SECURITIES SERVICES: PRESENT AND FUTURE

With **Luc Renard,** *Head of Financial Intermediaries & Digital Transformation, Asia-Pacific for BNP Paribas Securities Services,* and **David Braga,** *CEO, BNP Paribas Securities Services Australia & New Zealand*

(The following is a condensed and edited version of the GlobalTrading Podcast, Episodes 1-3)

How are the needs of the securities services market changing, and how are providers evolving to meet those needs?

David: Some things haven't changed. The base requirements in terms of what's expected from a securities services provider — the core processing of trades, of cash, of corporate actions, the expectations around that being accurate, on time and with a high straight through processing rate and value for money — have stayed the same.

Technology has evolved, and the use of technology is driving us onto alternative platforms. For example, last year BNP Paribas was accredited as the first global custodian depository participant to join the New Zealand Exchange [Clearing] Depository since it was founded in 2010. And as technology brings new players into the market, we have to set up to interface with those participants.

We're looking at how we can bring the sell side and the buy side together across our business. As a provider, we have to continually adapt to the environment. In Australia and New Zealand, to be competitive you need global scale, and you need to bring that global scale into the market and make it effective on a local basis.

Luc: We are in a very competitive industry, one that is driven by a sustainable capacity to invest in technology. Our clients are looking for yield — they are looking for automation, they are looking for real-time data and information. Our capacity to invest [in technology] helps them achieve their own goals.

What is the future of securities services?

David: The disruption we have seen from the pandemic presses fast forward on the cracks that were already there. So providers with strategic vulnerability — a lack of scale, a poor value proposition or older technology — are likely to be exposed.

A lot of our future will be driven by the quality of our people. The value that you can put into play for your clients based on local-market and global expertise is incredibly important.

We've shown through the recent disruption that all of our normal business activity can continue to be delivered. But the real pressing question is, what about change and innovation? It's one thing to work from home and keep all the settlement activity going, but innovation is a different type of work. So we've been investing in our people.

Luc: We have seen what was impossible pre-COVID, becomes possible. Out of necessity, we became even more agile, and were able to meet all our

obligations without taking additional risk. As mentioned by David, this was based on the commitment of our people.

Post-COVID, our clients will have new needs and new requirements. They will be looking for new solutions, and reassessing operating models, to make sure they're reliable, rock-solid and scalable.

What is the current role, and the future potential, of Distributed Ledger Technology (DLT) in securities services? What is BNP Paribas doing in this area?

Luc: At BNP Paribas, we are leveraging a new generation of custody platforms being rolled out across Asia-Pacific markets. The Australian stock exchange and the Hong Kong stock exchange are replacing their post-trade market infrastructure with DLT technology, and they are giving market participants the option to connect. Either you connect to ISO 20022 Swift messages, or you connect directly to the blockchain and you take a node.

Because we were already ISO 20022 compliant, we didn't have to assess what was the best option for us. We had time to understand the potential of the DLT, to ask our clients about their needs, and to work with the stock exchanges, as well as with Digital Asset Holdings, to leverage the investments they made to benefit our clients. We see the potential of bringing a new set of structured and unstructured data to our clients, and building additional services on top of that.

In post-trade, there is a sequential workflow, which means you wait for one party to instruct you to forward the same instruction to the next party in the intermediary chain. Blockchain enables a multi-party workflow, which speeds up the workflow and the validation process.

As an example of what we are developing, we are working with Digital Asset Holdings to streamline election processes in a way that will allow our prime broker and asset manager clients, to send their elections only a few minutes before the market deadline. This will be done through smart contracts and blockchain.

How has the application of DLT been different in Australia compared with elsewhere?

David: The Australian stock exchange had a pressing and imminent business problem in the form of the legacy CHESS environment that they needed to replace.

So the way I think about that as a market participant is similar to when we moved from T+3 settlement to T+2. Most of the hard work is for the ASX, but it is still a significant shift for everyone else, in making sure that we can continue to interface into the system.

Because ASX is a first mover, people can see the difficulty and complexity, and the benefits have been the subject of much debate. But they will be one of the first organisations to prove some of the benefits from the smart contracts, and from the ability for everyone to see the same data at the same time, and integrate it into workflows.

We've seen high market volatility and trading volumes recently, which has put pressure on banks clearing and settling these large volumes. What has been the impact on the clearing and settlement business?

Luc: The sell-side client didn't wait for the COVID-19 situation to happen to review and to reassess its operating model. There already were changes taking place in terms of the cost of capital, margins shrinking, and the evolution of technology. So all brokers have been looking to optimise and simplify their operating models.

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The custodian and clearer doesn't just connect the broker and the market — it also helps revamp brokers' operating models. COVID-19 has accelerated some of the decisions for clients to outsource their back-office clearing operations to a custodian.

What business-model evolution is important for custodians?
David: There's a change happening at the moment where you can build strong partnerships. Rather than having everything made by BNP Paribas, you can create an ecosystem of providers and fill out a comprehensive value chain for your clients. It's a bit like being a smart phone provider — the apps may be your own or somebody else's, but what matters is how you bring it all together for the end user.

At BNP Paribas, we have a range of different partnerships. One we signed recently is a partnership with the wealthtech platform Allfunds to develop next-generation fund distribution services — looking at the dealing, settlement, custody and administration of unlisted investments on a multi-jurisdictional basis. And in the context of custody and clearing, there's our partnership with Digital Asset Holdings which has propelled our blockchain capabilities.

So the business model that's evolving as a securities services provider is that you don't do it all yourself anymore. It's about finding best-in-class partners to co-create solutions and bring these together into an ecosystem of providers, and harmonising that on behalf of our clients. The capacity of players to provide a 'one stop shop' solution for clients will be absolutely key for the future success of our industry. ●

ASX supports the work BNP Paribas is doing to investigate the use of DAML - the same Digital Asset smart contracting language ASX is using to update CHESS - for solutions that enhance the efficiency of BNP Paribas' own role in securities services. ASX is building a DLT infrastructure, powered by this new technology, in which applications can be deployed by other parties both within and outside financial markets to drive innovation. We would welcome onto the infrastructure any application built by BNP Paribas. As other industries and asset classes have already noted publicly, DAML coupled with an open DLT infrastructure, seems the ideal fabric to stitch together both simple and highly complex workflows in a safe and secure manner. •

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