

ISSA

International Securities Services Association



Change in the ISSA Executive Board

The following people have joined the ISSA Board:



Mr. Jeffrey Williams

Managing Director & Global Head of Network Management at Citigroup replaces Lee Waite



Ms. Caroline Butler

Global Head of Custody at BNY Mellon replaces Tom Casteleyn

We congratulate Caroline and Jeff on their nomination and wish them all the best in their new role.

Board of ISSA

Welcome

Dear ISSA Members and interested parties

Welcome to our third quarter Newsletter. Whilst the issues faced, as a result of the ongoing pandemic, have certainly been unusual and challenging, the world continues to function. Here at ISSA, we have embraced the challenge. ISSA has been extremely successful and had a great quarter publishing papers on Cyber, Beneficial Ownership, concluding and producing the first results of the DLT Survey, issuing the ISO 2022 survey. In addition, we have set up new Working Groups to address the issues that are relevant to the Membership. There is more to come in the final quarter. We thank the many professionals from the Membership for their help in this very busy period.

As mentioned in our second quarter Newsletter, we have continued to explore the key themes that are expected to drive Securities Services over the next three to five years. These findings, from the partnership between Oliver Wyman and the «Future of Securities Services» Working Group, will be presented this quarter as a draft White Paper. We will then arrange a series of Webinars, which we hope you will attend, to debate the areas of focus for ISSA in the coming years. Both our new, and existing, Working Groups are continuing with their efforts to bring our Members informed reports on specific topics and guidance on best practice.

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

- Future of Securities Services – the latest news on this key topic
- ISSA General Meeting
- Proxy Voting – Our Operating Committee Chair, Jyi-Chen Chueh, talks proxy voting
- Working Groups updates on their quarter two activities and plans for the rest of 2020

We hope that you and your loved ones also continue to stay healthy.

Sincerely, ISSA CEO Office

Future of Securities Services

The «Future of Securities Services» Working Group (FSS WG) - with great assistance from a team at Oliver Wyman - has made significant progress in compiling the draft white paper. The latest draft is currently under review by the ISSA Board and Operating Committee. Bill Hodash, FSS WG Co-Chair, provides further details on the focus of the paper and the plans for distribution and discussion with the broader ISSA Membership.

Focus of the Paper

The paper focuses on ten key trends and challenges across Capital Markets, including the shift to passive investing and ESG; the shift into digital and alternative assets; increased adoption of new technology; potential industry disruption by Big Tech; financial deepening and globalization; loose monetary and expansionary fiscal policy and uncertain regulation.

The paper then analyses each of the ten drivers with respect to four strategic considerations for the Securities Services industry:

- Price pressure on the core business
- New growth paths
- Potential industry disruption
- COVID-19 lessons learned

The drivers' analysis concludes that two composite «forces» will most likely impact the Securities Services industry over the next ten years:

- Changes in investor behaviour
- Changes in technology and technology-enabled competition

Next, the paper plots potential future scenarios, based on high and low degrees of change along both forces, leading to an «Outlook for the Securities Services industry». This is not a single precise outlook, rather it represents a way for the industry to plan for multiple potential future worlds as we assess the true trajectory of the two composite forces.

Finally, based on that scenario-based «Outlook», the paper concludes with a draft list of potential agenda topics for the next three to five years, for ISSA to discuss with the full Membership.

Member Webinars

Due to the postponement of the ISSA Symposium until 2021, the engagement of the full ISSA Membership will be via distribution and discussion of the next draft of the white paper during a series of webinars to be held in September. The paper will also be available to the Membership through the Member Section of the ISSA Website.

During the webinars, the FSS WG and Oliver Wyman will be looking for Member feedback, especially on whether the potential impacts of those two composite forces is on target and – perhaps most importantly – your views on the strategic agenda for ISSA over the next three to five years. That agenda was to be the major outcome of the

breakout sessions planned for the 2020 Symposium. It is hoped that the vetting process, via release of the draft paper and collection of views via webinars, ISSA will arrive at a similar consensus view for the final paper which is scheduled to be published jointly by ISSA and Oliver Wyman at the end of October.

Members will receive an invitation to each webinar later this month.



William Hodash
Managing Director, DTCC

ISSA General Meeting

ISSA recently held its General Meeting, unfortunately not at our 20th Symposium as planned, but virtually. Thank you to all Members who attended the meeting and provided their input. The feedback we received was very positive.

The key take-aways from the meeting were:

- Confirmation of the dates of 4th-7th May 2021 for the rescheduled 20th Symposium
- The 2021 fees will remain the same for those who pay promptly

Member firms are actively encouraged to join one or more of the ISSA Working Groups. Should there be topics that are not currently covered in the current Working Groups, but are of interest, Members are asked to please reach out to the ISSA CEO Office and share ideas. Finally, thank you to those of you who voted for the Board elections and the election of Phil Brown (Clearstream) as the new Chair and Vicky Kyroglou (UBS) as the new Vice Chair. The ISSA CEO Office are looking forward to working with Phil and Vicky over the coming months to further drive ISSA to support our Members.

New ISSA Members

Since the second quarter 2020 Newsletter, the following Members have joined our Association:

- Hashstacs Pte Ltd, Singapore
- Bursa Malaysia Berhad, Malaysia
- The International Securities Lending Association (ISLA), United Kingdom

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

Board of ISSA

Jyi-Chen Chueh talks Proxy Voting

ISSA Operating Committee Chair, Jyi-Chen Chueh, recently provided input to an article on proxy voting which was published by the Asset Servicing Times (see our LinkedIn post of the 30th July). Here, Jyi-Chen provides further insights into this important topic.



Jyi-chen Chueh, Executive Director & Head Custody Services Transaction Banking Standard Chartered Bank / Head ISSA Operating Committee

Has COVID-19 affected proxy voting? How have firms had to adapt?

The ISSA Corporate Action & Proxy Voting Working Group (CA WG) has seen a series of measures taken by various regulators and market infrastructures during Covid-19 to address the challenges that have arisen as a result of the implementation of confinement and social distancing rules across the globe. This has included:

- providing guidance on conducting safe physical meetings
- allowing for the postponement of annual general meetings
- relaxing requirements in terms of physical documents/wet signatures
- allowing for alternative modes of meetings such as video, teleconferencing and/or any other electronic means.

Do you think the changes around proxy voting because of the current situation will alter for the long term?

At ISSA, we believe that the securities industry has an opportunity to help shaping the post COVID-19 «New Norm». We are accelerating that thought leadership among our Members through new topical themes and by putting a new lens on existing topics like proxy voting.

In that space, some of the temporary measures that have been adopted have the potential to be deployed on a more permanent basis, especially on topics related to electronic proxy voting and digital/hybrid meetings. This would require further assessment of the appropriate controls and governance, leveraging data and lessons learned during COVID-19 and engaging regulators.

Do you think there needs to be a review of current practices?

The ISSA CA WG recently conducted a review of current practices across more than 30 countries globally. The initial findings indicate a disparity of practices and a high dependency on local and proprietary solutions, along

with heavy paperwork (e.g. proxy cards, notarised documents, power of attorneys, etc.). As such, ISSA is a firm believer that proxy voting is one area within securities services that could benefit the most from digitisation, transformation, and innovation.

What are the biggest challenges around proxy voting?

Electronic proxy voting solutions and platforms usage may be high among global custodians and their customers. However, in many domestic markets, the last mile of proxy voting delivery – which is where the local custodian submits the underlying investors' votes to the issuers or their appointed agents - can still be very manual and paper-intensive.

Additionally, standards in terms of voting results communication and dissemination still need further harmonisation globally to achieve better transparency.

Do you think there needs to be more investment around technology to help improve the way proxy voting currently happens?

Innovation and new technologies will have an important role to play in terms of lowering costs and deploying scalable and more efficient solutions. For instance, there has been a series of DLT proof-of-concepts that demonstrated the potential benefits of blockchain for proxy voting. However, broader adoption will also require regulatory support to promote e-voting, digitised authentication and documentation. Global standards harmonisation will also be key to avoid a multiplicity of proprietary formats, in order to reduce costs and enable inter-operability.

How will the upcoming SRD II regulation affect proxy voting? What challenges/opportunities will this represent?

SRD II's main objective is to increase the transparency and the efficiency of information flows between issuers and investors throughout the chain of intermediaries. This includes ensuring that general meeting announcements and agenda are communicated «without delay» and that investors' votes are efficiently and timely handled. This is driving the adoption of automated solutions and leading industry players to propose new market standards in terms of shareholders' disclosure and identification.

Key practical challenges remain in terms of the technical implementation though. The Directive allows some latitude at member State level, which increases the chance of different interpretations of the rules. The cross-border dimension of the regulation, with its impact beyond Europe, should not be under-estimated either.

Progress Reports on ISSA Working Group Activities

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

Corporate Actions and Proxy Voting

The Corporate Actions and Proxy Voting Working Group has been focusing on the following key topics during the second quarter:

- **Beneficial Owner Disclosure Processes:** The paper outlining the results and findings of the beneficial owner disclosure questionnaire has been published
- **Proxy Voting Market Practices:** Results on the review of current proxy voting market practices have been collated and analysed. A strawman is now being developed covering key issues that have been identified
- **Pandemic Issues Identified:** The Working Group is also looking 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 has published «Cyber Security Guidance Paper – Responding to a Cyber-attack on a Securities Services Participant». The document can be found at:

https://www.issanet.org/e/pdf/ISSA_Guidance_to_Parties_affected_by_Cyber_Incident_FINAL.pdf.

This outlines 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 non-compromised party in the case of an event. ISSA's thanks to those who contributed to the paper.

ISSA's next efforts will be to «Identify the different cyber (and non-cyber but IT focused) risks that Securities Servicers face from WFH (Work from Home) for prolonged periods which are unique to this industry.» The approach will be to use the prior Cyber Risks document and assess whether each identified risk has a higher (or lower) impact or likelihood of occurring in a remote working environment. This view will provide an idea of whether the risk landscape has changed (or not) and it will give ISSA a priority listing of the things that have changed.

Using that priority listing, if it is believed there is nothing unique from a securities services perspective then, hopefully, ISSA can point the reader to public learning materials that ISSA is aware of, or if there are unique lessons for securities services highlight these.

Other elements that are not necessarily Cyber but more IT focused pure operational risks. ISSA believes it can extend into from a WFH perspective:

- Data privacy
- Printing at home
- Whatsapp usage and other non-standard chat apps.
- Zoom, Teams, Webex and the thousand other conference capabilities, including the use of any of them from private devices
- KYC & tax documentation need for original items to be seen.

Distributed Ledger Technology

In the second quarter, the DLT Working Group:

- Launched the ISSA DLT Survey in collaboration with the Value Exchange, Digital Assets and Accenture. 140+ replies received well balanced across the globe
- Publicized the findings of the survey through the ISSA network, ValueExchange and LinkedIn
- Established a smaller Working Group to define next tasks/goals for the WG
- Re-started the information sharing with the WG with a presentation by Hashstacs

The group is now focusing on video compilations from ISSA Members regarding the results of the survey as well as agreeing the approach for the WG moving forward.

Financial Crime Compliance

During the second quarter, the Financial Crime Compliance Working Group focused on the following key topics:

- **FCC Principles Questionnaire:** The FCC DDQ subgroup has met to review the original Due Diligence Questionnaire (DDQ) that was published in 2017. Feedback to date fits into three broad themes:
 - Cosmetic formatting changes
 - Content changes to improve clarity and understanding
 - Awareness and education

It is anticipated that the updated DDQ will be available for distribution during the fourth quarter 2020.

- **UCITS Fund Markets:** The UCITS Funds Markets subgroup is looking specifically at AML related KYC with regards to investment funds. In particular, they are considering:
 - How funds should be handled against the FCC Principles
 - The level to which due diligence is undertaken

Once the initial work has been undertaken, the subgroup plans meetings and calls with various fund groups to socialize the findings.

ISO 20022

The Working Group has finalized a context document to explain ISO 20022 and changes from 2018 as well as issued an ISSA Member survey. During the third quarter the group plans to:

- Review and analyze the feedback from the survey
- Agree core conclusions and priority theme and summarize these in a findings report
- Consider and agree the merits of a broader industry survey beyond the ISSA Membership

Recovery, Resolution and Resilience

During the second quarter, the Working Group has met on several occasions to confirm its approach to tackling

the topics of recovery, resolution and resilience. The group has agreed their three key objectives to be:

- Achieve a common understanding of critical functions and services
- Define a standard set of materials that can be shared
- Develop a process to test the identified criteria

The Working Group is now focussing on defining the critical functions and services.

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 later in 2020.

The New Norm

As a result of the ongoing pandemic, ISSA has established a further Working Group, entitled «The New Norm». This Working Group is focusing on publishing short papers over the coming months that propose alternative methods of working, new potential solutions and guidance on best practice to help institutions manage the current situation and position them positively for the future.
