# GC Securities REVIEW™

Q1 2020

# 2020 foresight

Jos Dijsselhof, CEO, SIX on the industry agenda

Buy-side traders preview the next 12 months

WIll tokenised assets enter the mainstream?

What does the next decade hold for the securities services industry?

Securities REVIEW
a Global Custodian publication

EDITORIAL

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# What lies ahead

Despite the fact that 2020 does not signal the start of a new decade, it does seem like an appropriate time to reflect on where the industry is heading. While the Sibos edition of Securities Review attempted to look at what was top of mind for industry leaders in the run up to that seminal event, this issue takes a longer view of where things are headed, exploring not only what lies ahead for 2020, but the years beyond. To help us, we turned to Jos Dijsselhof, CEO, SIX, for a view on what he and his peers were looking forward to with enthusiasm and what they might be anticipating with somewhat less enthusiasm.

We have also enlisted the help of colleagues at our sister titles, Global Custodian and The Trade, to assess how the securities industry – from both a back- and front-office perspective – are planning for the changes they see coming in the short- to medium-term. We are less concerned with firm predictions than with offering a flavour of what issues are likely to force their way to the top of the agenda in forums where industry executives gather. In six month's time, prior to Sibos in Boston, we will take the industry's temperature again. In the meantime, we hope you enjoy the read.

**Richard Schwartz**
Special projects editor
Global Custodian

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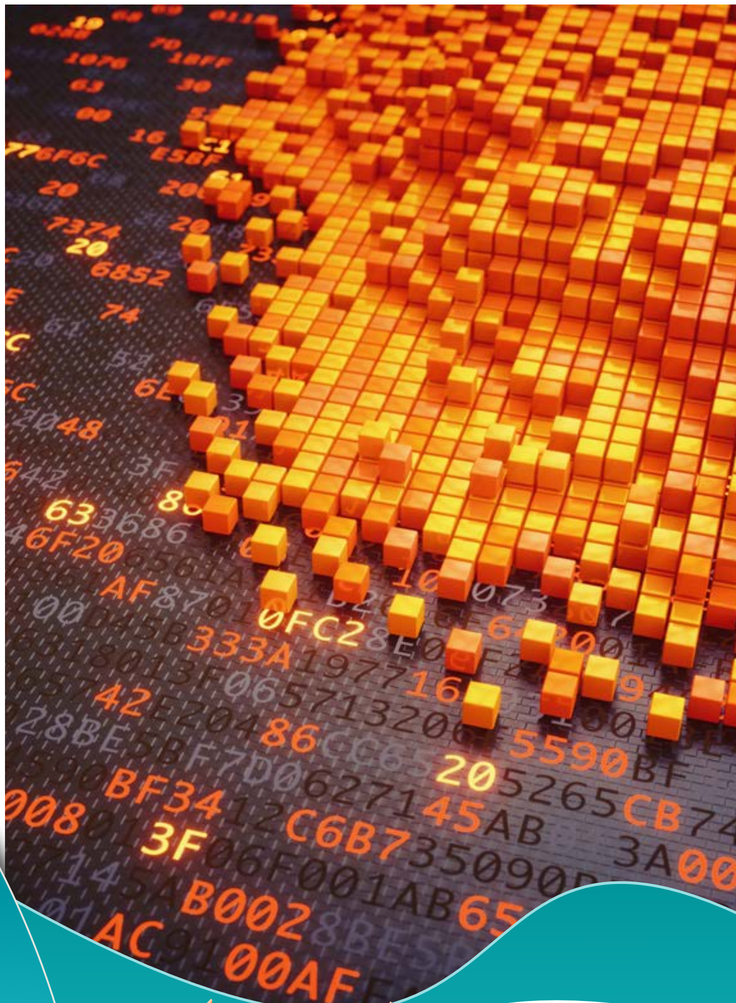


# 2020 foresight

As a new year focuses industry minds, Securities Review asked Jos Dijsselhof, CEO, SIX, about his view of the market landscape.

**Looking at the industry and the waters you're swimming in, so to speak, what are the three things that are top of mind that you'd want to alert your colleagues to?**
I'll put them in random order as I see them all as equally important. I think the consolidation and further combining or integrating of businesses in the industry will continue. We need to be part of that and not standing on the side lines watching. It will happen both on the exchange side and on the post trade side. Scale and economies of scale are becoming more and more important and I think the market is now ready for more integration and more consolidation.

**Do you see that happening both horizontally and vertically?**
You've seen our offer for BME in Spain, so on the trading side definitely, but for us, BME is also a full-value-chain company. We see the value of the integration and the consolidation, not only on the trading side but also on the post trade side for sure. In the end we all want to recover our cost in an environment where margins are getting smaller and the only way to do that effectively is, on one hand, to become technologically more advanced and make your existing processes, systems and platform more effective and, on the other hand, to put more volume through it. That goes for both the front end and post-trade.

**So, consolidation is one item.**
Yes. Another is to further enhance our service offerings with new products and services. As you know we believe that a large part of the financial markets will be covered by tokenized assets in the future. Expanding into the digital asset world is a key strategic theme for us. We started at the back end of 2018, followed through in 2019 and will continue in 2020, during which we will deliver the first services to market. The move to digital or tokenised assets is clearly a strategic theme, but we will also be working on other services and products specifically for the Swiss market and for the Swiss Stock Exchange.

Third is one of our favourite subjects. Regulation will definitely still be at the forefront of all our minds: what will be implemented in 2020 and, going forward, how we can influence the implementation and the way the market is structured and organised in the best possible way.

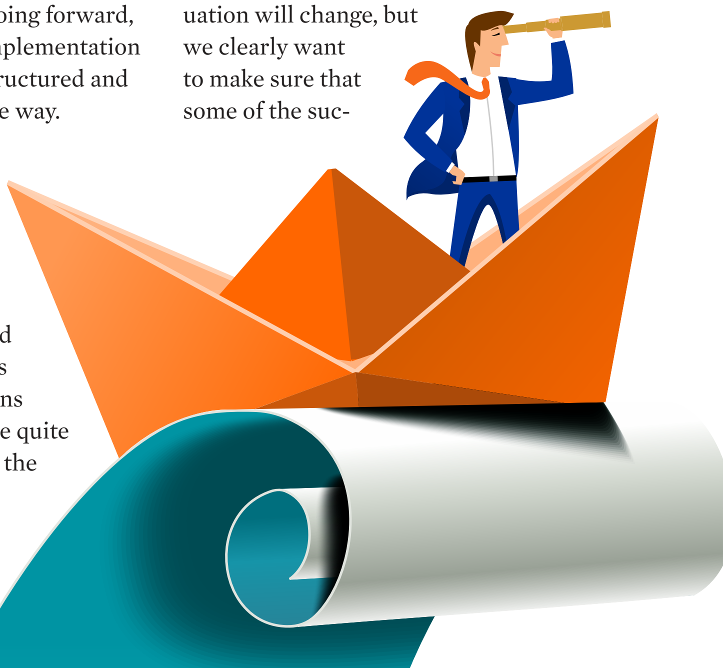
**Now if you take the Swiss Stock Exchange specifically, what would be your three top items for the year?**
The IPO business and companies raising capital and accessing the capital markets through our exchange remains vitally important. We've done quite well, especially compared to the industry not only with the number of IPOs but also the size of some of them. We will continue to focus on that.

We would also like to see whether we can make the capital markets more accessible to other companies, so we will be focusing on ease of access to our platform and its capital raising capabilities.

Some of the larger SMEs are an obvious target in this regard.

On the trading side, of course we are now in a situation of non-equivalence which has helped us with market share. It has woken up the market a little; people have realised that if you're looking for the best liquidity and the best place to get your transactions done, then the core market is the place to be.

At some point in time, assuming equivalence is granted, the situation will change, but we clearly want to make sure that some of the suc-



cess we've had, not only in terms of volume but also in market quality, continues. We don't want to move back to a market share from before non-equivalence.

Non-equivalence is a good thing in the short run, but I think many participants realise that, at the end of the day, even if they do business on MTFs and other platforms, the exchange is actually the place to be for price quality and liquidity. I think we've convinced the market that even when the opportunity arises again, not all the business that was on MTFs should move back to them.

**If we consider the different segments of the SIX group as a whole, what are the things that are exciting you and what are the things about which you're less enthusiastic?**

I'm very excited about where we are already as an exchange in the industry. I think the Swiss Stock Exchange is a very successful, highly regarded business and if we can add the Spanish market and some of the new initiatives I mentioned, that's something I'm really enthusiastic about. Of course, we're very enthusiastic about the move into digital assets through the SIX Digital Exchange (SDX) and the fact that we will be able to kick off those markets in 2020 in the first instance and build them out in the years ahead.

Then on the data side, I think there's huge opportunity. If you look at the amount of data we have within our company on the trading, post-trade and the payment side, and also on the data business side, we are not yet delivering all the value we could from those data sets back to our customers. There's a huge opportunity for us to dare to do more around data analytics, additional services regarding compli-

> **"I think many participants realise that, at the end of the day, even if they do business on MTFs and other platforms, the exchange is actually the place to be for price quality and liquidity."**

ance and other areas where customers really have pain points and we can provide solutions if we really drive more value and capabilities from the data.

**What about the areas where you're a bit less enthusiastic?**

I'm less enthusiastic about the global world going more national. More and more people seem to be placing a high priority on their own country, region or their specific business and not on integrating on a global scale. You see this in the increasing trade wars and in other discussions, such as on the climate. I don't think that's the right way forward.

Then of course there's regulation. Some of the regulation we've all experienced recently has been helpful, but many regulations are not helpful. That's just stating the truth. We're watching the regulatory space with a degree of scepticism. On the other hand, of course, it provides us with business opportunities.

Another issue I'd raise, though it's not a question of enthusiasm or lack of it, is the war for talent and that war is fierce. We need to continuously focus on making sure that SIX is well positioned, that people understand all the cool stuff we're doing. It's a very interesting cocktail of activity and opportunityy for people to work at SIX. It's certainly a priority of ours to make sure we are a very attractive employer. I think that's getting more and more difficult for all institutions.

**I'd like to come back to the question of tokenisation and digital assets. In their current form, they are extremely volatile and the market doesn't seem to be at all transparent. But obviously if you're preparing an infrastructure and an ecosystem to work in those markets, you have to have made some assumptions about how things are going to go. What are the key assumptions that allow you to build that infrastructure?**

When we had the initial discussions at

management level and even at board level about tokenising assets and markets, we specifically discussed whether or not we wanted to go into crypto currency. Did we want to involve ourselves with assets that are driven by complex technology and computer power or do we really want to focus on assets that are linked to the real economy? We made a very clear decision that our focus is not crypto currencies; our focus is to provide digital assets that are linked to real value in the economy.

I don't have any concern about what's happening to cryptocurrencies because we're not going to go there. I really want to tokenise assets that are linked to the real economy: both existing assets and future assets with real tangible value behind them.

**I've heard it said that that kind of ecosystem is never really going to take off until there's digital central bank money for settlement. Do you share that view?**

I think it can work without having digital central bank money, but then you get into questions of fiat money in digitalised form. I don't want to get too technical, but you can make it work, but digitalised central bank money would really enhance the system.

As you might know, the Bank for International Settlements (BIS) has created three centres of innovation across the globe; one in Hong Kong, one in Singapore and one in Switzerland. That innovation centre is of course heavily sponsored by the central bank here in Switzerland and by the BIS and we are working on assessing what could be the best way to create central bank money, specifically Swiss Franc, and connect it to our SDX initiatives.

As I said, I think a digital asset ecosystem can work without central bank money and we will probably launch the first couple of initiatives without, but I think it's fair to say the Swiss central bank is quite bullish about the work we are doing with them.

# TOKEN CULTURE

While cryptocurrencies remain on the fringes of institutional investment, securities services providers are bullish about the potential for tokenised assets to enter mainstream markets.

The word 'token' conjures up a wide range of images in the popular imagination, In the context of financial markets, however, a token can be defined as a verifiable digital representation of value recognised and accepted by all participants in a particular network.

Under the auspices of the International Securities Services Association (ISSA), competitors have joined together to discuss the issue of digital assets and how as organisations they might prepare for a new role in an evolving environment.

In late-2018, ISSA released a report on infrastructure for crypto-assets, where it attempted to set out the roles that market infrastructures might play in the digital asset world. The report concluded that market infrastructures and financial institutions, operating within a framework of law and regulation, are essential to the growth and success of this new asset class. "Issuers and exchanges, and the other members of the crypto-asset eco-system, ought to welcome this prospect rather than deplore it," ISSA concluded.

The Association's work in this area has since expanded. "From a working group of four CSDs back in 2016 we have grown to a large ISSA industry group of 33 CSDs, global custodians and IT providers that span the world," noted Urs Sauer, director, strategic business development, SIX Securities and Exchanges.

"We knew it was important to look at it as a trend, so we asked ourselves, 'Shouldn't we put our heads together and see what the future of these crypto assets is?'" explained Glen Fernandes, Euroclear and co-chair with Sauer and Alexander Chekanov, NSD Russia of the ISSA DLT Working Group.

"Everyone is in learning mode, so people are more open," he added. "Nobody is discussing confidential information in these forums, but in the general sense of discussing the possibilities, they are much more open and are also challenging solutions."

A meeting of ISSA's DLT Working Group in July 2019 endorsed further exploration into crypto assets and tokenisation. A report released in November provides some detail on their thinking, adding the perspective of custodian banks and FinTechs to their previous publications.

The ISSA report notes that tokenisation platforms are particularly well-suited to making certain illiquid asset classes, such as fine art, real estate and rare coins, available to a wider pool of investors as DLT enables them to be fractionalised.

It also makes an important practical distinction between different settlement models for crypto assets. The first is the off-ledger model, where the cash leg of the transaction is settled in fiat currency rather than Payment Tokens. "Since fiat currencies will be accessed through payment market infrastructures (PMIs), or a third-party bank with access to a PMI, or via correspondent banking, settlement finality can only take place when the PMI is open," the report explains.

The second approach is the on-ledger model, where Token versus Token (TvT) settlement is possible because both the Securities and the Payment Tokens are on the same DLT network or tokenisation platform. In the absence of central bank digital currency, Payment Tokens are, says the report, likely to be some kind of Stablecoin (see glossary below).

"The crypto asset challenge to the securities services industry is more obvious than understood," the report suggests. "The disruptive potential of Crypto Assets issued, traded, cleared, settled and serviced on distributed ledger technology (DLT) networks is clear to the custodian banks, market infrastructures and systems vendors that currently provide post-trade services in the securities industry. But exactly how DLT will achieve this, and what the consequences are for existing and new service providers, is not yet clear. This is not surprising, given the complexity of the status quo."

It notes that DLT has the potential to shift post-trade processing from a linear model to a networked model. "It is likely to encourage the emergence of new eco-systems, some of which will link end-inves-

tors and issuers directly. Other eco-systems will likely emerge that enable new entrants and new technologies to supplant existing service providers or provide entirely new services."

The report does not expect a wholesale displacement of the existing structure of post-trade services. "The risks and costs of making market-wide changes to the current blend of technologies, governance systems and market structures which have evolved over many decades into a sophisticated, standardised and robust eco-system are too high relative to the foreseeable benefits," it suggests.

Existing ecosystems are therefore likely to coexist. However, even partial adoption of securities tokens will require changes from existing service providers, such as a willingness to take private keys into custody: "Entirely new roles, such as smart contract verification services, will also develop. Some of these, such as acting as the governors and/or operators of permissioned DLT networks or tokenisation platforms, will suit existing service providers such as CSDs and custodian banks."

Others, the implication is, will find the transition more challenging. Watch this space. In the meantime, to bluff your way through tokenisation discussions, you may find it helpful to master these definitions:

## TOKENISATION CHEAT SHEET

**Asset-Backed Tokens:** Tokens backed by holdings of underlying assets. See Digital Non- Native (or Asset-backed) Tokens.

**Asset Tokens:** These tokens represent assets such as participations in real physical underlyings, companies, or earnings streams, or entitlements to dividends or interest payments. In terms of their economic function, the tokens are analogous to securities.

**Digital Native Tokens:** Digital assets that originate on a distributed ledger.

**Digital Non-Native (or Asset-backed) Tokens:** Assets represented digitally on a distributed ledger.

**Fungible token:** A token that is interchangeable with an identical token and divisible into smaller units.

**Non-fungible token:** A token that has unique characteristics which make it neither interchangeable nor divisible into smaller units. CryptoKItties are an example.

**Payment Tokens:** These are synonymous with cryptocurrencies or Stablecoins and have no further functions.

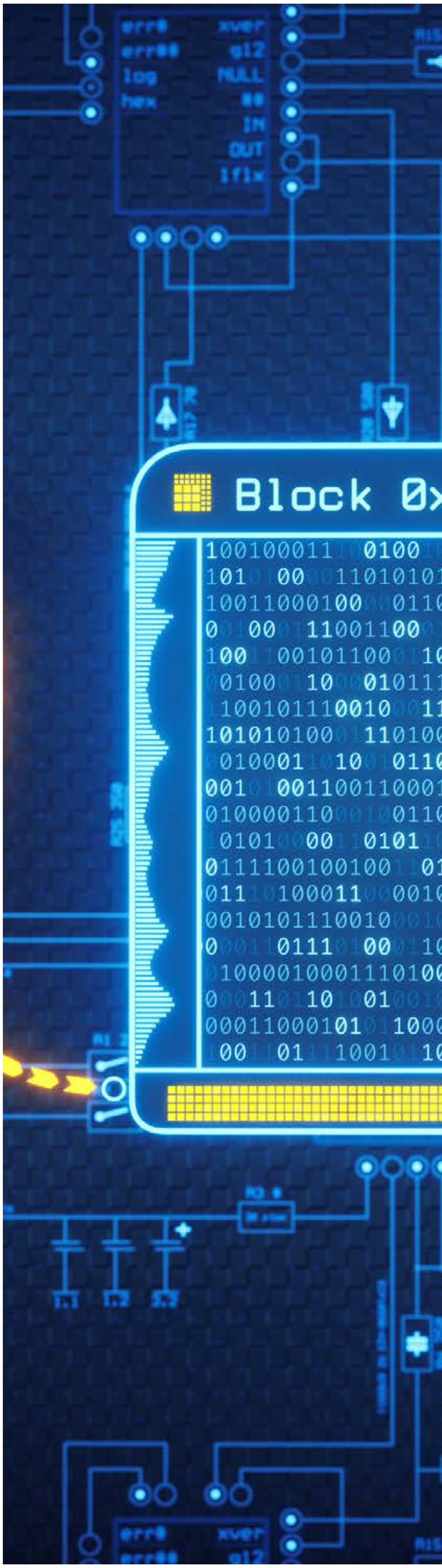
**Securities Token:** A token giving the holder an entitlement to underlying assets, companies, earnings streams, dividends, interest payments or other tokens. They are sometimes treated as securities.

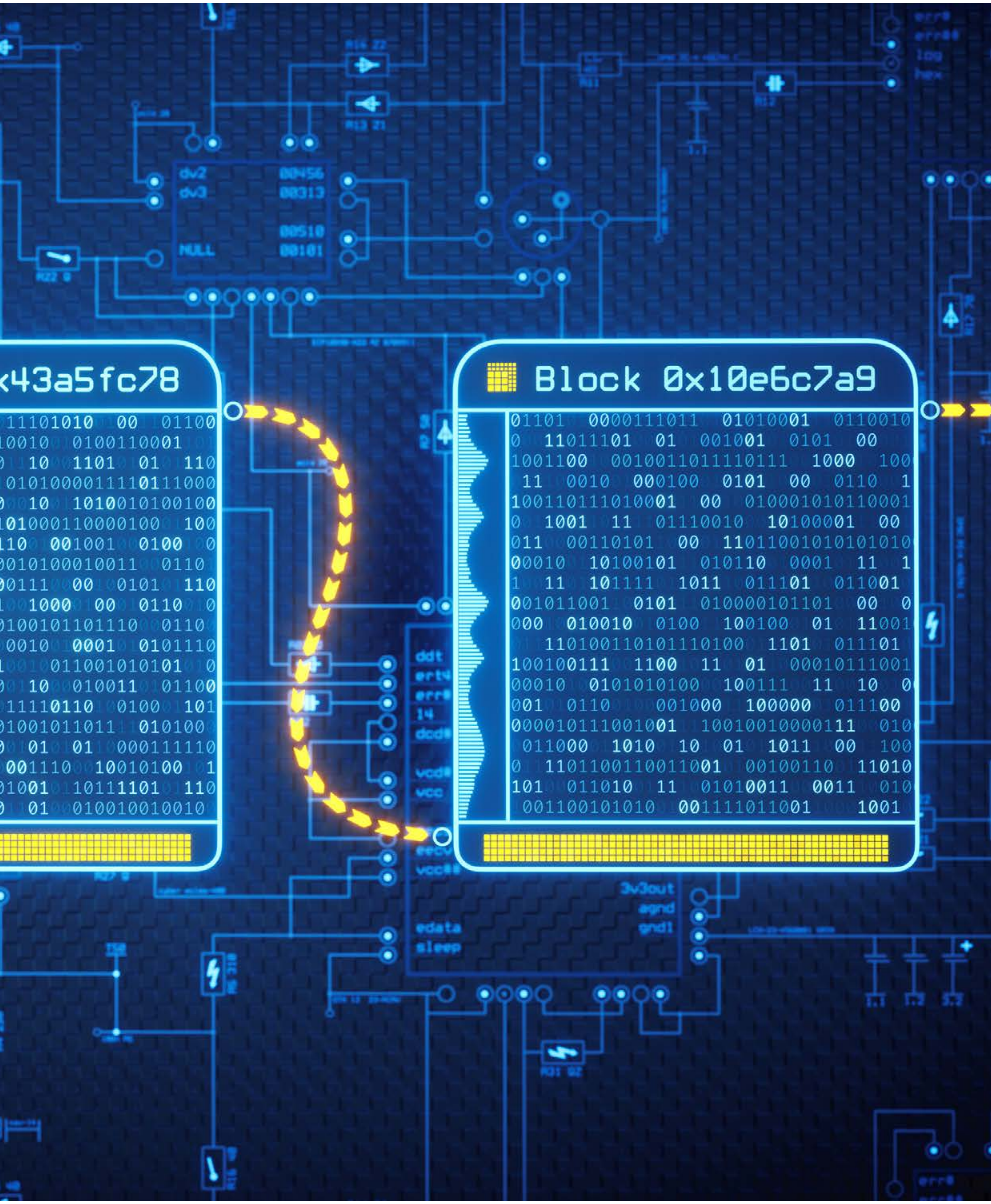
**Stablecoin:** A class of crypto currency designed to eliminate the price volatility of crypto currencies by backing them with real assets, fiat currencies or a mixture of both. A Stablecoin whose price reference is the US Dollar, for example, would be backed 1:1 by US Dollars in a custody account. Investors redeeming the Stablecoin would receive one US Dollar for each Stablecoin.

**Token versus Token (TvT):** Entirely digital transaction settlement on a DLT network in which the exchange of value is made between an Asset-Backed or Digital Native Token and a Payment Token.

**Tokenised securities:** A term used to distinguish tokens regulated as securities from tokens which are not regulated as securities. However, they can encompass asset classes that are not generally securitised, such as fine art and real estate.

**Utility Token:** Tokens which are intended to provide digital access to a current or prospective application or service.

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# The LONG VIEW

To understand how far the securities services industry has come over the last decade, one needs to look back to where it was a decade ago. But what can one expect 10 years hence?

In 2010, much like the entire banking sector, the securities services industry was still reeling from the collapse of Lehman Brothers and the greatest financial disaster since the 1920s. Meanwhile, the extent of the impact of Bernie Madoff's Ponzi scheme and its collapse was only just unravelling. Regulations introduced to try and prevent these events from ever happening again, such as Dodd Frank and the Volker Rule, were in their infancy.

Despite a clunky decade, the securities services industry is now likely to face 10 years of 'disrupt or be disrupted'. "Over the coming years, the entire DNA of the financial services industry will be re-engineered, and no doubt, the availability of more granular and immediate data, as well as increasingly complex and powerful industry changes, will impact the future operating model of all involved in this industry," says Madeleine Senior, regional head of securities services, Europe and UK, Standard Chartered.

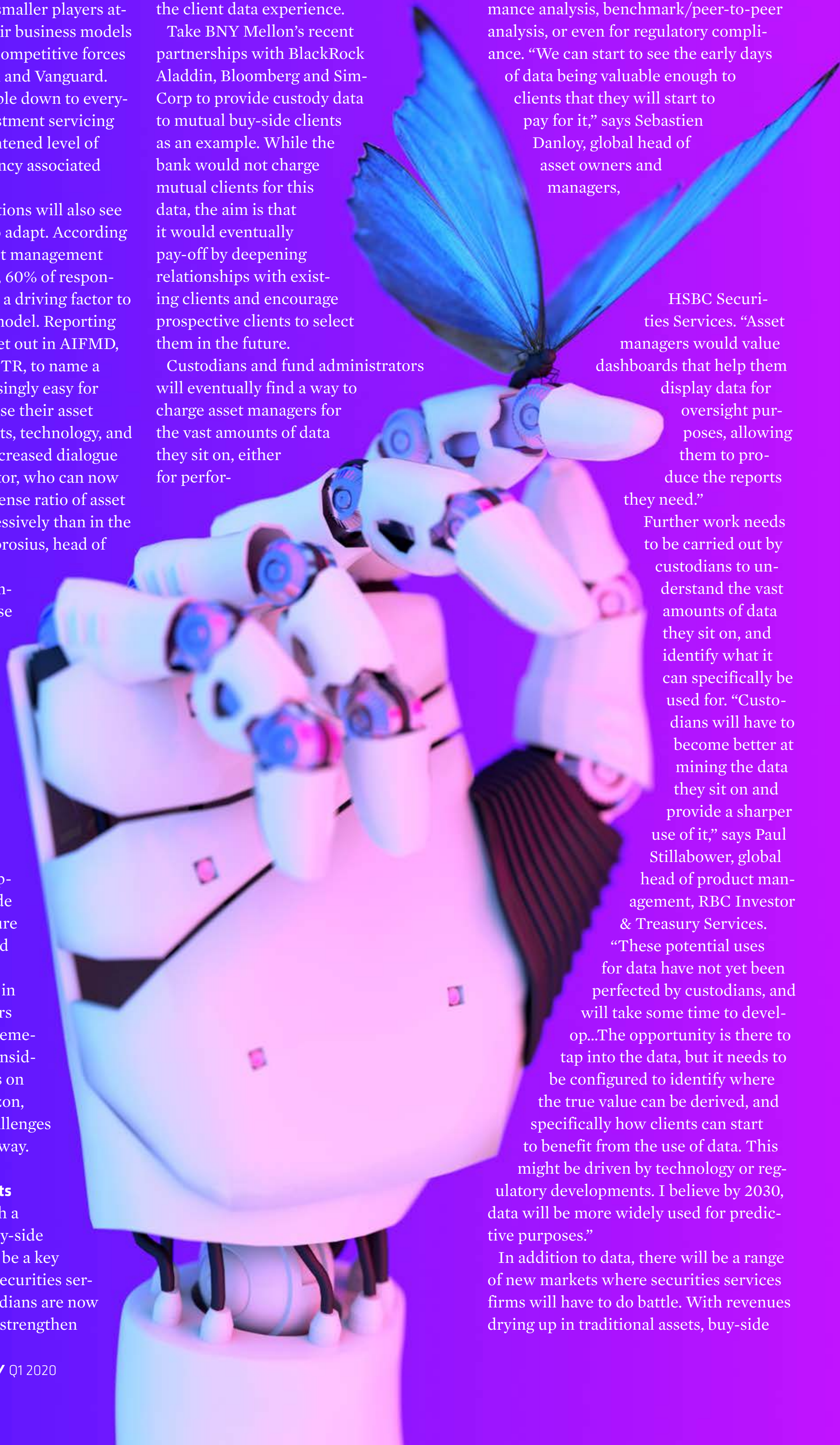
**The future of the client**

It has been widely acknowledged that asset managers are under tremendous cost pressure. For example, costs for asset managers increased 8% in 2017 globally, followed by 4% the year after, according to a report from Morgan Stanley and Oliver Wyman. If markets were to fall – which could be a reality following the historic bull run the market has witnessed – figures from the Boston Consulting Group (BCG) predict margins could drop between 25% and 28% by 2023, taking nearly a third off the current margin profile of the industry.

In addition, the seismic shift from active to passive investment spells implications for traditional asset managers. In December, assets held in exchange traded funds (ETFs) surged to a record $6 trillion, doubling in size in less than four years. According to estimates from BlackRock, global ETF assets could reach $12 trillion by the end of 2023.

A cut-throat price war on fees of passive funds has created unrelenting pressures, requiring traditional investment firms to seek out new revenue sources such as illiquid, private investments. "There is an existential shift in the environment and business model for asset managers," says Patrick Curtin, global head of sales and client management, custody and fund services, Citi. "The inexorable shift to passive investment which is putting pressure on active management revenues and fees, combined with the tumultuous move into alternatives...means the structure of the traditional asset management product is under serious threat."

It is widely anticipated that more consol-



idation is on the way as smaller players attempt to reconfigure their business models to better withstand the competitive forces of the likes of BlackRock and Vanguard. This will most likely ripple down to everyone involved in the investment servicing process, due to the heightened level of transparency and efficiency associated with the ETF market.

A wide range of regulations will also see asset managers forced to adapt. According to a survey of global asset management firms by Northern Trust, 60% of respondents cited regulation as a driving factor to change their operating model. Reporting and data requirements set out in AIFMD, MiFID II, EMIR, and SFTR, to name a few, have made it increasingly easy for the end client to scrutinise their asset manager on fees, products, technology, and efficiencies. "There is increased dialogue for the underlying investor, who can now start to question the expense ratio of asset management more aggressively than in the past," explains Jörg Ambrosius, head of EMEA, State Street.

Furthermore, asset managers will have to increase their awareness of everything that happens throughout the investment chain, or otherwise face up to regulatory penalties. The settlement discipline regime (SDR), set out in the Central Securities Depository Regulation (CSDR), will make it imperative for operations teams of buy-side firms to prevent the failure of trades in order to avoid heavy fines.

To remain competitive in the future, asset managers will have to become extremely forward-thinking – considering regulatory changes on a two to three-year horizon, and dealing with the challenges associated in a strategic way.

**The future of new markets**

With data becoming such a central component to buy-side operating models, it will be a key area of competition for securities services firms. Global custodians are now actively seeking ways to strengthen the client data experience.

Take BNY Mellon's recent partnerships with BlackRock Aladdin, Bloomberg and SimCorp to provide custody data to mutual buy-side clients as an example. While the bank would not charge mutual clients for this data, the aim is that it would eventually pay-off by deepening relationships with existing clients and encourage prospective clients to select them in the future.

Custodians and fund administrators will eventually find a way to charge asset managers for the vast amounts of data they sit on, either for performance analysis, benchmark/peer-to-peer analysis, or even for regulatory compliance. "We can start to see the early days of data being valuable enough to clients that they will start to pay for it," says Sebastien Danloy, global head of asset owners and managers, HSBC Securities Services. "Asset managers would value dashboards that help them display data for oversight purposes, allowing them to produce the reports they need."

Further work needs to be carried out by custodians to understand the vast amounts of data they sit on, and identify what it can specifically be used for. "Custodians will have to become better at mining the data they sit on and provide a sharper use of it," says Paul Stillabower, global head of product management, RBC Investor & Treasury Services.

"These potential uses for data have not yet been perfected by custodians, and will take some time to develop...The opportunity is there to tap into the data, but it needs to be configured to identify where the true value can be derived, and specifically how clients can start to benefit from the use of data. This might be driven by technology or regulatory developments. I believe by 2030, data will be more widely used for predictive purposes."

In addition to data, there will be a range of new markets where securities services firms will have to do battle. With revenues drying up in traditional assets, buy-side firms are turning to new, less transparent and more illiquid markets for yield. These include private debt, private equity, infrastructure, and real estate.

Private markets have become one of the fastest growing segments in the industry, fuelled by growth from pension funds and traditional asset managers. "Asset owners' allocations to private investments and hedge funds will likely triple in the coming years to compensate for a low-yield bond market," highlights Bruno Campenon, head of banks, brokers and corporate, BNP Paribas Securities Services. "We will likely see more standardisation and controls being implemented in this space to make it more mainstream." Such standardisation could require established providers to expand their capabilities.

In frontier and emerging markets, the tokenisation of securities could also emerge as an unlikely solution for asset managers. Tokenisation is already resonating in a number of sectors of the financial services industry, and milestones have been reached in the areas of collateral management, securities settlement, securities listing, and private markets.

"Tokenisation is going to be significant to ensure financial inclusion, especially in emerging and frontier markets," Standard Chartered's Senior predicts. "Clients will be able to use tokenised securities to invest in new countries and new asset classes on a scale that we have not seen before."

A recent paper from the Asia Securities Industry and Financial Markets Association (ASIFMA) observed that tokenised securities could represent a new financial and capital raising model to boost liquidity and achieve efficiencies through faster settlement speeds and round-the-clock trading.

At this exploratory stage, many asset managers and banks are waiting for the regulators to catch up with the evolving technology, and to provide clarity on several key components such as the sale and exchange of tokens, tax implications, and custody. According to BNP Paribas' Campenon, both regulators and central banks have to find a way to digitise the cash component of the token in order to stimulate industry pick-up. Work is already being carried out by the European Central Bank (ECB), which is examining whether to develop a digital currency as an alternative to cash.

What this could also mean for illiquid, private assets could be significant. Tokenisation will give investors greater access and liquidity to these instruments, and a digital market infrastructure will give them exchange-like qualities. "Through tokenisation and digitalisation, private assets will indirectly shift to a more public market giving them more liquidity and transparency," says HSBC's Danloy. "If it goes in this direction, what are called private assets today will become more traditional public assets, similar to equities or fixed income. Tokenising private assets will also allow a better match between assets and liabilities."

**The future servicing model**

The themes discussed thus far will most likely bring the custodian closer to the point of execution. In order to eliminate the inefficiencies and unnecessary touchpoints in the investment lifecycle, many custodians are looking for ways to bring the front- and back-office together.

State Street's acquisition of Charles River Development in 2018 was an example of this. "Front-to-back is already a trend, and we expect it to become a standard," said Jörg Ambrosius, head of EMEA, State Street. "The industry cannot afford to operate in silos on different platforms with different data sets as the cost to maintain this is so high."

**The future of technology**

This is probably the one area that could have an infinite number of possible futures. The endless potential applications of artificial intelligence (AI), application programming interfaces (APIs), cloud computing, distributed ledger technology (DLT), robotics, and quantum computing will have significant implications for how asset servicing provision is carried out and by who.

Meanwhile, securities services firms are looking at ways technology can eliminate the last remaining portions of work that are still manually driven. Robotic process automation (RPA) and AI are being increasingly leveraged to accomplish this. "The pace we do it, with the use of robotics and AI, will depend on the rate of return from the technology," argues BNP Paribas' Campenon. "Robotics can work extremely well but you have to be careful how to manage them in the future. APIs are still extremely pragmatic and need to be standardised. There is tremendous opportunity for quantum computing but that could bring a huge risk to the entire system."

However, the fact that fax machines and spreadsheets still play an important role in some custody processes perfectly reflects the conundrum banks face for their future technology model. In addition, legacy systems that are 10-15 years old have become embedded in the core platforms of the largest securities services firms. Any replacement of these systems with new technologies could have significant implications for both their operations and their clients.

"Technology such as machine learning and artificial intelligence should not be considered a replacement for the core activities of a custodian. What new technology should do is deliver client benefits, and get things done quicker, with better quality at a better price," says Richard Street, head of coverage, UK, Europe and Middle East, RBC Investor & Treasury Services.

To future proof their business, custodians may have to venture into unfamiliar territory, and even assert themselves through technology investments and new services. "Asset servicers will be investing aggressively in tech, with the eye towards removing the friction in various nodes of the post-trade.

New services will have to be launched in the context of a more digitised ecosystem, where technology will re-write the rules on how providers interact with clients. Elements of the retail and consumer industry will increasingly creep into financial services, and custodians will have to keep up with this trend. "Today the financial services industry is at another inflection point as digitisation, automation and the challenge of data management propel its next wave of innovation," explains State Street's Ambrosius.

Arguably the greatest challenge custodians face for the future is how to find new ways to differentiate themselves, particularly in a world of disintermediation either from new entrants such as FinTechs or technology such as blockchain. In light of this, signs that the future for custodians will be based on collaboration with a wider range of players are beginning to emerge. It is in their interest to partner not only with start-ups, but also with trading platforms, tech vendors, and even their competitors to offer constructive services or to mutualise particular processes through a utility-type model. As Campenon puts it, "We are realising that we can achieve more by creating partnerships or using a utility."

# PREDICTIONS FOR 2020: *Front-office* PERSPECTIVES

Securities Review asked The Trade magazine for a buy side view of the challenges ahead for the front office. How far do asset managers share the views of their post-trade service providers? Here's what their community told them.

## THE FUTURE OF THE BULL MARKET

**Geir Lode, head of global equities, Hermes Investment Management**

Since the financial crisis in 2008, growth has consistently outperformed value. This outperformance has accelerated since 2017, to the extent that growth is now more expensive than at any time since the Tech Bubble at the turn of the century. Global economic indicators have started to worsen, exacerbated by the US-China trade tensions, Brexit uncertainty, Middle East tensions, protests in Hong Kong and numerous other geopolitical risks and flashpoints.

This backdrop has polarised investor sentiment and prompted sharp swings in risk appetite, which may be a signal that the drivers of the current bull market are becoming less sustainable. A market inflection is likely to normalise the relative valuation between growth and value. However, as growth rates decline, the likelihood of lower interest rates increases, with some equity investors welcoming weak economic news in the hope that this will prompt central banks to cut rates further, propelling markets – and growth – even higher. As such, predicting when the growth rally is likely to end is extremely difficult.

## IMPACT OF REGULATION

**James Baugh, head of EMEA equities market structure, Citigroup**

Brexit will be front and centre of discussions in 2020. Whether we see its true impact on share trading in the UK and in Europe is to be seen. However, concerns remain the MiFID II Share Trading Obligation may lead to further fragmentation and complexity. This could see a swing in favour of doing more business on primary markets but also towards an increase in high touch trading and risk business away from execution wheels, which could lead to an increase in the cost of execution.

Matching at mid-price on periodic auctions and the ability for systematic internalisers to offer price improvement below large-In-scale will also come under further scrutiny, with the likelihood it will disappear altogether. Next year may be the year the industry decides to introduce a consolidated tape and reduce trading hours for equities markets, but we will unlikely see any real impact during 2020.

**Anish Puaar, European market structure analyst, Rosenblatt Securities**

Depending on the outcome of Brexit, we may see politically-driven liquidity fragmentation that could hurt investor performance. If Britain leaves the EU without a deal, MiFID II's share-trading obligation will restrict where certain shares can be traded, according to whether market participants are based in the UK or in the European Union. The European Securities and Markets Authority has laid out the EU's stance on this issue, but the Financial Conduct Authority is yet to make its position clear. London could lose its position as the home of alternative pan-European equity markets as trading moves to the continent, which could raise transaction costs.

Longer-term, we could see further regulatory divergence, with distinct rules in the UK and EU for periodic auctions, systematic internalisers and commission unbundling. Several EU regulators have complained about the new unbundling regime, while the FCA has lauded it. With the European Commission already planning targeted adjustments to MiFID II, these fissures may appear sooner than expected.

## INDUSTRY LANDSCAPE

**Alasdair Haynes, CEO of Aquis Exchange**

Let's hope that 2020 will live up to its name and be a year of clear vision. After years of political uncertainty which has held back market turnover, we are all looking forward to going back to normality. I believe the investment banks will see further retrenchment and be forced to adapt their business models, recognising that a paradigm shift is required for long term survival and growth. The clear focus for them will be on costs. Elsewhere, the importance of data – its ownership, storage, distribution and price – will continue



to grow and, I suspect, take centre stage next year. Within my own sector, and not withstanding Hong Kong's abortive tilt at the LSE, it looks like the battle of the bourses will continue apace with the BME being the latest exchange to be fought over. I expect 2020 will be a pivotal and exciting year for much of our industry.

**Gary Paulin, global head of integrated trading solutions, Northern Trust Capital Markets**
We believe the active management industry needs to cut costs by around 40% over the next five years to keep the cost curve ahead of fee compression. This is going to force many market participants to radically rethink their operating models and consider outsourcing their front office. The problems don't stop with costs; there are also new structural forces at play that will continue to reshape the market going into 2020 and beyond. Factors like increasing competition from passives, complex technological shifts and regulation focused on transparency, accountability and fairness will continue to drive a third wave of outsourcing in the wake of the middle and back offices in previous decades. I predict that more firms will shed the fixed costs, complexity and risk of in-house trading, instead choosing to focus on their core competency – the pursuit of Alpha.

**Dave Howson, chief operating officer, Cboe Europe**
With some clarity around Brexit in 2020, I think we will see investors return to the market and volumes increase. I think we will also see the formulation of MiFID 2.5 that takes into account the new dynamic that will exist between the UK and EU as a result of Brexit. As such, we're pleased to see regulators moving forward with a consolidated tape, which we believe is a critical component to healthy, vibrant and interconnected European capital markets.

## LIQUIDITY CHALLENGES

**Scott Bradley, head of sales, marketing and business development, LSE Cash Secondary Markets and Turquoise**
With geopolitical and regulatory uncertainty around Brexit planning taking up much of the focus and resource for 2019 and with two years of post MiFID II experience now digested the trading community will be looking to drive further innovations in the search for meaningful liquidity.   New trading channels such as

Frequent Batch Auctions have continued to gain support for their quality outcomes in all sizes of execution and the second half of 2019 saw record numbers in Conditional Dark block trading mechanisms, a sign that investors and traders alike are keen to capture mid-point block opportunities. 2020 will continue to see us work closely with market participants to foster the best possible liquidity ecosystems taking into account the myriad changes which have taken place over the past two years and to reflect the changing face of the customer in Cash equity markets.

## DATA REQUIREMENTS

**Anders Kirkeby, head of open innovation, SimCorp**

Alternative data (not data for alternatives!) will see a lot more new entrants, offering early adopters a chance to generate Alpha from more unique datasets. But the current number of vendors in this space is far too many – in excess of 100 at last count – making it difficult for the buy-side. To truly thrive, I suspect there will either be consolidation in the market or the attention will shift to alternative data aggregators, who can simplify the choice available. The latter outcome is the most likely and more effective; data aggregators get better at speaking to enterprises faster than any single alternative data vendor with a unique dataset, but few customers to learn from.

**Gernot Schmidt, product manager for regulatory solutions, SimCorp**

From our buy-side discussions, we've found that data continues to form the critical concern when it comes to regulation and this will play forward into 2020, with the introduction of SFTR. And while the reporting regime may be structurally similar to EMIR, the buy-side cannot write off SFTR as just another EMIR and take a piecemeal approach. Consolidated operations and robust regulatory reporting combined, can truly tackle the sheer impact to the both business and the bottom line. A change in approach is necessary and cloud full-service solutions from service providers will play a pivotal role in helping firms to achieve a low TCO for regulatory reporting and subscribe to an 'always compliant' solution, so buy-side firms can get back to the business of Alpha generation.

**Naz Quadri, global head of enterprise data science at Bloomberg**

In 2020, we will continue to see the democratisation of data and proliferation of artificial intelligence (AI) reshaping the financial services industry. The front-office was the first to fund and research AI's potential to unearth valuable insights and possibly improve portfolio strategy and performance, and next year will be critical as organisations evolve the culture necessary to realise these benefits firm-wide. Commitment from senior management to foster firm-wide collaboration and investment in data-driven technology will be pivotal to establish and spread a more data-centric culture across organisations.

This cultural transformation should be approached like any strategic shift a firm undertakes, by allocating capital and rethinking the personnel and skills necessary to succeed. Data science talent, for example, will be at a premium as financial firms look to harness the power of ubiquitous data lakes for enhanced computing and advanced data analytics across the front, middle and back-office functions.

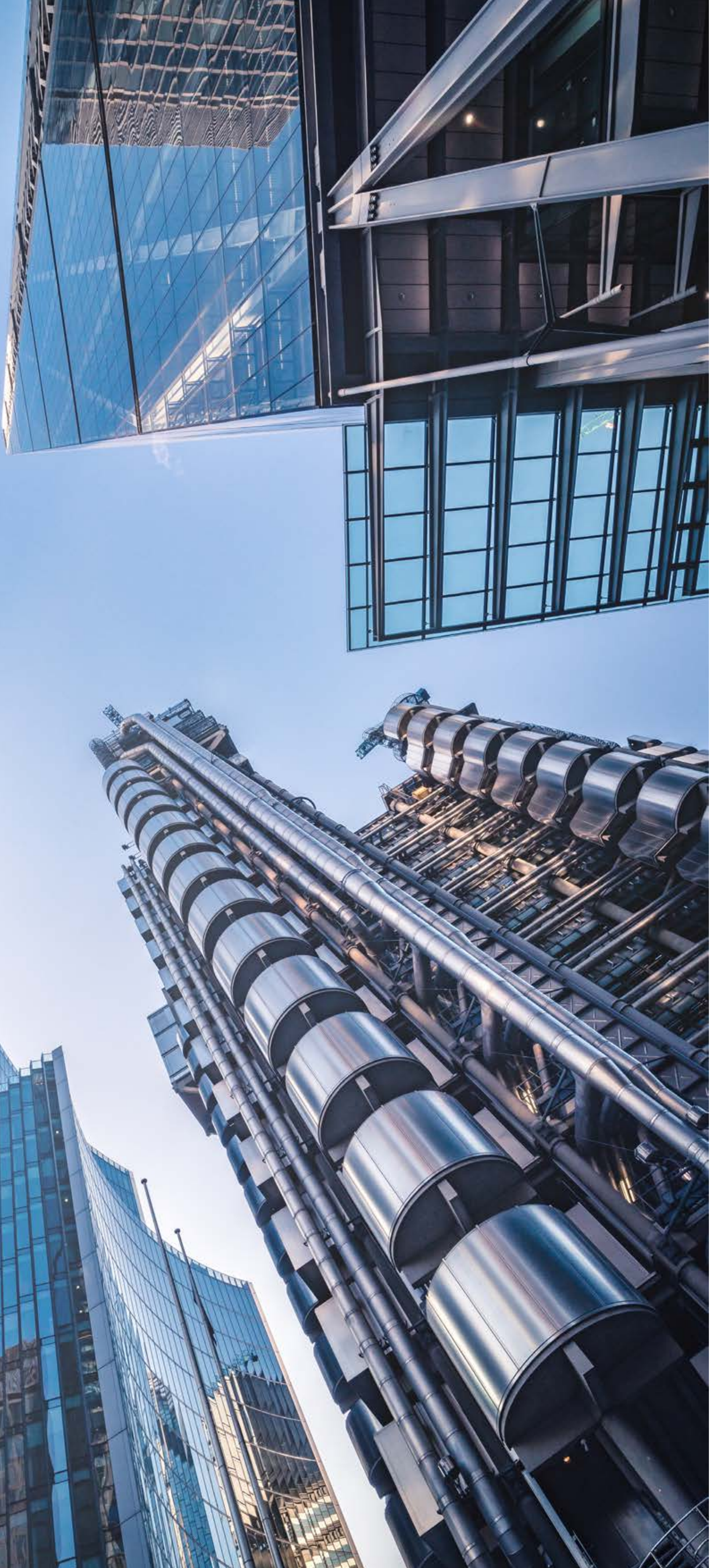
## TRADING PATTERNS

**Michael Horan, director, head of trading, Pershing**

The relentless march of algorithmic trading into execution workflows will continue to add to rising volumes in closing auctions across Europe. This will show more intensity around blue chips stock and ETFs as passive investing takes a further hold on equity trading investment profiles, further compounding the skew of liquidity dispersion towards the close. Intraday trading will see growing use of systematic internaliser liquidity and periodic auctions as the sell-side attempts to squeeze implicit trading costs as low as they can throughout the coming year.

**Enrico Bruni, head of Europe and Asia business at Tradeweb**

As market participants look to cut costs and operational risk, demand for more efficient trading solutions will increase. Portfolio trading will be a key focus for institutional investors and trading venues. Electronic portfolio trading will drive the migration to fully electronic workflows. We've already witnessed this shift after we launched our own portfolio trading solution, which we'll continue to tweak and enhance in 2020. In a market where ETF basket trading is so vital each day, electronic portfolio trading is an innovation that will shape the future of the fixed income space.





**Gareth Coltman, global head of trading automation, MarketAxess**
2020 will be the year that data-driven, automated workflow becomes an essential and ubiquitous feature of the buy-side trading desk. The tipping point that has already been reached by the largest and most sophisticated firms will hit the rest of the market – no one will want to be left behind. And the size and complexity of trades being executed through AI-based tools like Auto-X will expand, as traders take advantage of faster, more accurate and more intelligent data to enhance their performance.

## DIGITAL ASSETS

**Lucas Nuzzi, director of technology, Digital Asset Research**
For the past three years, conversations around the institutionalisation of digital assets focused in part on the lack of qualified custodians. That changed in 2019, as major institutions like Fidelity stepped in with custody offerings. In 2020, the issue of market manipulation and clean crypto prices will be the main focus of financial institutions and regulators alike. Over the course of this year, US regulators signalled time and time again that the lack of reliable pricing is the main barrier preventing the approval of exchange-traded products, like a Bitcoin ETF. This will necessitate the vetting of exchange pricing data in a way that identifies, quantifies and excludes manipulated data from price calculations. Clean prices will contribute to more reliable valuations and risk management, and will ultimately make institutions more comfortable with the asset class.

## WORKING TOGETHER

**Adam Toms, CEO, OpenFin Europe**
Collaboration remains the focal point in order to accelerate innovation and solve real business challenges across the capital markets industry. Enabling individuals at the grassroots level to drive innovation, coupled with promoting the role of FinTech champions and heads of innovation at larger institutions, as well as creating structures and standards that support open and collaborative ways of working, will bring about a sustainable culture of innovation across finance services. In the current political climate, collaboration to drive innovation and economic growth as well as maintain London's position as a global fintech hub, can only be a good thing.

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