

Next Steps

Bill will edit the two draft templates on these two topics that Mat drafted to reflect today's brainstorming session.

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.	Edit the two templates and then post them on the WG members' site and notifying the members of that	Bill, Mat	25 August 2023

Tel: +41 58 399 23 68 c/o SIX Group Services AG, Hardturmstrasse 201, www.issanet.org
Email: issa@issanet.org P.O. Box, CH-8021 Zurich, Switzerland