Wrap-up report

Nordics Regional Conference 2013

Securities stream

T2S and CSDR – threat, opportunity or cost?

In the first of the securities stream sessions, a panel composed of Charifa Elotmani, Manager Market Infrastructures, SWIFT, John-Arne Haugerud, Chief Executive Officer, VPS, Eva Hellström, Business Support, Analysis and Development, Handelsbanken, Nikolaj Hesselholt Munck, Business Development Manager, VP Securities, Hanna Vainio, Deputy Chief Executive Officer and Head of infrastructure, Euroclear FI and moderated by Isabelle Olivier, Head of Clearing and Settlement, EMEA, SWIFT, set out to explore the evolving Nordic securities landscape and the impact of T2S and CSDR. In a discussion dominated by the four Cs - Compliance, Competition, Consolidation and Costs, the panel agreed that CSDR will have a major impact and that in the short term it represents a cost but that in the long term, as pointed put by Haugerud, the concept of a European passport does present a number of opportunities. At the outset, there will still be a lot of regulation to reckon with but it is expected that that will diminish over time. Hellström mentioned however, that in markets that still have an end investor account model rather than an omnibus model, the desire in the market, and especially from retail investors is to keep that domestic model.

Moving on to T2S, it was agreed that despite the high cost and massive effort involved, the project is a catalyst for efficiency, that standardisation and harmonisation are most needed and that it is a massive step forward that will definitely deliver benefits over time. Elotmani stated that T2S introduces a level playing field and that this should, over time, attract more investors and improve the European economy. But it is a lot of work, and cost to get there. Explaining how each CSD will prepare the market for T2S, Munck, for Denmark, said their first phase, by 2016, will be to only euro in T2S before migrating the Danish currency to T2S at a later stage, in 2018. Vainio said that in Finland preparing the market is quite a substantial change since they have gone for a full replacement of the core CSD platform which they felt was better to do before T2S rather than after. Reaching the compliance date in 2017 will be done in three phases, with money markets and fixed income coming first, equities and corporate actions following 16 months later and T2S connectivity completing the migration.

Asked what the impacts of T2S are likely to be on the competitive landscape, the general view was that competition is already high and it may well grow even further. Munck mentioned that some banks, such as BNY Mellon are already opening up CSDs and conducting CSD business and that with the same standards being applied across the board, local barriers to entry are removed, so we can expect to see more of this. Munck expressed the view that the impact of T2S on sub-custodian banks will depend on how each of these adapts their infrastructure and service offering post-T2S, whilst Vainio said that her view, competition will clearly grow, and we can expect to see exits from the market on all levels. Elotmani added that the Eurosystem agenda cannot be achieved with a fragmented environment and that consolidation is sure to happen.

In conclusion, the panel agreed that T2S is to be seen as an opportunity, regardless of the fact that domestic settlement in many markets already works well and that it is at times difficult to digest the cost and time investment required by T2S. As for whether or not T2S will lead to cost reductions and to related price reductions in the settlement area, the speakers agreed to disagree, with some saying that they still expected to see prices come down further, and others of the opinion that those reductions had already been factored in and passed on.

Post-trade under pressure?

In the next of the securities stream sessions, Fors moderated a discussion between Diana Chan, Chief Executive Officer, EuroCCP, Harry Leinonen, Ministry of Finance, Finland, Anders Reveman, Advisor/Chief Executive Officer, Reveman Advisor AB, Christian Sjoberg, Chief Executive Officer, Oslo Clearing and Yannic Weber, Chief Executive Officer, Euroclear SE/FI on the state of the post-trade market and whether the existing post-trade infrastructure in Europe stands set and ready to support T2S and T+2. Chan replied immediately that there is certainly still room in the market to structurally reduce the cost and Leinonen agreed, stating that “post-trade is just transportation, from the seller to the buyer and cash back to the seller.” He went on to say that in all the other transportation businesses you try to travel as quickly as possible, so as a market, whilst T+2 is a step in the right direction, there is no reason why we should be content with that and not strive for more. Reveman said that T2S is itself proof of how conservative the post-trade market in Europe is when we should be striving for a lot better than T+2 because the cost of settling a trade in Europe is still far higher than the US which is “a huge problem.” The Nordic problem, he went on to explain, is that of having direct home links to each CSD, which has been an issue when the Nordics have decided, or not decided to go towards T2S.

On the matter of whether there will be more, or less, CSDs in the future, Reveman stated that Nordic CSDs are not inefficient but that they pose an issue because the way in which they operate is different to that of other European CSDs. As a result, there needs to be a discussion about how CSDs in the region can be organised in such a way that they can work with non-Nordic CSDs. This would require taking away “the shareholder connection.”

In response to a question from the audience about whether T+0 or T-0 is a goal that should be strived for, and whether that would not create a liquidity problem, Leinonen explained that in a real-time or near-time situation, things would potentially be a lot simpler because there would be no possibility to buy or sell short. Weber added that the “common religion” that he and Leinonen hare on T+0 is for now little more than a dream, and that it will not happen any time soon, but that it is difficult to see how T+2 will save money. Sjoberg disagreed, saying that he thought there would be a reduction in costs by moving towards T+2 but that the benefits will not come from the existing structures but rather from file transfer mechanisms and such likes.

Lastly, the panel tackled the debate of whether consolidation or competition is best the answer to the CCP market in Europe. “Competition is good, competition breeds innovation” said Chan. Weber went further, explaining that the issue goes far beyond the infrastructure and that for as long as the market is fragmented from a tax standpoint, even if one wanted it, which is not necessarily the case, it is just not possible to have a single CCP and a single CCP for Europe. Sjoberg added that the "single CCP in the US" statement also requires clarification, since what the US market actually has is one CCP per asset class.

Investment Funds - where are we at?

When it comes to change, there is no doubt that the investment funds industry needs it badly, that a massive change process is underway and that the face of the funds industry will look very different 5-10 years down the line. In a panel discussion moderated by Annika Lindgren, Senior Account Director, SWIFT, Charles-Raymond Boniver, Senior Manager, SWIFT Competence Center, Client Operations, RBC Investor & Treasury Services, Daniel Blomqvist, Head of FDS - Business Development, Nordea, Bjørn Stendorph Crepaz, Senior Product Manager, VP Securities and Edward Glyn, Director Funds EMEA, SWIFT looked at what is happening in the funds industry in the Nordics, what commonalities and differences there are between the different markets and how what is being done in the region compares to what is happening in other countries and regions.

The panel agreed that the funds business in general is still highly inefficient and fragmented, with different processing practices from one country to another and a troubling amount of investor apathy where everyone owns a fund and no one knows how much it costs them, but that fortunately, the pace of change has never been greater than it is now.

Blomqvist explained that Nordea has just started delivering funds via SWIFT and that whilst their STP rates can still get better, by automating processes that were previously manual, inefficient and costly, the company can focus more time, money and effort on areas that really add value. Crepaz stated that there is an increasing amount of regulatory pressure to automate and change processes and that whilst Denmark treats Funds like equities, where they are traded on an exchange and settled in a CSD, there is still a world outside of Denmark where a lot still needs to be done.

Talking about how to cope with regulatory pressure and the related costs, Boniver was of the view that the work to move towards standards and automation just needs to be done at this point, without falling once again into the "trap of business case and prioritisation." When asked why faxes were still even allowed in the industry, Blomqvist referred immediately however to the very same "business case" whereby it is not seen as worth the money to implement a "non-fax system" and impose the use of standards for low volumes, and given that the funds business in some firms is very small, there has been little incentive to automate beyond "automated faxes." "The SWIFT business case is not there. These businesses have automated fax systems. They push a button and a fax is sent. They believe they are automated, because they have automated the fax. When you talk to them about SWIFT, they say 'SWIFT is for the big players, not for us. But SWIFT is not a club for big banks and we need to get that message across," he explained.

To close the discussion, the panel was asked where they each thought their businesses will be in five years' time. Boniver saw a future where order flows will not be fax, but automated with ISO 20022 messages, whilst Crepaz focused on his hopes that CSDs will come to play a role in both the domestic and international funds business and not just because of regulatory pressure. “We have not had the period of growth in the Nordics we should expect. We haven't had the growth or the consolidation. In the funds business the purest form of alpha is cost control, so the industry will have to work to get the marginal costs down,” he concluded.

Securities services in the Nordics – is there a light at the end of the tunnel?

In the last of the securities stream sessions of the conference, Dominic Hobson, Founder, COO Connect, was back on stage to moderate a panel on the future of securities services in the Nordics. To discuss this were Thora Bjork Smith, Network Manager, Arion Bank, Anne-Lise Kristiansen, Head of Securities Services, Nordea, Jan Penne, Executive Vice President, DnB and Vigg Troedsson, Director, Fondhandlarföreningen.

Starting with the general economic outlook for the region, the view of the panel was that the future of the region as a whole is challenging, but still promising. Its economies are healthy, as is the political landscape, it has good companies, analysts, lawyers and a vast wealth of knowledge. But there will be more competition and nothing should be taken anything for granted.

When it comes to the future of securities services in the Nordics, the panel found it difficult to be optimistic. Iceland was viewed as a case apart and a country for which currency controls are currently the biggest obstacle. For the rest, regional providers are having to try to harmonise and fill the cracks in a region that is still very fragmented and that, whilst viewed from the outside as a “region”, is actually a group of different countries with massive differences in the way that the securities markets and all related laws, practices and processes function. The views on T2S are that the costs of it are far more visible at present than the benefits. There was nonetheless gentle recognition that it is most likely that the region will end up with a single CSD and that it is “just taking the scenic route” to get there. Nordea, DnB and SEB were deemed “definitely ready” for T+2 but not yet ready for T+0, and Kristiansen stated that Nordea does not regret shedding its global custody business, whilst the other two banks on the panel were clear that they intend to stay in the business. When it comes to growth, there was not much clarity on where the opportunities are, and collateral management was not seen by the panel as a huge area of opportunity. With capacity to innovate low, the only opportunity for growth seems to be private wealth management, “so the only reason to be optimistic is that the region is getting richer and this may generate more custody business,” concluded Hobson.