The Future Of Securities Processing: A Roundtable Write-Up

Simon Osborne, GlobalTrading, writes on our latest roundtable examining ongoing evolution in post-trade processing

On 18 June 2015, industry participants gathered in Hong Kong to give their views on the state of securities processing in Asia. Having diagnosed a number of the issues that characterise the industry locally, they also looked forwards to conjecture about possible future changes.

Comparatively, there has been much heavier investment in Asian front offices than in the middle and back offices. Revenues in Asia are decreasing but regulatory and operational costs are simultaneously increasing.

The problems of Asian securities processing

The infrastructure in Asian markets, individual exchanges and central banks, drags the industry backwards. That is happening at the same time as there are demands to process ever greater volumes of trades.

At present, it seems impossible that in Asia a joint clearing platform between countries will evolve. Participants have to work with the current mentality between competing and accepting that there will always be a core equities platform (or more than one) in each Asian country.

A straightforward overlay of European or US systems in Asia seems inconceivable. There are too many discrete markets and national interests in the continent.

Problems come from disjointed services that are found not to be collectively efficient. That state of affairs has meant that multiple back offices have become, as vividly described by one panellist, as a 'big bowl of spaghetti'. How to eliminate such log jams via good management and new technology is the question to be solved, but not one that lends itself to a straightforward answer.

The costs of development

With the Shanghai-Hong Kong Stock Connect market participants witnessed how expensive it was to build new systems. Stock Connect's problem was not only about its cost but the short time frame required for implementation which led to pressure on IT and operations departments.

The expenditure budgets to implement the Stock Connect systems had not appeared in firms'

Philip Foo,
General Manager, Operations, Operations & Technology Group, China Citic Bank International Limited

"Great panel discussion with very active interactions from everyone around the table. Moderator did a fantastic job in engaging the participants with topics and questions that are clearly the passion of many.

Process efficiencies and controls, big data, disruptive technology and its potential to impact a traditional business. These are clearly the current theme many of us are facing. Whether is it buy or sell side, collaboration is demonstrated in an unprecedented way, coming together to make it work! Likewise, business and support management of any firm will have to be aligned and in agreement as to when, how, and where to spend the investment dollars to tackle these priorities and agree to the timeline of deliveries. By coming together within the firm and as an industry, we will break new grounds to meet these challenges ahead. Thank you to GlobalTrading and Citi for facilitating this, Serisys for sponsoring this event and many more opportunities in the future!"

development plans, as the commencement of the project began in mid-year.

At least with the Stock Connect, the programme did offer, and ultimately delivered, the promise of significant future revenue, which after a shaky start did start to flow through as China markets flourished. There was therefore a profit incentive to invest in the processes and systems that provided the backbone of a firm's service offering.

What though if there was no obvious pay-off? If it was a mandatory regulatory change, such as FATCA, with no profitable implications, would the industry's response have been as vigorous and enthusiastic?

It is hard to explain to accountants and head office CFOs in the financial industry that delivery of projects has to be completed intra-financial year. They, in response, pose the question why, for example, does a simple, straightforward fee change need so much work and expenditure. It is up to the back office to justify internally why there are additional hidden complexities.

The panel observed that Hong Kong is, in terms of vendors, geared towards funds rather than to the sell-side. Furthermore, if one buys off-the-shelf systems, developers sometimes have had no Asian experience. Decisions about systems development are being made elsewhere, with Asia being treated merely as an afterthought.

The end of the 'one-stop-shop'

The days of all-singing, all-dancing investment banks are numbered according to the panel. Processing is either a

James O'Sullivan,
Head - Client Development Banks and Broker Dealers, BNP Paribas Securities Services

"It's very clear that a large part of the industry has not, historically, invested in upgrading post trade technology. This has led to the continued use of old, non-scalable technology and the associated manual workarounds.

With this backdrop, we see greater appetite for banks and brokers to re-engineer their value chain - partnering with a third party to simplify their middle-to-back office solutions in turn reducing their overall existing and future IT and operational risk.

Previously outsourcing was a way of moving from a fixed to a variable cost model, although this is still part of the equation we are increasingly winning mandates by building products which optimize or minimize capital requirements and which provide access to liquidity and cash solutions.

Choosing the right partner is key – you need to be confident that they have the expertise, the appetite to continue to invest and the long-term commitment to the business."

core business, or if that is too expensive, then one can think about outsourcing it to external providers.

The question was raised whether those firms which do still want to offer everything understand their value proposition well enough? Operations itself in Asia has become a commoditised service. If a firm does it right, people say nothing, but if they do it wrong, the company risks getting into serious trouble.

Looking into the crystal ball

By this juncture, the mood among the panel and audience was sombre. If the plan is to move to a bright future, this doesn't seem like the right place to start from, with under-investment, regulatory overload, a tangle of systems and differentiated platforms in Asian countries ill-disposed to seek joint solutions. Nevertheless, ideas did emerge. The panels' predictions revolved on the concept that for the future of processing to bear fruit, today's infrastructure needs to be swept away and replaced in total, rather than patched together and the cracks papered over..

Tim Marsh,
Chairman, Serisys Solutions Ltd.

"Hong Kong has T+0 now. How long before we have real time settlement?"

Endre Markos,
Director and Regional Head of E2C, Citi Markets and Securities Services

“Block Chain may not be the future of securities processing, but the quickly escalating attention it is getting underscores the industry’s hunger for material progress in deploying new technologies and processes that can reduce its efficiency drag. There is a reason why not much has changed in the back office. Without a holistic approach and optimization of the entire lifecycle of the trade, very little can be further improved. By aggressively exploiting new technologies and deploying data scientists, we can ensure that processing trades is not a necessary evil, but an integral part of a precision investment machine.”

So, we were told that we must keep our eyes open for disruptive technologies such as Block Chain, which is currently being used by NASDAQ for its grey market business.

Block Chain is a way of recording data in a decentralised way. It was developed originally for bitcoin, clearing and verifying transactions. It is an enabling technology to make settlement real time, rather than T+1 or T+2.

The adoption of technologies such as Block Chain would imply replacement of all of today’s technology. It would have a knock on effect on the securities processing industry as we know it, foremost of which would be the apparent need to have lower staff numbers working in the back office.

One panellist speculated that AliBaba might become the world’s biggest financial company if it leverages the power of its payments infrastructure to cross sell other financial products.

In China, payments systems such as that offered by this major online merchandising company have meant that the country is in the process of by-passing the need to have a credit card industry. Their payments are conducted via the internet. If that theme unfolds, it will mean that credit cards, which have never penetrated China, will never do so, being superseded by an entirely new payments’ processing mechanism.

If China is to drive change therefore, Hong Kong is in a good position to participate. Today, the securities processing industry is bedeviled by a maze of systems and complications. Solving these problems with the tools currently at hand seems to be an impossible task. They are insufficient for the job. Therefore, the panel concluded that any leap forward will not be derived from evolutions of today’s processes, but from completely new technology and procedures on the drawing board. They now look for answers from Silicon Valley, rather than Wall Street.

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