



## 1. Infrastructure Issues

### "Enjoying Good Tailwinds"

Market infrastructure operators currently benefit from the fact that the regulators now ask for stronger infrastructures and the centralization of more services, such as the clearing of OTC products.

#### Central counterparties (CCPs):

As banks are less willing to take on risks, the infrastructures stepped up the value chain and created the CCPs. The CCPs have been successful in protecting the sell-side of the market from risk. We should also have them on the buy-side of the market. **But we have too many CCPs already. Is it really useful for infrastructures to compete in the area of risk management?** Also: There is already a proliferation of interoperability models between CCPs. Could not the intermediaries provide that interoperability, rather than burdening the CCPs with it?

#### Infrastructure consolidation:

- **Vertical vs. horizontal infrastructure models: Both approaches show good results, no winning model has emerged.** But the fact that both exist is an obstacle to further cross-border harmonization and consolidation.
- The airline industry is often cited as a model for consolidation in our industry. Today, the airlines are heavily overregulated. We do not want that to happen to us.

#### Blurring lines between infrastructure and intermediaries:

- **We will see more competition in the areas "CSD vs. Local Agent Bank" and "ICSD vs. Global Custodian".** Margins will be squeezed even more.
- But there were also views that a clear delineation between market infrastructure and intermediary was desirable. In a world of blurring lines, it will become increasingly difficult to separate issues and address them efficiently and with precision. **Infrastructures should not lose sight of their core function, which centers around providing safety and efficiency.** Markets in which the central infrastructure has tight control over its participants feel that they are better positioned to tackle overarching issues, than other markets.

## 2. Intermediary Issues

### "Facing Headwinds, But Still Optimistic"

- Intermediaries first need a structured data creation strategy, both on syntax and content level. They then need to be able to use those data. **A best practice framework to mitigate operational risk in processing new instruments is required.** Such framework could be developed from the "Five Points" outlined in Don Donahue's key note speech\*.
- **Intermediaries must do more to prove their value.** They must become better and more transparent at explaining what precisely they are doing in terms of risk management. That way, their clients will appreciate why the custodian's services have a price attached that cannot be negotiated downwards forever. Thus, not simply: "I will provide access for you into market A". But: "We are happy to assist you in accessing market A, but the risks, complexities, restrictions and implications to observe are X; and a due diligence process is required first that will take Y amount of time and carries an estimated cost of Z."
- Even if complex investment instruments have lost popularity, they will not disappear. Intermediaries will still need to support a very broad product range. **It remains critical for intermediaries to continue investing in technology and in human talent.**
- **Merely shifting risk to a different party will not make it go away. Therefore, address the root cause, do not move the problem around.** For the near term however, risk taking by custodians remains a big issue (buzzwords: asset safety, restitution of assets). Directly linked to that is the issue of remuneration: custodians need to develop new and sustainable pricing models.
- **New and tighter regulation is unavoidable and is acceptable, it must however not paralyze our industry.** It was suggested that ISSA could offer guidance and education for the regulators on select issues.

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1. Set up processes for ensuring the electronic capture of a new instrument's features  
2. Support secondary market trading, including trade matching and confirmation  
3. A central, global registry to record all trading activity and positions  
4. Expand the registry to include any other market activity in the instrument  
5. Further expand the registry to support all "corporate action-type" post settlement events

### 3. Investor Issues

#### "Fighting Severe Headwinds"

##### a) Investment Managers

- Investable funds in pension vehicles and various forms of savings pools will decline. **The fund management industry will see consolidation.** Large investment managers will not necessarily recover first. Rather, smaller investment boutiques stand to gain.
- The crisis has caused many investment managers to change their perception of the market infrastructure: they now acknowledge that **a sound market infrastructure is not merely a necessary administrative function, but actually one of the pillars that enable the fund managers to globalize their business; it is also an enabler of innovation** (Quote: "The investment managers have lost their arrogance").
- Investor education is as much a duty of the investment manager as it is a duty of the investor itself. **Investment managers must do more to explain and quantify risk.** The fact that even professional investment managers can easily explain only 50-75% of their own product range, is scary.
- **Market intermediaries (mainly custodians) could penetrate the investment managers' turf by offering Exchange Traded Funds and active management of plain vanilla products.** They could succeed because they are perceived by the investors as more risk-averse, and having a sound understanding of the market fundamentals.

##### b) End-Investors

- **End-investors' state of mind has moved from greed to fear: "We feel scared and shocked"**. They now know for sure that some of the promised investment returns have been too good to be true. Neither the investors nor the industry as a whole have recovered from loss of confidence and trust in one another. Investors have no clarity yet when the market environment will change, and in which direction. There is no new leadership in sight anywhere. Consensus was achieved only in the observation that, if inflation rises, a flight into tangible, "real" assets (or into stocks whose issuers own tangible assets) will be seen.
- **As a consequence, investors will remain very cautious. Passive investment styles will dominate the near and mid-term future. Transparent and simple investment products will gain.** Complex products will not disappear but will be used much more selectively as investors are becoming more educated and ask more critical questions. Risk management committees will be utilized more thoroughly. They will no longer just peruse the risk reports periodically presented to them. They will truly analyze them, draw their own conclusions and discuss implications.
- Investors need to acknowledge – and they now do! - that there is no free lunch. **The value of quality custody services has a price attached.** Investors recognize that custodians cannot provide the risk management services the clients are asking for, if they are not remunerated for those services.

## 4. Generic and Miscellaneous Issues

- Regulation: There was a time when our industry resisted new regulation as a matter of principle. Now, there is broad agreement that self-regulation is not sufficient and too slow. **Our industry needs globally consistent regulation, the sooner the better.** And, importantly, regulators could help the industry by integrating the issuers more closely into our value chain.
- Education: **More industry education is required across the board.** If not even we as professionals know our processes and products, how can we expect the investors and the regulators to know them?
- The three "T" are still very relevant: success in our industry mainly rests on **Technology**, human **Talent**, and rapid **Time to Market**.
- **Responsibility for progress rests with me:** We as market participants should focus more on describing what we are willing to do to improve the world, rather than what we are not responsible for, and what the others should do!
- Time for talking and shifting blame is over, time for action is now. **Industry should not wait for the regulators, but surprise them:** Identify a problem, address it, implement a pragmatic solution and then tell the regulator: Look, this is how I solved it!
- **Going back to basics is fine, but we also need to pay for innovation.** We need sustainable revenue streams and those do not come from off-the-shelf products and fully automated services. We need sustainable efficiencies.
- **Issuer data management: We need to "get it right the first time".** We need to link with the issuers and capture correct and complete data right at the source. After all, the issuers create their products. They must deliver "their" data and they must also accept liability for the correctness of those data. At the same time, the issuers must standardize more. Using XBRL is a good idea, but it puts more cost on issuers. This is delicate, because the issuers are being asked to solve a problem they did not even know they created as the intermediaries absorbed all complexity, risk, and cost for automation.
- Dealing with high frequency trading: The market infrastructure is generally well equipped, but **the industry needs more stress tests** extending to and involving the intermediaries.