

NEW FRONTIERS IN POST-TRADE EFFICIENCY

An industry in transformation



KEY FINDINGS

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BNP PARIBAS

The bank for a changing world



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FOREWORD

We live in a world of constant change, and the rate of change continues to grow exponentially.

Even if increasing efficiency is an accepted aim across our industry, there is no global plan for its advancement. Efficiency initiatives focus on different areas and are rolled out at different speeds across the world's markets.

Our securities services business is global. We are committed to keeping our clients informed of changes across the markets we service and to help them understand how these changes will impact their business. In this paper, produced in association with Firebrand Research, we highlight the key changes across asset servicing, market infrastructure and digitalisation. We explore how they are being executed in the world's local markets and their implications.

Although markets are increasingly complex, we aim to simplify post-trade for our clients. Our goal is to provide access to the key platforms and services that allow our clients to keep pace with market changes and requirements, such as new centralised services that provide important post-trade efficiency gains.

Our focus is on the areas that can bring immediate value to clients:

- One point of global access to liquidity management
- Best-of-breed fintech capabilities
- Regulatory-compliant and secure digital asset services
- Easy and consistent access to platforms, built collaboratively by the post-trade community, to solve market issues

We execute global themes locally. This whitepaper highlights some of those important initiatives as we continue to cross new frontiers in post-trade efficiency.



SUMMARY

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EXECUTIVE SUMMARY



GLOBAL THEMES NEED LOCAL EXECUTION

Although there are common post-trade efficiency themes across the globe, such as the modernisation of market infrastructures' legacy technology platforms, **much of the transformation is market-specific.**



NEXT GENERATION TECH EASIER IN GREENFIELD AREAS

A key lesson from the range of distributed ledger technology (DLT) implementations and projects across the globe is that **replacement projects are much harder to tackle than brand new builds.**



THE ROLE OF THE CUSTODIAN IS CHANGING

Whereas **previously the role encompassed two main pillars** - ensuring asset safety and efficient settlement - it has **now expanded to enable stewardship** and the facilitation of effective communication between issuers and final investors.



EFFICIENCY IS NOT LIMITED TO AUTOMATION

Everything from how firms manage their **capital and liquidity at the global level** through to **how they communicate with their clients and counterparts** is in scope for change.



COLLABORATION IS KEY

Growing regulatory and market complexity are **pushing industry stakeholders to find common solutions.** For successful adoption, an external element is necessary to guarantee trust, neutrality and quality. **Platforms are the result, offering client and partner value, and a path forward for the industry.**



MUCH HAS BEEN ACHIEVED, BUT ROOM FOR IMPROVEMENT

The asset servicing realm must decrease its use of paper-based processes in areas such as tax and corporate actions. **Settlement efficiency needs to improve,** especially as more markets move toward a shorter settlement cycle and digital assets and traditional assets come closer together.





02 THE GLOBAL EFFICIENCY TRENDS



THE MULTIPLE FACETS TO EFFICIENCY

Digitalising manual processes has become a priority to reduce operational cost and risk, but the efficiency focus of the market is much broader than just operational items. **Capital, liquidity and business model efficiency** are also in the frame for review.



ASSET SERVICING MODERNISATION

The pandemic highlighted the manually-intensive nature of areas such as proxy voting and tax processing, as firms struggled to support general meetings and filing tax forms in remote working. Regulators altered national rules to permit virtual general meetings and voting due to restrictions on social gatherings, which has **opened the door to the modernisation of processes**.



MARKET INFRASTRUCTURE MODERNISATION

At the market infrastructure provider level, **many of the exchange, CCP and CSD operators are undergoing their own modernisation** and efficiency improvement programmes, including deploying next generation technologies.



NEW CENTRALISED PLATFORMS AND SERVICES

Post-trade has benefitted from the entrance of new, innovative, centralised services over the last five years to mutualise the costs of non-differentiating functions. Rather than relying on a purely sequential flow of information between counterparties, **these platforms distribute information at the same time to all participants**.





A FOCUS ON EUROPE



A REGULATORY FOCUS ON ASSET SERVICING

The focus of European regulators is on encouraging the growth of the European capital markets as part of the CMU action plan. **The CMU places the investor at the centre of the plan** to encourage greater retail participation and more foreign investment into EU financial markets. It includes a focus on asset servicing as part of the push to improve transparency for investors.



MARKET INFRASTRUCTURE ADAPTATIONS CONTINUE

T2S and CSDR have already significantly altered the settlement space in Europe and **will likely spur greater settlement efficiency** in the next few years.



DIGITAL ASSET REGULATION INCOMING

Now that the DLT Pilot Regime has been published, MiCA will provide even more clarity for the market overall on the status and treatment of digital assets. This could spark an increase in the number of these assets across the region and the **development of new services that could improve the efficiency of the market in handling these assets in future.**



A BROADER FOCUS ON DIGITAL IN THE EU

DORA and MiCA are both part of the EC's broader Digital Finance package, which was announced in 2020 and sets out a **five-year plan to support the digital transformation of the financial sector** and encourage the development of new financial products in the EU.





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A FOCUS ASIA PACIFIC



A REGIONAL FOCUS ON TECHNOLOGY INNOVATION AND CHANGE

Australia and Singapore have arguably led the region and to some extent, the globe, when it comes to **fintech adoption and innovation**, including from a regulatory standpoint.



HIGH-PROFILE DLT PROJECTS

Australia's Chess replacement project is one of the most high-profile implementations of DLT. The project has **highlighted some of the key challenges in transformation programmes of this magnitude**. It contrasts with HKEx's Synapse project, which is seeking to introduce new connectivity to the Chinese market rather than a legacy technology replacement.



INDIA'S MOVE TO T+1

Though many are focused on the planned move in North America, the Indian market is already in the process of moving its securities markets from T+2 to a T+1 settlement cycle in a phased manner. It will provide the industry with **a valuable example of some of the challenges to expect**.



SINGAPORE'S NUMEROUS INNOVATION PROJECTS

The MAS has **demonstrated the advantages of an actively involved regulator within the realm of technology innovation**. Its various projects have provided both the local and international markets with examples of the challenges and benefits associated with the deployment of new technologies such as DLT in a range of different areas.



MUCH ROOM FOR IMPROVEMENT IN ASSET SERVICING

Future efficiency improvements are warranted in many markets to reduce the number of paper-based and manual processes in areas such as tax processing.





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A FOCUS THE AMERICAS



THE NORTH AMERICAN FOCUS ON T+1

The United States and Canada have been consumed by discussions about a planned move to T+1 settlement over the last 24 months. There are numerous challenges to overcome, however, the **long term benefit will be settlement efficiency improvements via greater automation**.



THE DTCC'S DLT PROJECTS

The DTCC has launched numerous projects to trial the use of DLT in areas such as **securities settlement (Project Ion)** and the processing of **private market securities (DSM)**.



MARKET STRUCTURE MODERNISATION IN LATIN AMERICA

The CSDs in Colombia and Chile have been working on the replacement of their legacy systems, due to be completed by the end of 2022. Longer term, the exchange providers in Colombia, Chile and Peru are working on a project to **integrate their stock exchanges to create a common market** with access to all listed securities and local intermediaries in each market.



SLOW BUT STEADY ASSET SERVICING IMPROVEMENTS

The DTCC has been working on corporate actions adoption of ISO 20022 for several years and is also looking at **further dematerialisation of the asset servicing space**. In Latin America, progress has been made in markets such as Colombia, Chile and Peru to permit **virtual shareholder meetings and electronic voting**, though more reforms are needed.



A FOCUS ON DIGITAL ASSET REGULATION AND CBDCs IN THE US

The US regulators and politicians have **prioritised the regulation of digital assets** and have launched an investigation into the adoption of the Digital Dollar.



KEY TAKEAWAYS



THE JOURNEY HAS ONLY BEGUN

Much has been achieved at market level, but there is a lot of **room for efficiency improvement** at **regional and global** levels.

Many **lessons can be learned**, especially for the introduction of next generation technologies.



THE BIGGER PICTURE IS IMPORTANT

Efficiency projects often tend to focus on the impact of one technology or another.

But the **real focus** should be on the bigger picture of **how all of these technologies will fit together**.



CHANGE DRIVES TECHNOLOGY

One of the challenges posed by the rate of change is that a **bridge between the old and the new is required** and this is where custodians should play a key role.



CUSTODIANS MUST SHIELD COMPLEXITY OF CHANGE

Custodians must shield their clients from the complexity of change and **adapt their operations as required** by market structure, product innovation and regulatory developments



PLATFORMS PROVIDE VALUE

The old world needs to work in harmony with the new, as established players build platforms with fintech entrants.

Maintaining trust, creating value and solving common problems should be the goals of all stakeholders.



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