ISSA International Securities Services Association

ISSA

ACSDA Webinar February 2024

Who ISSA Is

ISSA is a leading Global Trade Association	We are dedicated to supporting the Securities Services Industry	Our members include Custodians, CSDs, technology and other related firms	Our vision is to shape the Future of Securities Services

International Securities Services Association

What ISSA Does

Connect	Collaborate	Change
Facilitate global interaction across different markets, regions and industry segments Bring together key industry stakeholders in Working Groups and the Symposium Connect with members and other industry bodies through webinars and conferences	Offer the opportunity for members and industry experts to come together to at our biennial Symposium Manage Working Groups to tackle key issues effecting the industry Listen to our members – we are a member led organisation	Create a unique opportunity for debate of the key factors effecting the industry today to shape the future Provide best practice guidance through the publishing of papers, articles, surveys, videos and podcasts Offer education for all market participants

International Securities Services Association

Benefits of Joining ISSA

Key Topics

Benefit from the focus on key industry issues

Best Practice Guidance

Contribute to the development of best practice guidance

Exchange of Ideas

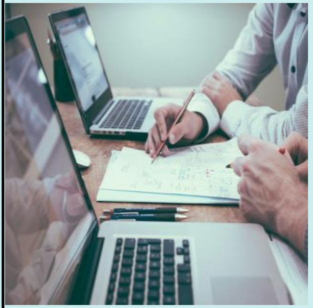
Engage and collaborate on common topics

Influence

Influence industry and regulator decisions

Networking

Take advantage of the excellent platform to connect with others



Training and Education

Expand your knowledge and experience

ISSA International Securities Services Association

ISSA Board Member Firms

International Securities Services Association

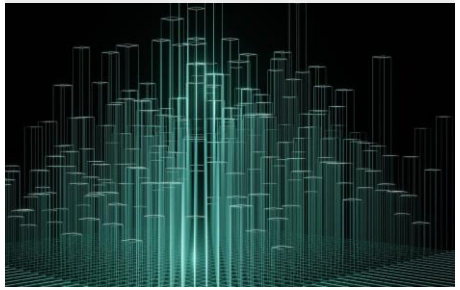
ISSA Working Groups

Asset Servicing

Custody Risks 2023

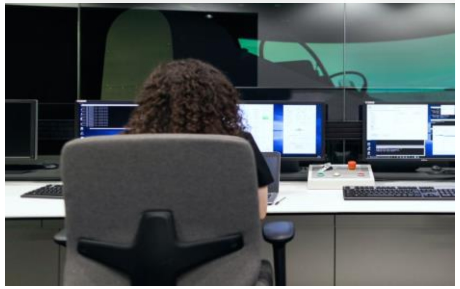
Digital Identity & Onboarding

Digitization



Distributed Ledger Technology

Domestic CSDs



Financial Crime Compliance

Future of Securities Services 2023

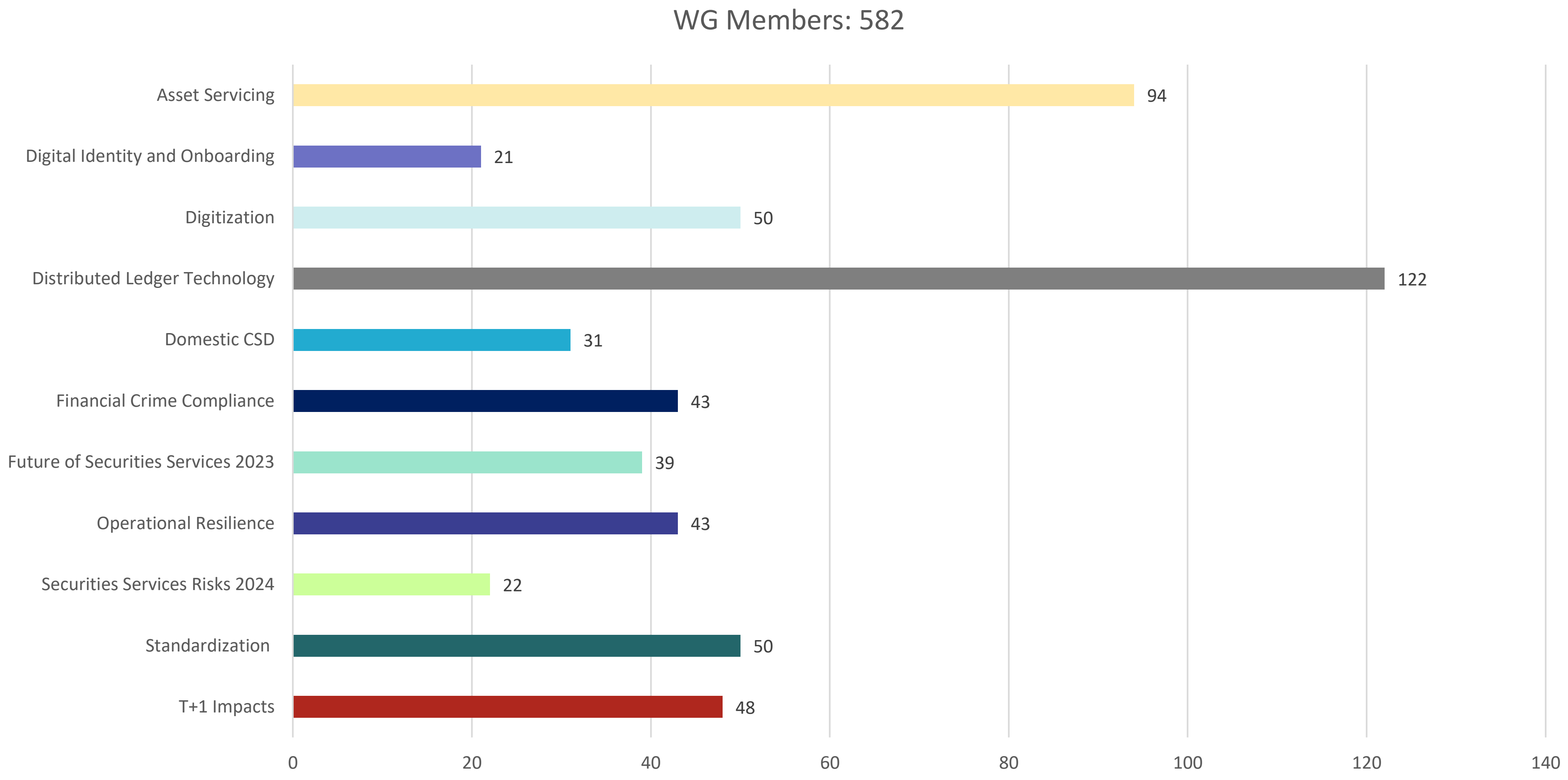
Operational Resilience

Standardization

T+1 Impacts

ISSA WG

ISSA Working Groups – WG Participation by WG



International Securities Services Association

T+1 Global Impacts

ISSA International Securities Services Association

T+1 Global Impacts Working Group

Link	QR-Code
T+1 White Paper	T+1 Impacts

T+1 Global Impacts Working Group

Scope

- To identify the challenges in moving to T+1 for non-domestic investors,
- To analyze the impacts of these challenges,
- To suggest mitigation and best practices to reduce or negate these impacts,
- To decide whether discussions with public stakeholders would be appropriate.

International Securities Services Association

T+1 - Global Context

- There is a clear trend to accelerate securities from the global standard of T+2 to T+1:
- India successfully implemented T+1, using a phased approach.
- The US securities market regulator issued a rule mandating T+1 settlement for US equities and associated asset classes, with a “Big Bang” implementation date of May 28, 2024.
- Canada and Mexico will implement, also with a “Big Bang”, on May 27, 2024.
- The UK and European markets are exploring acceleration as well. While recommendations may be issued in the coming months, no firm decisions should be made until after gauging the impacts of the US, Canada, and Mexico implementations, especially the global impacts on cross-border market participants.
- All of the initiatives will have some common benefits and costs:
- Benefits: Reductions in settlement, counterparty credit and market risks, as well as an overall gain in processing efficiency.
- Costs: There are also obstacles that must be addressed, both domestically, and very importantly, on an international basis, focused on cross-border trades into markets moving to T+1 settlement.

International Securities Services Association

Unique Issue for International Investors - Foreign Exchange (FX)

- The FX market is the largest financial market in the world and is operated by a different industry segment, with its own trading and settlement conventions and market infrastructure that processes the vast majority of FX transactions.
- The spot market for FX currently supports the bulk of execution liquidity between mid-day and 5:00 p.m. CET and settles on a T+2 basis, with some T+1 settlement availability, but very little T+0 availability.
- There is no corresponding initiative by the global FX market to shift spot market settlement to T+1, and that presents significant obstacles to many international investors, causing them to significantly overhaul their approach to funding their cross-border securities transactions, and may cause their transaction costs to rise significantly.

International Securities Services Association

The FX Problem

The FX problem is two-fold:

- Settlement Risk: CLS cut-off time for input of FX transactions into PvP multi-lateral netting settlement process is 6:00 p.m. EST
- Currently there is very little liquidity to execute FX transactions for each investor between 4:00 p.m. (when the US equity market closes) and 6:00 p.m. EST and for the liquidity that exists, spreads are relatively wide.
- The two problems intersect: Under T+1 securities settlement, for an FX trade to enter PvP, it will need to be executed right after 4:00 p.m. EST, assuming sufficient liquidity becomes supplied then to meet that demand.
- If there is not sufficient FX liquidity in the evening of T+0, the FX trades will be executed the next morning (T+1 for the security trade), will require settlement within a few hours and will settle as bilateral gross transactions, increasing operational complexity and counterparty risk.
- CLS is exploring the feasibility of extending the input of FX transactions into PvP by up to 60 minutes. Such an extension would be helpful in getting late in the day executions into PvP, assuming that custodian banks extended their cut-off times as well, though it does not alleviate the lack of liquidity late in the day to execute FX transactions.

Issues Faced by Domestic Investors with a more significant Impact on International Investors

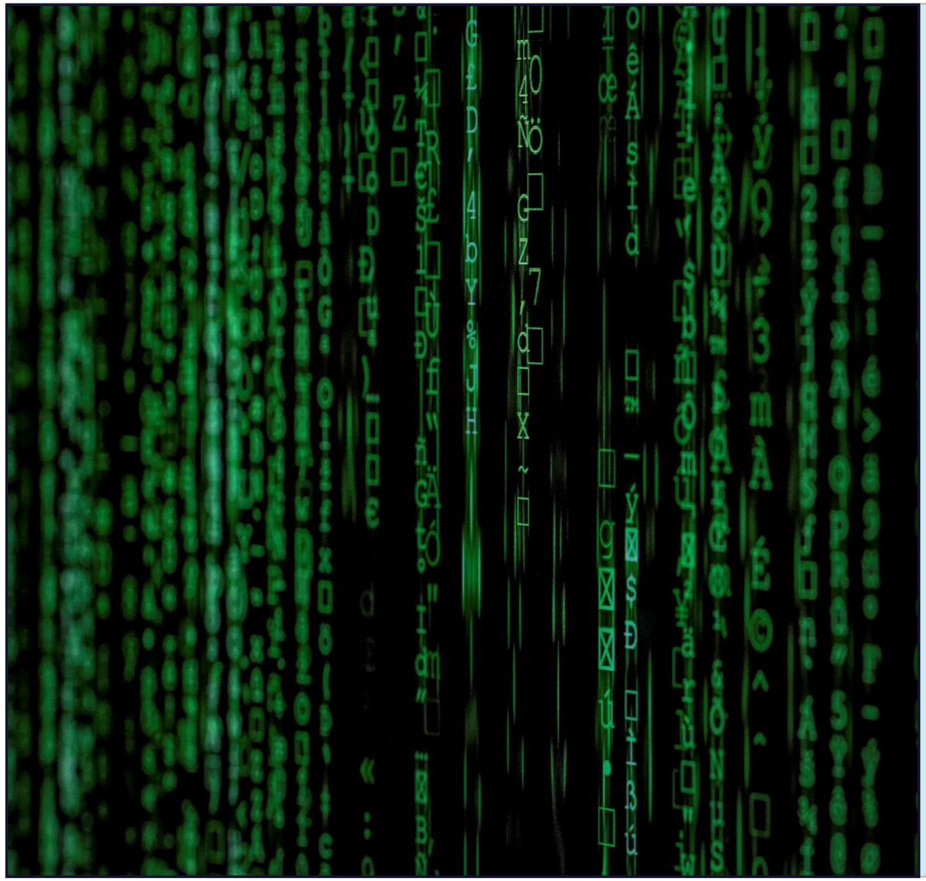
- Time to get executed trades allocated, confirmed, and affirmed and instructed to custodians
- Time to address exceptions by settlement close
- Stock loan returns
- Corporate Actions
- Global products with components from markets moving to T+1 - ETFs and depositary receipt

International Securities Services Association

Digital Asset Custody

International Securities Services Association

Digital Asset Custody



Link	QR-Code
Digital Asset Custody Deciphered	DAC

The Digital Asset Custody (DAC) Report - Context

- ISSA Working Group proposed the topic last year
  - FTX increased the urgency
  - Subsequent AML at Binance
- Join venture between ISSA and GBBC - GDF and Deloitte
  - Existing market participants and new entrants
  - All focused on ensuring that DAC
    - In capable of protecting client assets
    - Is not killed, actively or inadvertently, by regulation
- Agreement of the potential utility of DLT solutions

International Securities Services Association

The Digital Asset Custody (DAC) Report – High Level Key Findings

- There is huge potential for the provision of digital custody above and beyond native crypto assets (such as bitcoin and Ether) to encompass new and emerging classes of digital assets.
- Although custody is a universally understood term in traditional financial services digital assets present many new challenges to the provision of custody services, particularly the liabilities that custodians have over the assets' safe custody.
- The legal rights of digital assets' owners represent the greatest challenge for custodians of digital assets.
- The architecture of DLTs is constructed differently to the current legacy of automated and / or dematerialized computer code and electronic data, offering a combination of substantial benefits and challenges to custodians.

International Securities Services Association

The Digital Asset Custody (DAC) Report – Detailed Findings

- DLT network nodes for consensus move the control point
- Cryptographic keys are used for assets owners to access (network) digital assets – these must be managed
- The immutability of the record of transactions on DLTs do not have a corresponding account-based structure and are accessible 24/7/365, with no notion of opening and closing balances.
- Segregation
- Settlement finality
- Digital Identity
- Staking and "Slashing
- Transaction fees/gas fees and who are the miners?

International Securities Services Association

The Digital Asset Custody (DAC) report – recommendations

1. Educate workforces on digital assets and their value chain as well as the risks and risk mitigation of elements such as key management and staking – particularly for asset owners and investment managers.

2. Engage with regulatory authorities to resolve uncertainties related to the development and growth of DAC and promote regulation through the lens of "same activity, same risks, same regulations".

3. Develop a common understanding of how asset owners and/or investment managers should ensure contractual terms that are clear, that address risks that are relevant to DAC and that delineate between the responsibilities of a digital custodian, and other market participants and service providers.

4. Support dialogue with anti-money laundering (AML) / know-your-customer (KYC) and sanctions authorities in order to achieve common aims so that requirements, money laundering and other criminal activity risks and sanctions enforcement are effectively addressed whilst allowing digital asset ecosystems to operate effectively.
5. Work with governors and/or operators of DLT networks to establish transparent finality rules and processes

6. Work with the industry to establish principles and best practices for:
   i. Asset segregation
   ii. Ledger governance
   iii. Interoperability

7. Advocate for bankruptcy remoteness of assets through statutory and regulatory reform, or litigation, to ensure jurisprudence,

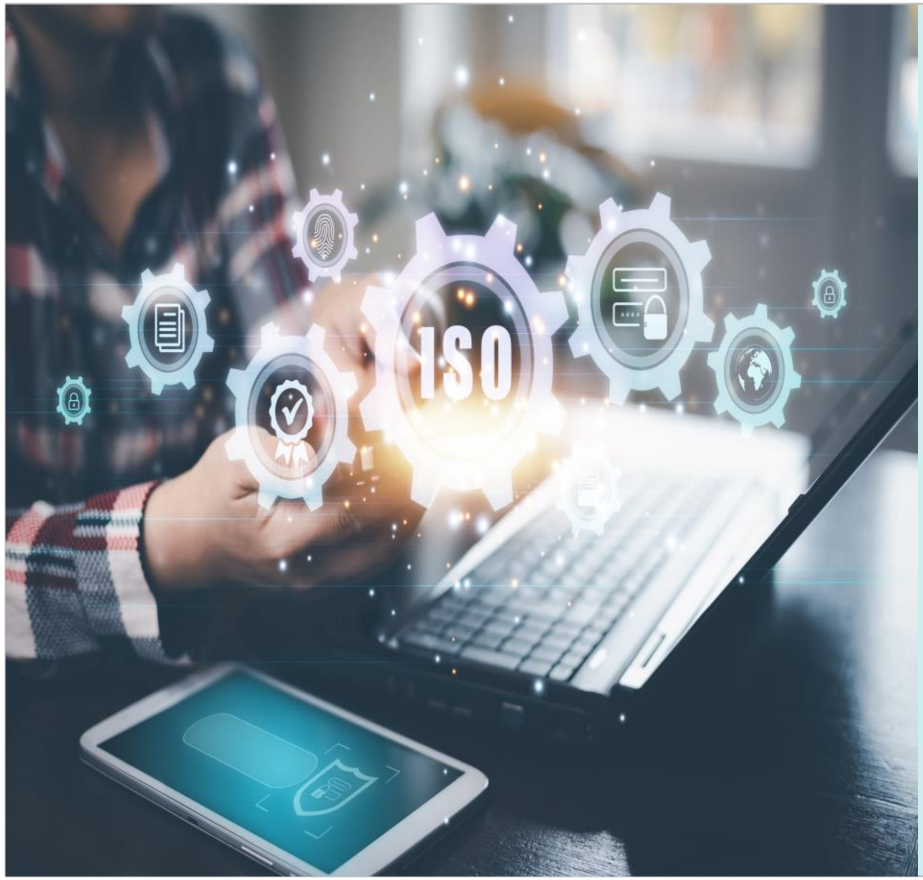
8. Support of the adoption of global legal standards to cover DAC. Standardization helps the market develop and creates less barriers.

International Securities Services Association

ISO 20022

International Securities Services Association

ISO 20022



Link	QR-Code
ISO 20022 Survey 2023 Report	

International Securities Services Association

ISO 20022 Survey 2023 - Context

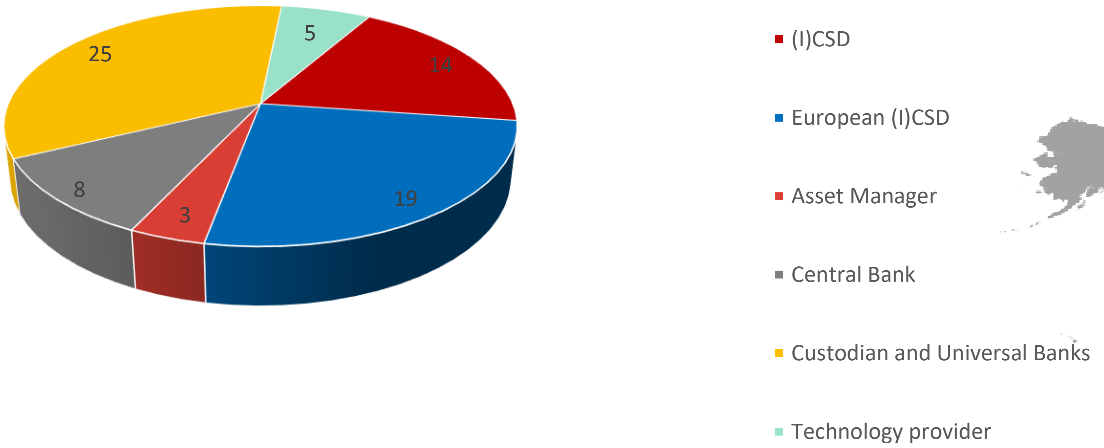
- Follow up of 2020 Survey to see if the market view had changed.
- Key findings of 2020 Survey
  - Nascent technology could be a driver for usage of ISO 20022.
  - Today, there is limited adoption of ISO 20022 across global Securities markets.
  - Investment in ISO 20022 adoption is primarily driven by requirements set by regulators or FMIs.
  - The Industry does not see the business case for a full adoption of ISO 20022.
  - Asset Owners (AO) and Investment Managers (IM) will not drive adoption of ISO 20022.
  - There is no industry appetite for a big bang adoption of ISO 20022 within the next 5 years.
  - Co-existence and co-maintenance are required during any transition.
- Joint venture between ISSA and ECSDA

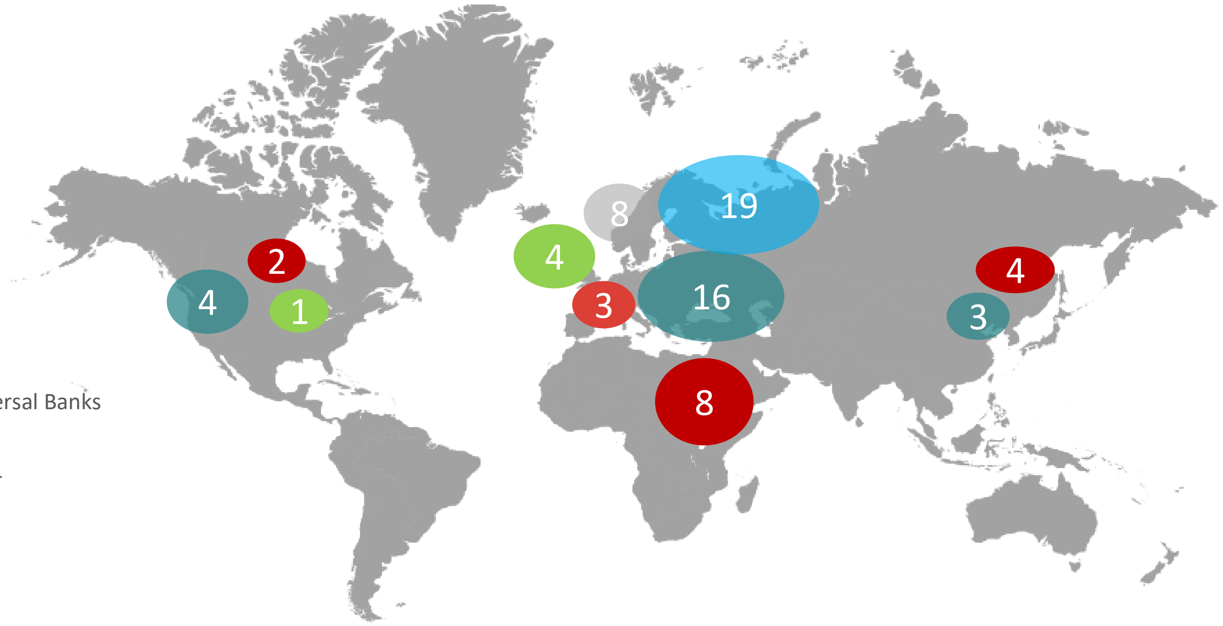
International Securities Services Association

ISO 20022 Survey 2023 – Why Resurvey?

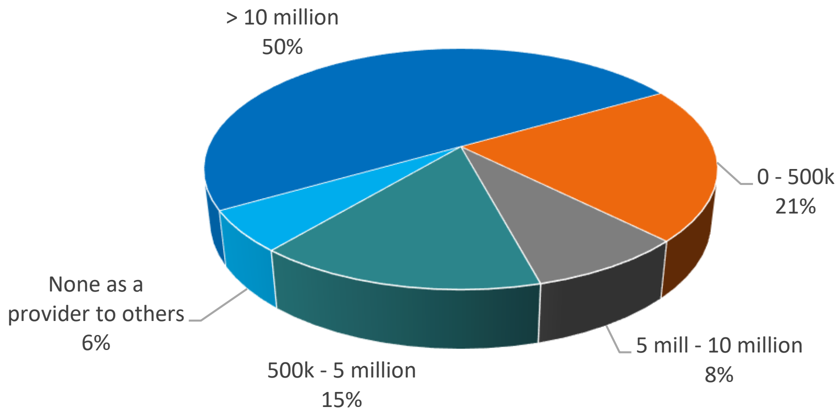
- Payment migration: Securities players will need to adopt ISO 20022 for some of their payments flows.
- Regulation: In addition to a call for an increase in transparency, regulatory bodies such as ESMA are progressively mandating the use of ISO 20022 for reporting.
- Eurosystem Collateral Management System' (ECMS): Now planned for April 2024, includes a set of harmonized rules called the Single Collateral Management Rulebook for Europe Standards (SCoRE), that specify how participants must connect to the system using ISO 20022 messaging.
- Market Infrastructures: Many market infrastructure firms offer, or have plans to offer, ISO 20022 to their participants. This may incentivize custodian banks, brokers and asset managers to adopt this standard and offer its capability to their own customers.
- New technology: There is growing adoption of APIs and DLT across the securities industry. Without a common standard, and a data dictionary, there is a risk of further market fragmentation.
- Translation risks: When ISO 20022 is converted to ISO 15022 - and vice versa - data may be truncated or incorrectly translated.
- The cost of co-existence: There is an inherent cost and risk in the industry of having to maintain multiple syntaxes and protocols.

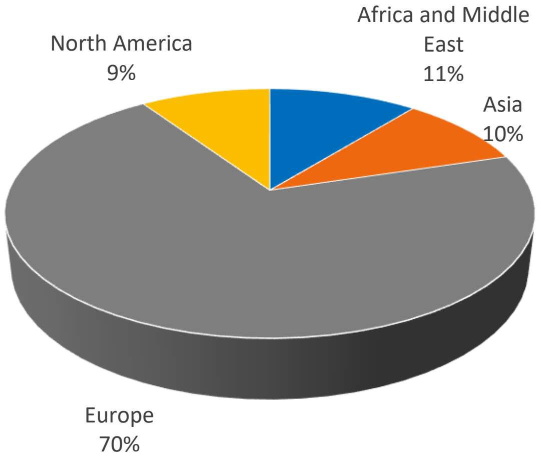
ISO 20022 Survey 2023 – Respondees





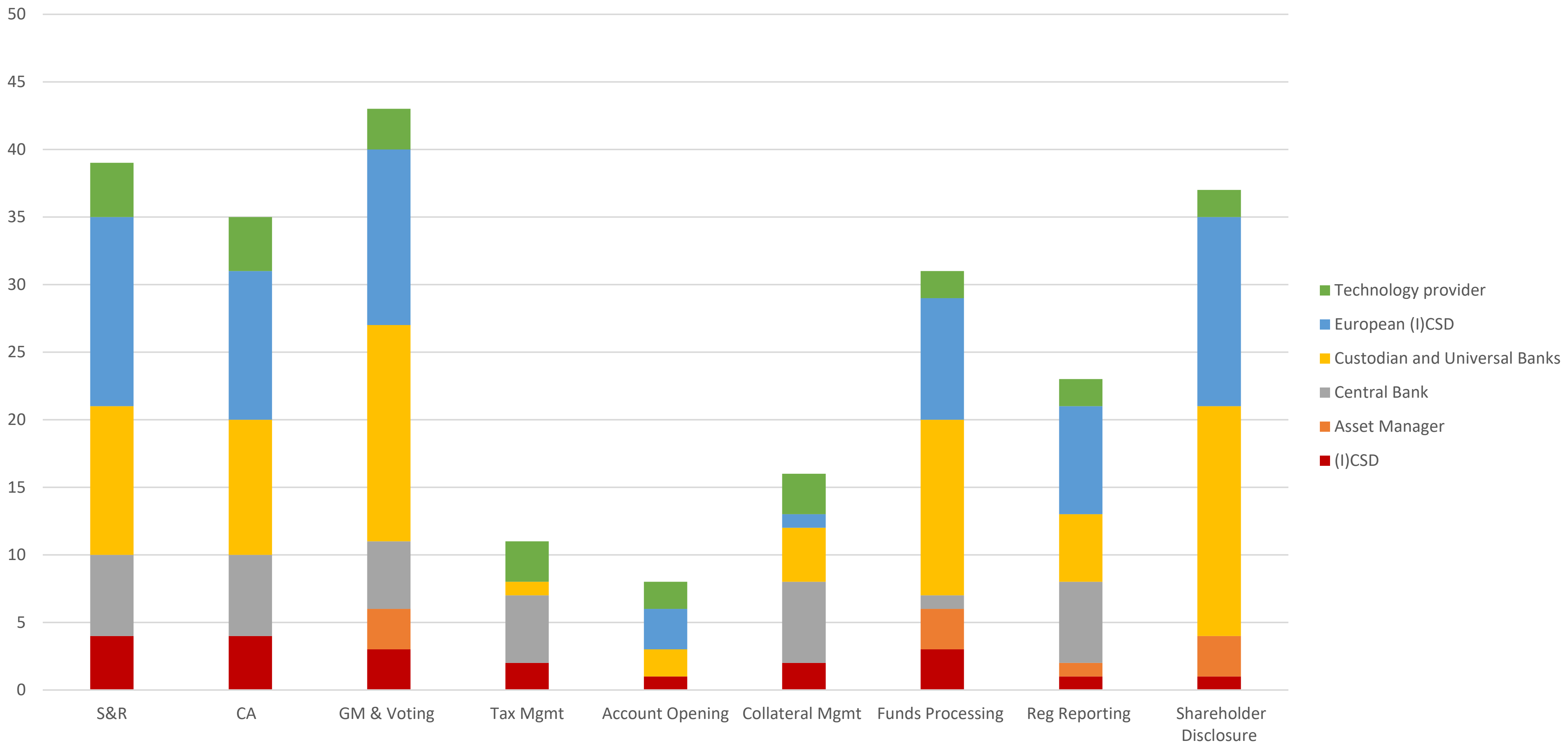
Annual Volume of Transactions





ISO 20022 Survey 2023 – Detailed Findings

Who is presently using ISO 20022 and for what?



Limited adoption in 2019 with little to no increase afterwards

No regulation on sight = No adoption projects

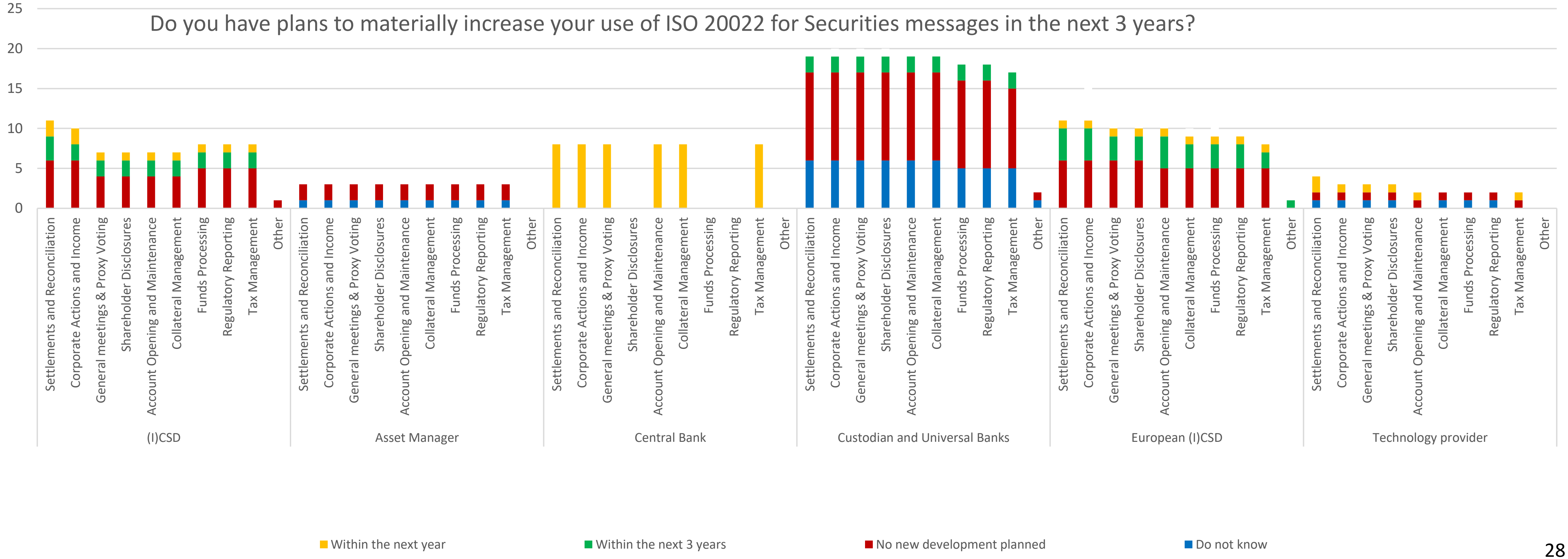
Polarized views for adoption

Clear divide between Market operators and their participants

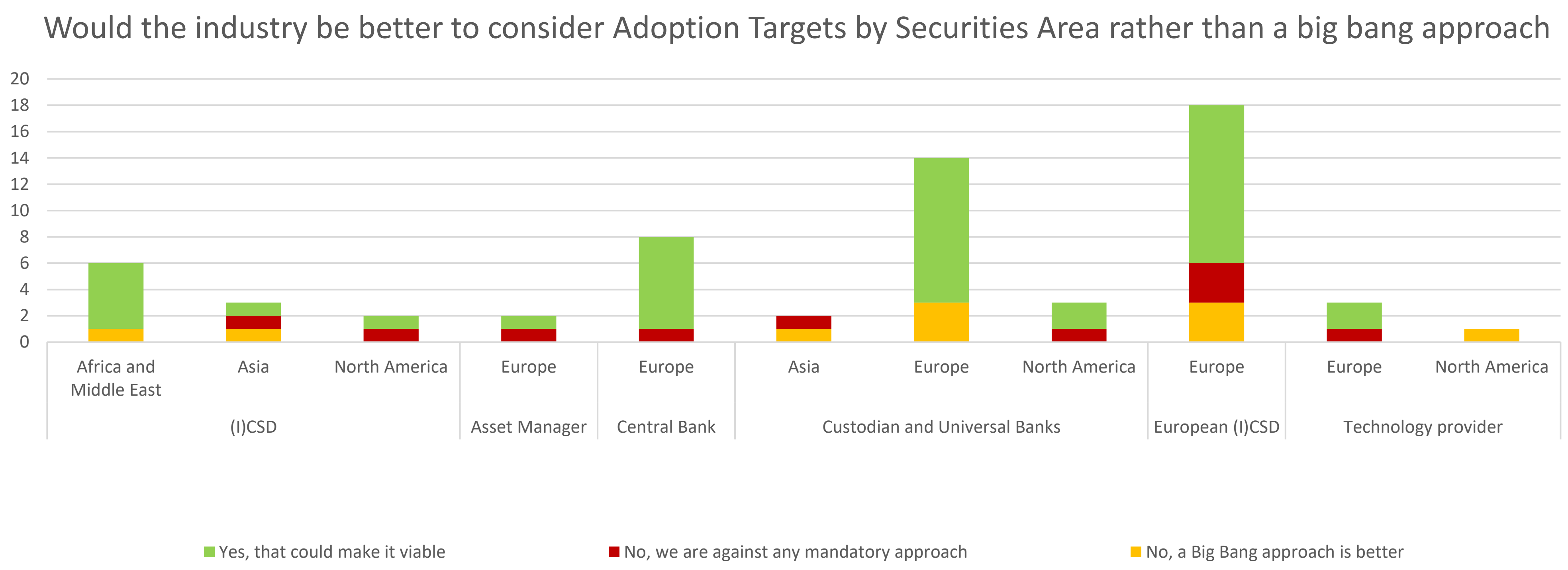
Highest increases in adoption were in Proxy and shareholders disclosures

No significant uptake in areas of low automation (account opening or tax)

Adoption is not a strategic or customer led choice



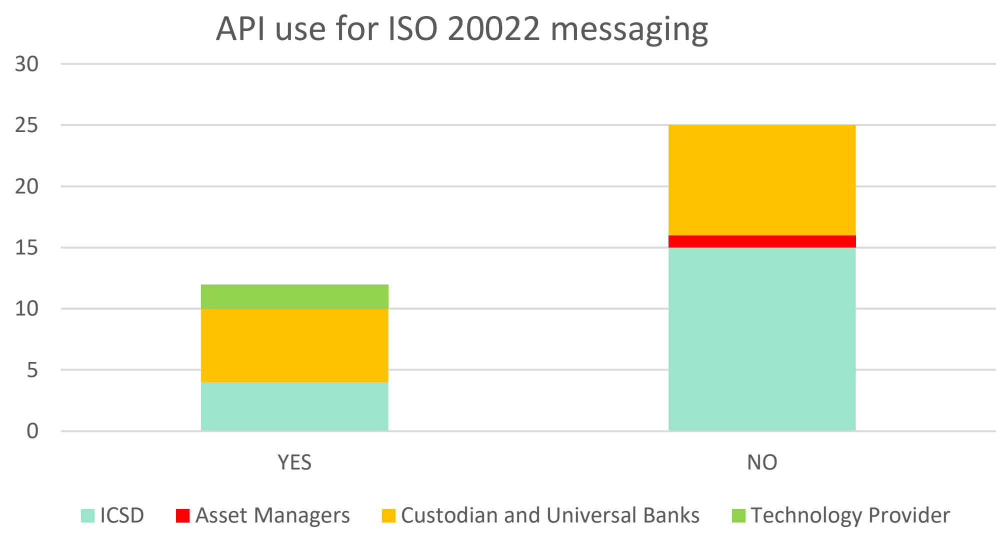
Polarized views for adoption

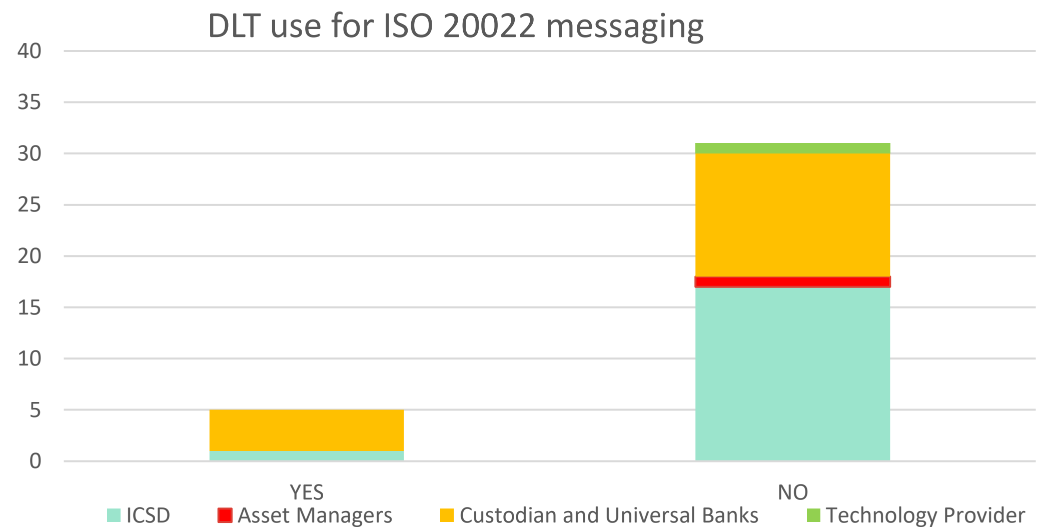


ISSA International Securities Services Association

New technologies /asset classes

- Appetite for ISO 20022 in DLT has not grown since 2019 – although only 2 respondents said they used ISO 20022 compatible nodes in 2019, only 1 said they did in 2022. It seems that work in this areas will not lead to a to enabling industry to reach a tipping point.
- Use of APIs still nascent – although since 2019 have capabilities to register resources at ISO level this has not been taken up yet





International Securities Services Association

Tipping Points - Triggers to move the industry into the next phase

- Further Regulation
- FMI Adoption
- Custodian Community Adoption
- New Technologies

International Securities Services Association

Questions?