

Capital Markets, Regulations and New Technologies.

Finding the whole in the detail and vice versa./View from space/Merging of two neutron stars.

Immediately after the financial crisis of 2008, the international pressure regarding tax avoidance and tax evasion with the help of accounts kept abroad began to increase. This led to the implementation of systems for the Automatic Exchange of Information between tax administrations.

Since the first reports in the framework of the US American FATCA regime four years have already passed. In the meantime already two years of CRS reporting according to the provisions of the OECD are over. In between the British CDOT reporting was to be considered, which has already been replaced by the CRS for the time being.

Time to draw a conclusion of the findings obtained and to take a look into the future.

CAPITAL MARKETS, REGULATIONS AND NEW TECHNOLOGIES.

Almost exactly 10 years after the bankruptcy of Lehmann Brothers triggered the financial crisis, the Annual Post Trade Forum – which was already held for the 4th time – took place in Berlin. On 13-14th Sept, 2018, around 80 professionals from the securities services industry and financial market authorities across Europe and beyond met in the inspiring atmosphere of the Crowne Plaza to discuss a rich list of current hot topics. The presentations offered room to exchange opinions and the schedule provided enough time for a well-organised, relaxed walking tour through Berlin in the evening. We joined the event as sponsor and participants.

The chairman Philippe de Brossard from Soci t  Generale guided through the event with a good mixture of charm, humour and expertise. The agenda focussed on the current regulations SFTR and CSDR, the aftermath of EMIR and MiFID II, the new technology revolution and their impact on the post-trade industry. Furthermore, the future models of the supervision for the European capital markets and their newly analysed barriers completed the spectrum of topics.

AND IT GOES ON ... CAPITAL MARKETS REGULATIONS, IMPACTS AND BARRIERS

As opening session, Genni Caratozzolo from the European Commission gave a comprehensive update on the recent developments of the EU regulatory space. She summarised the EU regulatory approaches as follows:

Addressing some longstanding obstacles (e.g. withholding tax code of conduct)

Completing implementation of legislation (e.g. CSDR, SFTR)

Looking back at lessons learned (e.g. EMIR REFIT, SRD)

Looking forward at new challenges (e.g. embrace new technology in an orderly manner)

Considering cumulative impacts of reforms (e.g. streamline reporting requirements)

A crucial point for the EU commission is the question whether a regulation really meets its purpose. Therefore, analysis work like EMIR REFIT is undertaken and more will follow. The expectation is that the progress on ongoing initiatives will help removing obstacles identified by the EPTF (European Post Trade Forum). Lots of progress has been made over the last years, yet there is still a busy EU regulatory agenda to cope with remaining obstacles and to address new challenges for the future.

This was a good starting point for more discussion about that progress and the expectations by the market, tackled by Werner Frey from AFME, who compared the results of the EPTF Report 2017 with the current regulation status. As known since then, the EPTF Report found out that 3 of the Giovannini post-trade barriers were removed, 8 partially removed and 4 not removed. In addition, the report identified a couple of new barriers and bottlenecks.

A point of criticism was that the remaining barriers are legal and tax topics, which the public and not the financial sector is accountable for.

The estimated costs of WHT tax reclaim of EUR 8.4 bn per year in Europe and the lack of a common definition of "shareholder" were stressed as one of the current issues. A slightly unsettling soundbite was "The next financial crisis will be caused by post-trade".

In the next presentation, Magnus Olsson from Swedbank analysed the impact of the regulations on the post-trade industry. He stated that after 2008 automation also increased due to regulation and that the 2008 crisis continues to have an impact on the market (e.g. rising global house prices). The policy tools chosen for reducing the risk of a next crisis have been and still are transparency, collaterals and capital restrictions. As a conclusion, it is too early to say what will be the real market impact of the regulations.

SFTR REPORTING

SFTR, together with CSDR, was the most present topic at this forum. The main information in the beginning: it's not clear yet when live going will take place. The EU commission is still working on a regulation update which is expected for October 2018. Assumed that this is the reference date, the live going will then be expected for Q1 2020 for banks and investment firms. Expected impacts of SFTR are the increase in transparency of SFTs and therefore the mitigation of systematic risk, as well as the way repos are processed today. This means a much higher level of automation, electronic trading and more standardised processes. Although there is a good number of overlaps with EMIR reporting, many challenges for the SFTR implementation are waiting:

Granular data requirements

Strict LEI and UTI requirements

Complexity of the transactions stemming from their individual specifics

Information sources fragmentation

Double-sided reporting obligation

Global reach and multi-institutional effect

The inter- and intra-trade repository (TR) reconciliation

Interesting and ready for download in this context: ICMA published the "Guide to Best Practice in the European Repo Market".

Finally, Alexander Westphal from ICMA presented some results of the European repo market survey 2017. The total value of the repo contracts outstanding on the books of the 64 institutions who

participated in the latest survey was EUR 7,250 billion, compared with EUR 6,455 billion in June 2017. Electronic trading lost more share and tri-party repo remains lacklustre in the face of abundant central bank liquidity. There continues to be a considerable post-trade registration of repos with CCPs, rather than clearing through ATS (automatic repo trading systems)

CSDR AND ITS IMPACT

CSDR was the key topic of two presentations and one panel discussion. It is expected that CSDR will lead to more competition and consolidation and T2S is seen as the main driver. But competition and consolidation can be hindered by the remaining lack of EU cross-border harmonisation, including regulatory differences, variations in tax administration as well as corporate actions local requirements. As reminder, CSDR is not only relevant for CSDs, but all clients of every European CSD will be affected by dematerialisation, harmonisation of settlement periods, settlement discipline and reporting of internal settlements.

In general, CSDR is seen as a good thing which will need some time to develop and some questions will probably be answered later: will CSD monopolies stay "monopolies" and will some of the well-functioning market specifics be kept? Moreover, the question came up how cryptocurrencies will be treated in the future. Is the cryptocurrency cash, a security, a fund or a commodity? Can the cryptocurrency be treated as CeBM (central bank money) or CoBM (commercial bank money)? We will see. In 5-10 years, much greater efficiency through technology and T+1 is expected.

WHAT ELSE...TS2 AND MIFID II TRANSACTION REPORTING

Beyond SFTR and CSDR, the lessons learned during the implementation of MiFID II transaction reporting were shown by Nordea Investment, which chose the way via ARM (Approved Reporting Mechanism). Their biggest challenge was the quality of static data (as there is no guarantee whether the data is correct), which comes from multiple sources. Now, MiFID II transaction reporting helps Nordea to increase the quality of their data, which currently ends up with almost 100% acknowledgement of transaction reports by the NCA.

What are the implications of transaction reporting for Nordea? First, Nordea will force the business that all trades go over OTF's, which will improve efficiency. Second, they recognise the need to "document everything", and third, they will use transaction reporting as an internal tool to detect and avoid market abuse.

Another topic was the future of T2S. In short, one of the key statements was that post-trade costs may remain high for the next years because of the following reasons:

T2S increased DVP price to 23.5 eurocents.

Infrastructures have changed fee schedules ahead of T2S.

Volume growth expectations may not be met due increased CCP netting and expected future European economic growth rates.

Further cost-drivers are ongoing harmonisation activities, new regulatory requirements (CSDR etc.) and practical experiences of T2S markets.

Moreover, it was stated that the full benefits of T2S can only be seen after the removal of the EPTF barriers.

TECHNOLOGY INNOVATIONS DRIVE NEW BUSINESS MODELS

Of course, today no post-trade event can exist without some new technology sessions. This time, key topics were machine learning, digitalisation as well as client services and challenges by FinTechs. Obviously, a big advantage for the presenters of such topics is the chance to show more fancy, colourful and exciting slides than their regulatory predecessors (this is no criticism; this I would simply call a natural advantage).

Since one speaker cancelled, Chairman Philippe de Brossard jumped in with a good presentation about digitalisation in banks. He is of the opinion that for the digitalisation a bank should work on both digital processes and digital platforms. A data-driven approach is crucial to offer new valuable services to the customers, but still data is distributed in multiple banking systems today. The understanding of customer needs has to be the focus in all those transformations. Moreover, it is also important that the change of internal processes happens before

providing new services to the clients, which in turns needs a new entrepreneurial, collaborative and innovative company culture.

Another session was about the challenges that FinTechs present the larger organisations. The main message: there is only one solution – a bank must invest with the vision to have an open, fully automated, flexible and scalable back-office operation with full transparency control of processes and process execution. To stay relevant against FinTechs, banks have 3 main operational levers: system, partnerships and leadership. The suggestion is to invest in the core systems, into your people and don't be scared of partnerships.

Interesting side note: „The new front office is the back office which provides products“. Concerning machine learning, two risks/obstacles were mentioned: the use of internal data due to GDPR and the increased risk of a cyberattack.

LEADERSHIP AND PEOPLE MANAGEMENT IN TIMES OF AUTOMATION

A slightly different, but excellent perspective was brought up by Gerard Lelliot. He raised the question how to motivate people in times of automation. With a simple answer: show them new opportunities!

With this question he turned to people management in times of transformation and listed some well-known key success factors which can be repeated from times to times again:

INVEST IN YOUR PEOPLE!

BE A LEADER: GIVE MEANING TO YOUR PEOPLE!

Where are we going.

Why are we going there.

What's in for them to get there.

BE GENEROUS AND MAKE IT POSSIBLE FOR PEOPLE TO ACHIEVE!

Simplify.

Get rid of silos.

Reward your people.

CELEBRATE WHAT YOU DO!

Small victories lead to bigger victories.

People need to feel good about coming to work.

FUTURE OF EUROPEAN SUPERVISION

A surprisingly lively discussion about the future European supervision model was brought on the stage by Luc Blommers from the Netherlands Authority for the Financial Markets. The different

supervision models (horizontal/vertical/hybrid) and their pros/cons were discussed among the forum participants.

SOME FINDINGS ARE:

A good supervisor must understand the market.

Brexit is seen as a driver for verticalisation of supervision.

Horizontal supervision within EU ("passporting") is challenged as financial institutions may look for the weakest link (the member state) to get access to the EU market and to circumvent third country supervision by ESMA.

There is a strong vote for a strengthening of ESMA (e.g. benefit of single portal of reporting)

HOW TO DEAL WITH THESE ISSUES?

Our SDS GEOS securities processing platform always complies with current regulatory requirements. We already dealt with the issue of MiFID II transaction reporting for our customers and are currently working on a good solution for SFTR and CSDR reporting. The successful implementation of T2S lies behind us and our customers are using SDS GEOS highly satisfied in daily practice.

And we are steadily improving our existing product suite, exploring new products as well as working on the next technology and partnership models to embrace the upcoming chances for us and our customers.

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Working with SDS

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