# The Future of Post Trade will be driven by collaboration, not isolation

The Realization Group

ASCENDANT STRATEGY

# The Future of Post Trade will be driven by collaboration, not isolation

*Jamie Dimon, Chairman and Chief Executive of JP Morgan Chase, wrote in his most recent letter to shareholders that technology always drives change and that the waves of technological innovation are now crashing in more frequently. He said: "In today's world, I cannot overemphasize the importance of implementing new technology."*

*The importance of technology was highlighted during the pandemic as people around the globe were forced to work from home. However, while wholesale financial markets have historically invested in innovation in the front office to deliver more services to clients more efficiently, there has not been the same focus on post-trade processes which can still be manual, complex and duplicative.*

*In addition, regulatory pressures such as the focus on reducing settlement failures, compressing settlement times, as well as the need to be prepared for the growing adoption of digital assets and changes in market structures have emphasised the requirement of moving away from legacy technology. For example, the Bank of England's Post-Trade Task Force in April 2022 said the complexity of manual post-trade processes can pose risks to operational resilience as trades and collateral fail to settle and ultimately increase the cost of financial services for market participants.*

*The Post-Trade Task Force recommended that market participants should explore using technology to deliver a more efficient and resilient post-trade ecosystem but also stressed that technology on its own is not enough. In order to be effective any technology solutions need to be used by a critical mass of market participants and therefore, collaboration is critical. The report said: "It will therefore be vital that market participants continue to work together if there is to be any significant progress."*

*Ascendant Strategy has consistently found that the majority, at least 60%, of post-trade "total cost of ownership" (TCO) across operations and technology for its clients is made up of people cost. Much of this is resolving processing exceptions by communicating with participants in the transaction, so purely internal changes may only result in limited marginal improvements. Banks need to collaborate with their external counterparts to support a 'Quantum Shift' to truly transform their post-trade ecosystems and are turning to fintechs for help in achieving that objective.*

*Fintechs can act as 'middleware' enabling collaboration between firms from all sides of the industry with an 'adopt and drop' approach. They can also be a hub for communication and standardisation across an ecosystem for the benefit of all the participants through enabling banks to increase their use of intelligent automation and cloud-deployable SaaS solutions. In its outlook for 2022 Ascendant Strategy said a successful 'Quantum Shift' could materially reduce TCO by between 30% and 50% while also increasing agility, allowing more effective risk management and improving outcomes for customers.*

*In this insight paper* ***Roy Saadon****, CEO and co-founder of AccessFintech;* ***Stephen Bell****, Managing Director, Global Head of FIC Operations at Deutsche Bank,* ***Stéphane Bernard****, Chief Operating Officer at Euroclear Bank;* ***Philip Slavin****, CEO and co-founder of Taskize;* ***James Maxfield*** *and* ***Alastair Rutherford****, Managing Directors at Ascendant Strategy discuss the importance of collaboration to post-trade transformation. They also cover the role that fintechs can play in enabling collaboration and how to capitalise on these opportunities to deliver meaningful change and make the 'Quantum Shift' required to succeed.*

ASCENDANT STRATEGY

AccessFintech

euroclear

## Impact of the pandemic

**Alastair Rutherford**, Managing Director at Ascendant Strategy, said the pandemic provided a lens which brought underlying inefficiency in workflows into clearer focus. He said: "Given the scale of the crisis, that exposure went much further up the management chain than had historically been the case."

**James Maxfield**, Managing Director at Ascendant Strategy agreed that senior leaders and decision makers in financial services organisations got closer to post-trade issues during the pandemic. They realised that sending spreadsheets and emails in order to solve trade failures did not scale with increased volume and volatility and how hard it was for them to obtain visibility into progress or to understand the root cause of the issues.

Maxfield said: "There was definitely a wake-up call. I think a lot of senior executives were taken by surprise by the difficulty of pulling together information on simple things such as their exposure to a trading counterparty."

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James Maxfield

Firms continue to be under cost pressures and Maxfield estimated that outside the five global wholesale banks, most organisations operate on a cost income ratio of more than 70% due to these heavily manual processes. Costs have been stripped out of the front office as trading has become increasingly electronic so the focus has turned to post-trade as the last frontier for efficiency gains. As a result, senior executives became more aware of post-trade failures and the need to change the status quo and find new communication methods and channels to structure data and automate workflows.

"One organisation told us that during the pandemic they informed the CFO that they would have to make a judgement call on which counterparty to call for margin because they could not get to everybody," Maxfield added.

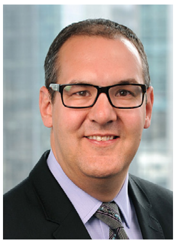
As a result, there is a fertile environment for the right solution providers who can enable internal and external collaboration. For example, fintech provider AccessFintech allows a network of participants to share data, standardise workflows and collaborate on exception resolution. Taskize, the fintech owned by Euroclear, has a platform which is specifically designed to make manual interventions more efficient both within, and probably more importantly, between financial services firms.

"These solutions had been available pre-pandemic but the wake-up call created an openness around doing things differently," added Maxfield, "Importantly, they are impactful and so can very quickly create evangelists who realise that in addition to making internal processes more efficient, it actually helps their business by providing a better outcome for customers."

**Stephen Bell**, Managing Director, Global Head of FIC and Securities Services Operations at Deutsche Bank, said the industry has accepted a new, more flexible, way of operating since the pandemic, with staff not required to be in the office every day. For example, in the US and elsewhere Deutsche staff have laptops and can work from anywhere. He said: "Our technology strategy involves investments that provide flexibility and collaborative spaces and moving to the cloud as demonstrated by our partnership with Google."

In December 2020 Deutsche Bank and Google Cloud formed a strategic, multi-year partnership to accelerate the bank's transition to the cloud and co-innovate new products and services, as well as selectively working with start-ups and fintechs.

"We need a clear view of problems that we can solve by ourselves against market-wide inefficiencies. For example, Deutsche Bank merged three payment systems into one platform," added Bell. "However, in other situations fintechs can help us with external collaboration by providing a single book of record, interoperability and implementing standards for the industry as they are firm-agnostic."



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**Roy Saadon**, CEO and co-founder of AccessFintech, said the firm grew massively during the pandemic as the financial industry was hit by massive volatility and volumes; a disrupted workforce and processes and technology limitations at the same time. The need to access data outside the normal environment became key. Saadon added: "The crisis highlighted fundamental issues that can be solved by sharing data and momentum shifted at such a massive scale that there is no going back."

Better data helps banks manage their activities but they are also realising that just cleaning their own systems is not enough. "They needed to look at their data in the context of everyone else's opinion on that transaction and for someone to turn on a massive flood light so they can see more clearly, and make better and quicker decisions," added Saadon.

## Regulatory pressure

Bell highlighted that post-trade collaboration requires market-wide accepted tools and standards which have usually been mandated by regulators after the previous crisis.

In order to avoid future crises, regulators want to decrease settlement times which reduces the timeframe available for resolving post-trade exceptions. In February 2022 the US Securities and Exchange Commission voted to propose rule changes to reduce risks in the clearance and settlement of securities by shortening the standard settlement cycle for most broker-dealer transactions in securities from two business days after the trade date (T+2) to one business day after the trade date (T+1). Gary Gensler, chair of the SEC, said in a statement that these changes would require affirmations, confirmations, and allocations to take place as soon as technologically practicable on trade date (T+0).

As a result, fintech-driven solutions have become an attractive proposition. Maxfield said: 'Firms realised they can contribute data to a shared platform where it is formatted and standardised. This reduces reliance on their in-house technology and allows them to start dropping some of their complex manually-intensive internal processes."

## Automating workflows

**Stéphane Bernard**, Chief Operating Officer at Euroclear Bank, said the international central securities depository realised back in 2015 that it needed to transform its workflows in order to efficiently bring together issuers and investors at an industrial scale around the globe, across all markets, all asset classes and all instruments. He said: "In 2015 when we acquired Taskize we understood that in order to efficiently answer queries and demands from clients we would have to connect the dots and improve the plumbing by leveraging new technologies, digitalisation tools and platforms."



> *"Our principle is to decomplexify and demystify, but there are a lot of touchpoints where the financial plumbing can be improved.*
>
> **Stéphane Bernard**

Euroclear did not have the right technology in-house and as a result decided to find the smart people who had built the right tool. "By using Taskize technology we can connect the right request to the right people who have the right knowledge which increases efficiency for the whole ecosystem," added Mr Bernard.

Taskize's platform is specifically designed to drive efficiency in manual interventions both within, and between, financial services firms. **Philip Slavin**, CEO and co-founder of Taskize, said that in some areas of operations up to 40% of activity is not driven by transactions, but by repetitive tasks such as running daily and weekly checks or generating reports for customers. "Some clients refer to this as 'hidden work' that requires time, energy and resources but is not managed in any way so firms cannot allocate resources efficiently," he added.

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> **Philip Slavin**

By using Taskize's Bubble environment clients can raise, route, track and resolve operational issues and replace numerous phone calls, spreadsheets and emails resulting in improved response times and increased accuracy. Firms using Taskize have reported a 70% reduction in resolution time that used to take more than a day to less than an hour.

In some Taskize clients a team of 20 people can receive over one million emails over six months as the use of distribution lists can mean that over 200 emails are generated just for one specific post-trade query that, in reality, is not relevant to most people included on the email chain. Taskize collapses this email proliferation into a single bubble resulting in up to a 90% reduction in email traffic and a very fast return on investment. Management can also track how a team is resolving post-trade issues that require human intervention.

Slavin said: "We have thought long and hard about the importance of workflow – it is the oil that greases the wheels of operations, and our challenge is to make our clients realise its importance both internally and between applications and between firms. Taskize's inter-company workflow provides the middleware for doing business by allowing people to reach out across firms to get work done."

Some firms use artificial intelligence to provide predictive analytics on trades that have a high probability of causing a problem and this actionable data is incredibly valuable. "Being able to use this actionable data inter-company to collaborate directly with the relevant external counterparty makes it even more powerful." added Slavin.

In February 2022 Euroclear said it was using Taskize as the preferred channel for its 2,000+ members to appeal penalties imposed under the European Union's CSDR Settlement Discipline Regime. European CSDs are required to report and automatically apply financial penalties to market participants for failed trades. The process uses a Taskize Bubble that has been specifically built around a penalty appeal template allowing Euroclear to reduce resolution times by using a single, streamlined digital channel to manage the penalties and appeals process. Euroclear members can join the Taskize network free of charge as part of Euroclear's sponsoring license.

Mr Bernard said: “Leveraging new technology to automate as much as possible is where we can make a difference by going that extra mile for our clients.”

## Data

Poor data quality will hamper successful collaboration. Rutherford said: “The better the data that goes into the collaborative process, the better it can help drive transformation and standardisation.”

Saadon argued that clients realise that the benefits of collaboration will be long-lasting and impact straight-through processing, predictive risk management and client service. “The cost of managing data changes as banks no longer need to onboard new technology to where their data is located if it is standardised and shared on a network,” he added.

He continued that when AccessFintech was launched many banks were open to the concept of collaboration as they realised their data could create efficiency if it was blended together. Banks were starting to realise the value of data not just as a revenue generator, but for efficiency and optimisation and invested in AccessFintech because they wanted a vehicle in order to facilitate that process.

Saadon added: “We could be the neutral coordinator that orchestrates this process.”

Initially banks only wanted to share data about trades that were breaking which was field-level sharing. However, data they were sharing with clients was different to that being shared with the custodians, for example, and they didn’t want to create duplicate records of data and send them to people.

Saadon said: “If you can control access to data rather than where the data goes, that dramatically changes control and where data can actually live.”

The AccessFintech platform is open to anyone who wants to collaborate with banks or the buy side. Saadon said that as a result the firm’s Synergy Network is now in a hyper-growth stage where critical mass has been achieved and there is a very clear value of joining the network.

“Collaboration is key for the industry to make post-trade more efficient,” he added. “You cannot talk about data collaboration and openness and at the same time have a closed network.”

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**Roy Saadon**

## Barriers

The primary focus for financial services firms is usually cost and the implementation of any technology solution will require investment. Regulation can therefore be used as a catalyst to transform processes, especially as the need to comply with regulatory requirements means projects will receive the necessary funding.

Bell highlighted that economic costs are the biggest internal barrier as firms expect instant payback on their investment and there are more obvious benefits in improving internal workflows than collaborating externally. He said: “Making external processes more efficient has a second order impact such as improving customer satisfaction or avoiding the costs of settlement failures. The benefits need to be clearly articulated and regulators need to push market momentum and consensus.”

After reducing costs, the secondary focus is risk and control. Maxfield added: “Those two buttons are heavily pushed but clearly, if processes can be managed more efficiently and with much more control the byproduct is happier customers.”

Rutherford highlighted that a proliferation of providers offering similar services could become a barrier. He said: “If there are five separate collaboration platforms, who do firms put their money on ? They do not want to commit to a platform which may not become the new emerging standard.”

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>
> **Alastair Rutherford**

In addition, he highlighted that the silos within organisations can be a barrier to joined-up thinking around transformation.

## Opportunities

Saadon said sharing data and collaboration allows banks to assign ownership in a much clearer and transparent way which leads to a reduction in failures and a more optimised transaction cost.

“The core is the blend of data from all parties in a standardised and normalised way so that individuals can access what they need at any point in time,” he added. “Firms start to operate differently and start releasing value that is stuck between organisations.”

He described the industry as embracing the fact that data strategy dramatically affects how they do business which will involve a multi-year transformation.

Institutions are also becoming increasingly involved in cryptocurrencies and digital assets which can involve trading on a 24/7 basis and atomic settlement, where the instant exchange of two assets does not take place unless conditions are valid for the transaction to complete. In order to compete with digital native firms, traditional institutions will have to develop new, and far more efficient, post-trade processes – and in some cases move these activities to “pre-trade”.

Saadon pointed out that in this new distributed world banks will need a new data management ecosystem. He said “We need to give comfort that their data is properly protected, encapsulated and segregated while allowing for collaboration. You can’t do one without the other.”

Slavin expects that in five years’ time post-trade workflows will be more efficient and more collaborative through continued focus and innovation. He said: “If there has been one benefit of the pandemic, it has been to change the perception around cloud-based capabilities and technologies making them more accessible. To capitalise on this mindset change, banks now need to review their internal processes for adoption of these new technologies to give them greater agility and flexibility.”

The process of replacing legacy technology has changed and banks are not just trying to do an internal build or big technology projects but are looking to fintechs for help, according to Slavin. He concluded: “It is the fintech’s responsibility to be inter-operable allowing their clients to create a portfolio of technology assets that work well together.”

As Dimon highlighted: “If banks want to compete in this new and increasingly competitive world, they need to acknowledge the truth of this new landscape and respond appropriately – sometimes it truly is change or die.”


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