

ISSA

International Securities Services Association

Newsletter

Second Quarter 2020



Change in the ISSA Executive Board

The following people have joined the ISSA Board:



Mr. Pierre Yves Goemans, Managing Director, Group Head of Strategy at Euroclear replaces Luc Vantomme



Ms. Margaret Harwood-Jones, Managing Director and Global Head of Securities Services at Standard Chartered Bank replaces Colin Brooks

We congratulate Pierre Yves and Margaret on their nominations and wish them all the best in their new roles.

Board of ISSA

Welcome

Dear ISSA Members and interested parties

Our second quarter Newsletter is sent to you under very different circumstances from our first Newsletter of 2020. It is fair to say that none of us at ISSA foresaw what was about to happen when we welcomed you to this year - and the changes that have affected us all as a result of the ongoing pandemic have certainly been unusual and challenging. We hope that you and your loved ones are healthy and safe and hope that you and they continue to be so.

Despite these challenges, ISSA has continued to maintain our focus and to look to the future - although in some cases the future we envisaged has changed considerably. We have unfortunately had to postpone our 20th biennial ISSA Symposium; it is now scheduled to take place from 4th to 7th May 2021. We have continued, though, to explore the key themes that are expected to drive Securities Services over the next 3 to 5 years. These findings, from the partnership between Oliver Wyman and the «Future of Securities Services» Working Group, will soon be presented as a White Paper and subsequent Webinar rather than at the Symposium. We have set up new Working Groups in quarter one and the existing Working Groups are continuing with their efforts to bring our Members informed reports on specific topics and guidance on best practice. Our thanks go to the many individuals, from a broad cross-section of the membership, for their continued support and enthusiasm during these extremely challenging times.

To keep you up to date on these efforts, the following articles are included in this Newsletter:

- Future of Securities Services Update
- «Reset - Going forward to where we want to be, not back to where we were» - the case for a rethink post pandemic
- Working Groups updates on their quarter one activities and plans for the rest of 2020

Sincerely, ISSA CEO Office

Future of Securities Services Update

With the postponement of the ISSA Symposium, Bill Hodash, Josef Landolt and Colin Parry provide an update on the Future of Securities Services Working Group

Two Big Drivers of Change

The Future of Securities Services Working Group created a second draft of the 2020 Symposium Discussion document after a workshop held in January. The workshop was hosted and run by Oliver Wyman in their 8Works offices. According to Colin Parry «the approach they took gave us a fruitful day and focused the Working Group on the two big drivers of change that are foreseen during the 2020s.»

These key drivers were identified as:

- Changes in Investor Behaviour
- Changes in Technology

Josef explains the approach taken after the workshop: «The two themes were taken by four sets of participants and turned into scenarios that could play out over the next decade, with the impacts of both drivers articulated based on whether the theme played out to a greater or

lesser extent. These four versions of the future were then amalgamated into one document.»

Bill confirms that «in early April we completed the second workshop - which was conducted virtually due to the Covid-19 crisis - taking this scenario level document and developed the thinking to apply to Capital Markets and Securities Services. Taking the Changes in Investor Behaviour and Change in Technology themes, we first mapped out the drivers for these against their likelihood and impact.

As with all good workshops, the participants were given homework with the aim of positioning the drivers and their likelihood to come up with the most impactful. The next phase was to then produce a map of the impacts on their segment of the Securities value chain.»

Finally, Colin concludes «the output of this effort will feed into the next draft of the paper which will be amended and edited with Oliver Wyman. We will then produce a discussion document that will be used for a Webinar-based discussion with the broader ISSA membership in lieu of the sessions that had been scheduled for the Symposium. The final white paper will be released later in the summer.»

«Reset – Going forward to where we want to be, not back to where we were»

The quote above was recently used in a discussion about life after the pandemic is over. What will ISSA be focussing on in a post-pandemic world and how can this add value to our members?

The New Norm

As a result of the ongoing COVID 19 pandemic, the securities services industry – along with many other businesses – has faced a number of unusual and unique challenges. Although the industry is managing to handle these in the short term, the crisis has highlighted certain structural and systemic issues which should - ideally - be addressed for the longer term. The pandemic also provides unique opportunities to address these issues; some are necessary to manage our businesses and client outcomes in the shorter term, and also bring benefits that may not have been a high enough priority prior to the pandemic.

As an industry association, ISSA believes that through finding ways to resolve these issues, its Members will benefit from both an improvement in efficiency and a decrease in risk. ISSA has therefore created a new Working Group, called The New Norm (or in full: «Reset - Going forward to where we want to be, not back to where we were»). The aim of the Working Group is to propose alternative methods of working, new potential solutions and guidance on best practice to help institutions manage the current situation, position the industry for the future and come through stronger.

KEY ISSUES IDENTIFIED

The ISSA Board of Directors and Operating Committee Members have identified 13 key issues where the securities services industry has faced significant challenges during the crisis:

- Mandatory physical attendance at AGMs
- Manual proxy voting services
- Physical certificates still in use
- Data privacy and Cyber security with home working
- Industry readiness for upcoming Regulations (CSDR, SRD2)
- Lack of optimal automation when in a high volume/low staffing situation
- The inconsistent adoption of industry standards
- High touch and bespoke client specific reporting
- Supporting different ways of working
- Supporting the global operating model
- Sub-Custody re-alignment process and inefficiency in inventory management
- Ongoing SSI Issues
- Need for wet signatures and physical documentation

PROPOSED APPROACH

Wherever possible, the effort to find a solution will be included in existing Working Groups. The Corporate Action and Cyber Working Groups will take on the first four topics. The readiness for regulation is already being handled by other agencies and lobbying organizations. This leaves 7 issues which will be included in the new Working Group and managed under different subgroups.

Process Automation Subgroup

This subgroup will collate a list of all processes that continue to be manual and propose alternative methods of working and guidance on best practice. It will include the issues of automation when in a high volume/low staffing situation, adoption of industry standards, the use of physical certificates as well as the client specific reporting and depot re-alignment processes.

Digital Documentation & E-Signature Standards Subgroup

This subgroup will review opportunities to introduce digital documentation and e-signatures. The current conditions mean it is difficult to access paper based documentation, print and / or obtain signatures. This working group will look at opportunities to implement an industry framework / standard to replace physical documents, wet signatures, stamps, notarisation, apostille and replace with a secured digital form – considering in particular the legal / regulatory aspects to make such a standard work. The initiative will also add support to the sustainability goals of member institutions.

Standing Settlement Instruction Subgroup

This subgroup will assess the current SSI process and why it continues to be problematic in order to coming up with solutions to address the issues that have arisen.

Optimizing Working Methods Subgroup

As a result of the crisis, much of the workforce has needed to adopt a different way of working. This subgroup will analyse how these working methods could be incorporated into a new working model moving forward which will benefit both the employer and the employee.

The Operating Model Subgroup

Over recent years, many organizations have moved to a global operating model with multiple offshore locations handling operational and technology processes. This subgroup will assess this model in the light of the recent crisis and provide some insights as to the pros and cons of this approach, as well as looking at the lessons learned from the pandemic.

MEMBER PARTICIPATION

The ISSA CEO Office welcomes ideas on these, and additional, topics that our Members have found challenging during this pandemic. Should you have feedback on the existing topics or a new topic that you feel is important, please go to [the link below](#), complete the information requested and return it to ursula.borer.issa@six-group.com

https://www.issanet.org/e/pdf/ISSA_The_New_Norm_WG_voting_form_r.docx

We are also now looking for ISSA Members who are interested in joining this new Working Group. Should you, or one of your colleagues at an ISSA Member Firm, wish to participate, please contact Karen Zeeb by email on karen.zeeb.issa@six-group.com who will enable your participation.

Progress Reports on ISSA Working Group Activities

Please see below ISSA's progress report on the 7 remaining Working Groups.

Corporate Actions and Proxy Voting

The Corporate Actions and Proxy Voting Working Group will focus on the following key topics during 2020:

- **Beneficial Owner Disclosure Processes:** The paper outlining the results and findings of the beneficial owner disclosure questionnaire is due to be published shortly
- **Proxy Voting Market Practices:** During Q4 2019, work commenced on a review of the current practices and challenges in the proxy voting space. Results collated are now being analysed and a strawman developed covering key issues has been identified
- **Pandemic Issues Identified:** The Working Group will also look at issues that arose in Asset Servicing, including Corporate Action and Proxy Voting, due to the pandemic and how these could potentially be addressed

Cyber Risks in Securities Services

The Working Group continues to work on a document called «Cyber Security Guidance Paper – Reacting to a cyber-attack on a securities services participant» outlining the actions to be taken and information required when various scenarios of incident events occur. It is a practical guide of the considerations that need to be factored into responses for both the compromised and the rest of the market in the case of an event. The paper is use case driven. It is anticipated that the document will be published in the third quarter 2020.

Distributed Ledger Technology

This quarter, the DLT Working Group has launched an Industry Survey on the adoption of DLT and Crypto Assets. The results will be assessed and a report produced for the ISSA membership respondents of the survey in June. This will be followed by a paper analysing the results of the survey for the wider community.

Financial Crime Compliance

During 2020, the Financial Crime Compliance Working Group plans to focus on the following key topics:

- **Payment Transparency Scenarios:** The Working Group is creating a Payments Taskforce to provide principles and guidance on fund transfer scenarios to ISSA Members
- **FCC Principles Questionnaire:** In 2017, the Working Group published the FCC Principles, to address the critical challenges posed by financial crime. This year, the questionnaire will be reviewed and updated to ensure that it continues to meet the needs of the market
- **UCITS Fund Markets:** The Working Group is liaising with European regulators to socialize the FCC Principles in Luxembourg, Ireland and elsewhere with the aim of relieving uneven application of the Principles

ISO 20022

This new Working Group will shortly survey the ISSA membership about ISO 20022. This will identify the direction of the Securities Industry in relation to ISO 20022 adoption and make recommendations in light of the mandatory adoption of ISO 20022 in the Payments and Reporting contexts. The initial focus will be on the creation of a context document to explain ISO 20022 and changes from 2018 as well as a questionnaire. These documents are to be completed by June 2020, and the survey distributed in July.

Recovery, Resolution and Resilience

This new Working Group will tackle the critical requirements of resilience, as well as recovery and resolution planning. Their approach will be to provide a questionnaire that asks many of the typical questions which are being asked by various organizations of FMIs and infrastructure providers at present. These questions, along with guidance on how to structure responses, will be aimed at streamlining this process for the benefit of all participants.

Regulatory Impacts on the Securities Services Chain

In view of updating its August 2018 report on regulatory impacts, the ISSA Working Group has been temporarily revived. The 2018 report will be updated and additional information added for Asia Pacific, Middle East, Europe and the Americas. The Working Group plans to publish the updated report in mid July 2020.

New ISSA Members

Since the First Quarter 2020 Newsletter, the following member has joined our Association:

- R3 LLC, United States

We welcome this organisation and are looking forward to a fruitful relationship.

Board of ISSA