

Introduction by the ISSA CEO Office

Governance Update

Change in the Operating
Committee

New ISSA Members

4 new Members have joined
ISSA since October 2016.

Contribution from two ISSA Members

- Matthew Bax, J.P.
Morgan Chase on his
experience as ISSA
Board Member
- Jason Nabi, Paxos Trust
Company on First Real-
World Implementations
of Blockchain Post Trade
Settlement, which will
arrive in 2017

ISSA Thought Leadership Events 2016

- Working Lunch
Singapore, November 4
- Conference Hong Kong,
November 7

Update ISSA Working Groups

- Inherent Risks within the
Global Custody Chain
- Collateral Management
Best Practices
- Corporate Actions and
Proxy Voting
- Distributed Ledger
Technology
- Financial Crime
Compliance Principles
- Regulatory Impact on
the Securities Services
Chain



Dear ISSA Members and interested parties,

During the 4th quarter 2016 various ISSA related meetings and events have taken place. In October ISSA's Operating Committee held its annual Workshop in London. A very engaged discussion focused on current Working Group activities and proposed new themes where ISSA could add value to the Securities Services industry. The Workshop also concluded to hold two gatherings p.a. going forward. The Board took note of the results at its November 8 meeting in Hong Kong. A short summary on the current status of today's Working Group activities is integrated in this Newsletter. Information on the way forward will be provided early next year.

At its meeting the ISSA Board reaffirmed its earlier decision to implement a Closed User Group on its homepage. This member-only section is foreseen for corporate documents as well as for ISSA products, such as reports and studies that have been freely accessible so far. The Board is convinced that ISSA documents have a great added value for market participants and that the access to this knowhow should be linked to an ISSA membership.

Preceding the November ISSA Board Meeting, two 'Thought Leadership Events' were held in the Asian region. A summary information is provided in this Newsletter.

Again we are happy that two representatives from ISSA Member firms have accepted our invitation to present their views on specific topics in this edition.

Finally, this Newsletter provides also the opportunity to sincerely thank you for your great support granted to ISSA. Results achieved have received excellent feedback across our community. You all deserve great respect and our appreciation. Please accept our best wishes for a Merry Christmas and for a healthy and successful 2017!

With best personal regards – ISSA CEO Office

Governance Update

Operating Committee

- In November, Angus Fletcher, Deutsche Bank, was appointed Vice Chair of ISSA's Operating Committee.

New Members

Since the last Newsletter in October, the following 4 members have joined our Association:

- White & Case LLP, London
- Deloitte Ireland, Dublin
- ASX Limited, Sydney
- ADIA (Abu Dhabi Investment Authority), Abu Dhabi

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

Board of ISSA

Individual Board Member Statement

In the following please take note of the personal address of Matthew Bax who joined the ISSA Board earlier this year.



*Matthew Bax
Managing Director,
Head of Custody EMEA
J.P. Morgan Chase*

Earlier in 2016, I had the honour of taking over the J.P. Morgan Board Membership position for ISSA, and as the role was new to me, the ISSA team asked me to contribute a few words on my first impressions and observations of the organisation and the work we do together. I was lucky enough to have my first year as Board Member coincide with the 18th ISSA Symposium in Switzerland in May, and to attend the Thought Leadership

Conference and Board Meeting that were held in Hong Kong in November. Both events have allowed me to form a few opinions on how ISSA has been able to remain relevant and grow over its 40+ years history.

Firstly, its Membership is fairly equally split between custodians, brokers, CSDs, CCPs and exchanges with a small but growing representation from top tier asset managers and consultants. This mix provides a unique opportunity for shared understanding when compared to other industry forums, and allows ISSA to resolve problems or capitalise on opportunities with an end-to-end perspective. With current investor, regulatory and technology changes demanding that the industry and its participants re-assess themselves and the risks / reward dynamics across the entire value chain, ISSA's ability to think holistically represents a real opportunity for us to remain relevant and add value to the Members and the industry as a whole.

A second observation, and one that reflects the interests of the whole Membership base, is the breadth of the Thought Leadership and Working Group activity within the organisation. What particularly impresses me is that ISSA manages to focus on both core industry topics such as through the whitepapers on «Inherent Risks within the Custody Chain» and «Financial Crime Compliance Principles for Securities Custody and Settlement», but also cutting edge topics such as «Distributed Ledger Technology». It is with this quality output across a broad range of topics that ISSA and its Members will continue to flourish as the post trade world becomes increasingly more complex.

Finally, the ability of this broad Membership to come together in person during a Symposium at the Wolfsberg Centre in Switzerland was a great first-hand way to see the value of the organisation in action. Specifically, during the breakout sessions which, helped by the patchy mobile signal, were one of the rare occasions I have seen real deliverables being completed over and above the usual relationship work we all do at these industry events. Gathering the perspectives of a diverse range of people and industries across non-competitive topics creates the diversity needed for well thought out end-to-end output.

The statistics from the CEO Office back up my thoughts: We have had Membership numbers growing steadily since 2012, and now 52 different countries are represented across the community.

As we go into 2017, we can expect the impact of key regulatory changes to continue, business models to be under pressure against rising complexity, and ever increasing expectations from investors and clients around post trade efficiency and risk reduction. Against that backdrop, I expect the value of ISSA's position to continue to grow and expand across both core regulatory thinking and the assessment of leading edge enablers. With that in mind, I am excited to have the opportunity to be part of the organisation and look forward to working with you all in the years ahead.

First Real-World Implementations of Blockchain Post Trade Settlement Will Arrive in 2017



*Jason Nabi
Global Head of Business
Development & Head of EMEA
Paxos Trust Company, LLC.*

A great deal has been written and said about blockchain since it started to hit the headlines in capital markets around the beginning of 2015. Thankfully, the «hype curve» that followed seems finally over. 2016 has, and 2017 will be much more about the *delivery* of the first real instances of this new technology in the *real-world*. It is time as an industry to move beyond «proof-of-concepts» or playing in the «labs».

There are a number of fundamental considerations that come with delivering blockchain technology to the real-world. These include the current eco-system, market regulation, global market participants, incumbent service providers, legacy systems, restricted budgets, busy schedules and, in some cases, a fear of change. For a few of us, each and every day is about collaborating to bring about the benefits of what this new technology enables, not the technology itself.

Everyone has heard the debate about what the technology might be able to deliver with regard to operational, capital and cost efficiencies through shorter settlement times and the enabling of direct settlement networks. Providers such as Paxos and Euroclear are hard at work building real platforms that will go live with real market participant users in 2017. Indeed, Euroclear Bankchain will be the first implementation of a blockchain settlement platform in 2017. Euroclear Bankchain will deliver a more efficient settlement model for the London bullion market, currently a decentralised, OTC bilateral market with considerable settlement and counterparty risks.

At this point, most of us understand what the technology is about: A single distributed ledger that enables instantaneous delivery-versus-payment (DvP) amongst direct participants in a secure manner. The prospect of significant reductions in credit and capital via a direct settlement process and the compressing of settlement times comes at a critical time. Market participants face unsustainable capital requirements to underwrite the settlement system and pay increasing charges to a decreasing number of intermediaries to do the same. Adopting a process whereby participants can directly, securely and efficiently undertake settlement against each other without locking up significant capital or paying third parties is not only timely, it is going to help bring post trade into the modern «digital» world.

In the case of the aforementioned London bullion market, this means no more waiting until late evening in London for confirmation that the dollar leg has transferred up to eight hours later in New York. Blockchain post trade settlement will widen access and investment in the gold asset class and enable new, more profitable services to be established.

Change does not come easy but when it does it's worth it.

ISSA Thought Leadership Events

In order to promote ISSA in different financial centers as an opinion leader and facilitator in addressing pressing topics of the industry, ISSA holds periodic Thought Leadership Events. Attendance is compli-

mentary and open to ISSA Member Institutions as well as to other financial services representatives of a particular local market. For the third year in a row, ISSA organized a half-day event, this time in Hong Kong. In addition, ISSA offered local experts from Singapore a working lunch session with a small number of delegates.

ISSA Thought Leadership Working Lunch, Singapore

ISSA was able to welcome 18 representatives from the local financial community at Standard Chartered Bank offices at the beginning of November 2016. The focus was on ISSA's Financial Crime Compliance Principles for Securities Custody and Settlement and their importance and relevance in Asian markets. ISSA's Principles were presented and participants discussed implications and implementation steps.

ISSA Thought Leadership Conference, Hong Kong

This year's half day conference was held on HSBC's premises on November 7, 2016. On this occasion, close to 70 attendees were informed on European Capital Market developments and potential implications for Asia. Representatives from ISSA Board Member Institutions provided an insight into the European Market Infrastructure Regulation (EMIR), Challenges in Derivatives Support and Collateral Management as well as progress in terms of the Target2Securities implementation. Those topics and their specific relevance to the Asian region were discussed in more details in a subsequent panel featuring a choice of ISSA Board Member Institutions.

Both events received very positive feedback. The slides used can be accessed [here](#). In the course of the 1st quarter 2017, ISSA will determine in what form and intervals these Thought Leadership Events should continue going forward.

Update ISSA Working Groups

Inherent Risks within the Global Custody Chain

During the vast part of 2016, the Working Group drafted a detailed report dealing with various risks inherent within the Global Custody chain. It can be seen as an update of ISSA's 1992 report on «Global Custody

Risk». Rather than recommending best practices, the new report provides educational reference. It will be made available to ISSA's Members at the beginning of February 2017. Simultaneously, ISSA will publish on its homepage an «Abstract Summary». ISSA's Operating Committee will subsequently determine whether specific topics such as Securities Lending / Repo, Collateral Management or Accounting Services should be dealt with in a follow-up iteration.

Collateral Management Best Practices

Following the publication of ISSA's second report entitled «Collateral Management – Cross Border Mobilization of Collateral» in July 2016, the Operating Committee (OC) decided at its October 2016 Workshop to officially terminate ISSA's Collateral Management Working Group. The topic of «Collateral» will, however, be left on the OC's agenda. At its semiannual meetings, the OC will make an assessment of work emanating from regional industry organizations to assess if their findings would warrant a global dimension to be addressed by ISSA.

Corporate Actions and Proxy Voting

ISSA's long-standing mandate, namely the monitoring of its global best practices principles relating to the processing of corporate actions including general meetings and proxy voting, will continue by means of periodic surveys among the global CSD community. Recently, the Working Group decided to address a particular issue not limited to corporate actions activities:

An increasing need for beneficial owner information is witnessed, both at corporate and government level. While information to be collected is often of similar nature, the processes put in place, the reporting formats and the categorizations differ. Under the title «Investor Transparency – Guide to Disclosure Practices» the Working Group aims at bringing clarity on the beneficial owners disclosure processes in various countries and the different mechanisms in place. ISSA intends to create an inventory that should enable an assessment of the similarities and discrepancies. This will enable ISSA to evaluate which would be potential areas that could benefit from an ISSA recommendation with the aim to minimize the variety of processes. The inventory will be compiled based on research material at hand and by means of a survey for which the addressees

are presently being identified by the Working Group.

Distributed Ledger Technology – Principles for Industry-wide Acceptance

Intensive breakout group discussions at the May 2016 Symposium identified 9 needs for industry guidance to be addressed by the Working Group. On the occasion of this year's Sibos and the Operating Committee's Workshop in October, representatives of the Working Group agreed on the next steps, to be addressed in two distinct work streams:

- **Work Stream Legal & Regulatory Aspects:**

The main target will be to collect legal / regulatory background information about initiatives currently ongoing in various industry groups. The idea is to obtain a consolidated view of all activities in order to make an assessment about open spots not covered yet, which might become a potential space for ISSA activities.

- **Work Stream DLT Adoption – Business Standards and Industry Governance**

The objective is to instill industry practitioners' views on how to make sure DLT adoption is cost- and risk-effective. It is planned to produce concrete recommendations or principles that will ease respectively rationalize discussions among industry participants, standardization bodies and regulators.

It is expected that first findings from both Work Streams will be available in time for Sibos 2017.

Financial Crime Compliance Principles for Securities Custody and Settlement

Since the publication of ISSA's Principles at Sibos 2015, the Working Group has worked on a couple of supporting documents, including a disclosure framework tailored to the needs of securities intermediaries. The draft documents have been discussed with the Members of the Operating Committee and subsequently with the ISSA Board Members. The ISSA Board has mandated the Working

Group to finalize the documents and to describe practically the implementation kick off. It was also suggested to set up a «Voluntary Polling Feature» among ISSA Members in order to track progress.

The Working Group convened for a one day Workshop on December 9. Custodian and CSD representatives across the globe were present and agreed on a committed road-map. This will enable ISSA to initiate final activities and to consider some additional proposed amendments, but also to take the opportunity to discuss with representatives of the «Wolfsberg Group» the ISSA disclosure framework, i.e. the ISSA Financial Crime Compliance Sample Questionnaire. ISSA is convinced that this is necessary and in the interest of the industry. It is expected that the Questionnaire will become a market standard and that it will likely form also part of the various KYC Registries. The document will be finalized by the end of the 1st quarter 2017 when it will be made available to the ISSA Members.

Regulatory Impact on the Securities Services Chain

Following two earlier reports on regulatory changes and their impact on stakeholders in the securities services industry, the ISSA Board mandated the Working Group a year ago to provide an update. The report is being drafted and will contain the following 3 sections:

- Stock-taking of main regulatory developments over the last years and the approach chosen by geographical region.
- Adaptation by the industry so far, identifying main impacts and how the industry has evolved as a consequence.
- Outlook on new regulatory developments and other trends.

The new report is scheduled to be finalized by the end of the 1st quarter 2017, when it will be made available to ISSA's members. Simultaneously, ISSA will publish on its homepage an «Abstract Summary» with general information.