Looking back on 2022

Lucy Carter speaks to industry experts on some of 2022's most pressing issues, valuable updates, and the essential preparations for the road ahead

It would be more than fair to say that 2022 has been an eventful year. As we emerged from the COVID-19 pandemic, the future looked somewhat brighter at the end of 2021. The removal of the majority of COVID-19 restrictions meant that in-person events were back on the agenda, something that the asset servicing world has certainly benefitted from. Yet, as the year went on, the world changed once again as we saw upheaval in the global, financial and social spheres.

Russia's invasion of Ukraine in February was the culmination of years of tension, prompting global supply chain issues and contributing to a financial crisis that many are comparing to that of 2008. The UK faced numerous political scandals and prime ministers, further destabilising its economy and deepening political rifts. Even the World Cup, which should be a more jovial event, has caused much controversy. But despite this, and so much more, it has not all been bleak.

Digital assets

Digital assets have continued their upward trajectory, but it has not been a steady path. Comments at October's Sibos conference in Amsterdam referenced the "crypto winter," a phrase used to describe the price drop of cryptocurrencies seen throughout the year. Industry experts almost universally agree that there have been major developments in the digital assets sphere over 2022, but recognise that new issues and concerns around them have provided consistent problems.

"This year has been very mixed for digital assets," says Andy Schmidt, global industry lead for banking at CGI. He cites client asset safeguarding developments, improved reporting compliance and a more open market as steps forward, but adds that "volatility remains a key challenge". The collapse of FTX, for example, "indicat[es] that there may be broader vulnerability across the market."

This vulnerability "shone a light on the fact that central intermediaries are often more commonplace in digital asset markets than purported," says Stephen Prosperi, head of product management and digital securities at DTCC. "Unprecedented market events" have attracted increased scrutiny to digital assets and decentralised finance, "raising questions about the level of trust needed in this supposedly trustless ecosystem."

However, what some may call 'catastrophic events' may have been beneficial for the sector as a whole, according to Ed

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>
> **Vincent Kilcoyne, SmartStream**

Gouldstone, product and business advisor for asset management at Linedata. One response to crypto volatility has been a call for stricter regulation, with Gouldstone predicting that "when crypto currency values return to more interesting levels, the regulatory machine will have progressed to a stage that starts to make it look more reasonable to have crypto within a regulated mutual fund type product".

Already observing such changes is Rajeev Tummala, director of digital, data and innovation, securities services at HSBC, who emphasises the increase in regulatory clarity, decentralised finance and infrastructure that has been seen throughout 2022.

Also optimistic about the digital asset landscape this year is Samir Pandiri, president of Broadridge International. "It has been a fantastic year for digital assets," he says; along with widespread industry acceptance, "there has been significant industry innovation in this space." He remarks that the importance of cross-industry collaboration cannot be overstated, and the partnerships of smaller fintechs with major global presences have been paramount to the success of a number of digital asset initiatives.

Although "the digital asset arena has undergone substantial upheaval," the emergence of more crypto initiatives from major industry players, including HSBC, Deutsche Boerse and BNY Mellon, has prompted overall growth and demonstrates institutional acceptance, says Vincent Kilcoyne, executive vice president for product management at SmartStream. With calls for digital assets to be considered in the same way and to function alongside traditional assets, many clearly believe in the longevity of this relatively new asset class.

ESG

Of course, ESG has remained a major issue for the industry, and the world as a whole, particularly in light of continual climate change-related disasters across the globe. Adam Cottingham, product manager of corporate actions at SmartStream, states that ESG has moved beyond being "a 'nice-to-have'" and has now, thanks to widespread acknowledgement of its importance, become "fundamental to the operation of market structures and valuation of securities".

Not all of the industry has been convinced, though — Stuart Kirk's resignation from his post as head of responsible investments at HSBC in May, following his dramatic and controversial Financial Times conference appearance, is a reminder that there are still those who do not believe that climate change is an apocalyptic threat to the industry. Nevertheless, environmentally influenced regulations have been slowly but steadily making their way into industry practices.

"This is a great development to see in the field of ESG and sustainability," says Broadridge's Pandiri, particularly in light of the often hurried responses to market demands that have been seen previously. The growing awareness of market participants of ESG issues and greenwashing have prompted regulations requiring transparency, disclosures and a "common market understanding," adds Linedata's Gouldstone.

However, the reality is not always so idyllic. With the implementation of SFDR II scheduled for implementation on 1 January 2023, firms have rushed to prepare for stricter regulation and more intense scrutiny of their ESG claims.

With confusion around definitions and disclosure requirements, many have had difficulties meeting deadlines around the regulation and working out how to conform to it in the coming year.

Data availability and quality has plagued the industry across the board, and is not just limited to ESG. However, with investors becoming more concerned with firms' ESG and sustainability credentials, inconsistent data availability is becoming a much more tangible threat. "How can organisations report their data if they lack a common method of interpreting it, and cannot readily find it?" asks CGI's Schmidt. As Lloyd Sebastian, vice president of global financial institutions at CIBC Mellon, puts it, companies need "to align their purpose with what they do and how they do it will continue to rise in criticality" as time goes on.

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Despite the bumps along the way, the industry has made considerable progress around ESG this year, in both education and application. "People are not only talking about it but are taking it seriously and making real changes," says Vicky Dean, managing director for EMEA at Goal Group. She states that firms are aiming to have a positive impact on both their own work and the world around them: "It is now a key factor in decision making, and in shaping businesses in the present and the future."

Settlement

Settlement changes have continued to be a major talking point, with T+1 already a certainty in India, the US and Canada. In 2022, conferences buzzed with panel discussions that (for the most part) saw panellists agree that Europe needs to catch up. Disparity, however, comes with the question of when the shift will occur. At this year's Sibos conference, speakers were split on whether T+1 was near-ready for implementation or still had further to go, with many predicting that it will be at least another five years before Europe joins the club.

Observing clients and the market at large, John Abel, executive director of clearance and settlement product management at DTCC, comments that larger sell-side firms with centralised project teams and allocated budgets "have started reaching out to their counterparties, leveraging expertise from the prior US move to T+2". In contrast, smaller buy-side firms "are still assessing the best approach to prepare" for a shortened cycle, focusing on optimising and accelerating processes through automation.

Although the industry has spent considerable time and effort developing technology and improving automation to prepare for T+1, the issue of time zones must be addressed. "Asset managers may have only a few hours' cross-over with the broker and market on T+1 in their current process," says Ben Pumfrett, head of product and profitability for the middle office at RBC I&TS.

The fact that Europe crosses far more time zones and borders than its T+1-toting counterparts cannot be ignored — the sheer amount of regulatory consensus that must be achieved across the 27 EU member states to implement any large-scale change can be described as daunting, to say the least.

"The challenges of operational compression, market practice changes and wider system change are complex and need a clear plan, but the scale of the change means time is of the essence," warns SmartStream's Cottingham.

Philip Slavin, CEO of Taskize, adds that there may be a technology barrier in place. "The continued use of antiquated methods of communication and data sharing," such as email and phone, "significantly increases the chances of firms failing to make T+1." Even if companies feel ready to launch into shorter settlement cycles, they will first have to address some fundamental elements of their operations.

At this year's AFME OPTIC conference, DTCC's Andrew Douglas said with regard to T+1 that: "2022 is the year of planning, 2023 will be the year to build, and 2024 will be the year of implementation".

With the year nearing its end, Pardeep Cassells, head of securities and claims products at AccessFintech, does not believe that the industry has done enough to prepare.

She says that "industry conversations are still at a relatively unadvanced stage," however states that this is not unexpected, given that the Securities Industry and Financial Markets Association's T+1 handbook was not published until August 2022.

Considering the major barriers still in place, Cassells adds that "market participants do not have access to the data they need to make the necessary preparations. Right now, the industry still seems to be asking questions about what to build."

Ludovic Blanquet, chief strategy and transformation officer at Xceptor, mirrors Cassells' comments. "Few firms have made meaningful progress" in their T+1 plans over 2022, he says. This is either because they believe "that their existing processes are already efficient enough," or more likely because they have "hopes of an implementation extension."

However, Broadridge's Pandiri is optimistic about firms' progress, and is open to extensions of compliance dates. "People are really focused on preparing for T+1 settlement cycles," he says, and reassures that there is always a fallback option.

"Like any regulatory change that happens, you can always postpone or delay the transition so that you can move forward when you are ready."

Along with shortened settlement cycles, 2022 has seen the implementation of the central securities depositories regulation (CSDR), which aims to harmonise some of the disparate post-trade regulations across the EU and avoid settlement fails. However, its launch was not the smoothest, and its effects have not been felt particularly strongly.

Despite an initial drop in settlement fails, the figure has now risen back to fairly similar numbers.

A number of panellists at this year's AFME OPTIC conference suggested that CSDR still has a long way to go before it makes a considerable difference to settlement rates, with Jesús Benito, head of domestic custody and TR operations at SIX, asking regulators to "be realistic" in their expectations of the industry's ability to comply.

Ukraine

The Russo-Ukrainian conflict has sent economic ripples around the globe, often in unexpected ways. In September, Raiffeisen Bank International (RBI) talked to Asset Servicing Times about the influence that the war has had on its daily business. "Major economic consequences" required a reassessment of Russian operations, said Christian Geberth, head of global investor services at RBI, with sanctions on the Russian market providing further difficulties.

"International sanctions meant that the asset servicing industry needed to respond to complex restrictions basically overnight," reflects Joerg Ambrosius, chief commercial officer at State Street. He emphasises the importance of global networks, strong workforces and technologies to the industry in times of crisis. Despite the challenges that have been faced, he concludes that "overall, the industry and markets have demonstrated high resilience again".

The asset servicing world's response to the Russian invasion "is an indicator that whether it be political shocks, financial shocks or market shocks, the industry is prepared to weather the storm," says Broadridge's Pandiri. He goes on to place this year's geopolitical events in the greater industry timeline, stating that "the asset servicing industry has a lot of experience dealing with global disruptions."

Ken Fullerton, managing director and global head of hedge fund administration at SS&C, suggests that the ability to adapt to "sudden changes" around business as usual was kickstarted by the COVID-19 pandemic. The difficulties faced from early 2020 meant that firms "invested heavily in operational infrastructure, technology, and business continuity". This, he posits, has made the industry "more resilient in handling periods of market volatility and uncertainty" such as those seen this year.

2022 has had its ups and downs, as every year does, and the areas discussed here represent only a fraction of what Asset Servicing Times has reported on. The asset servicing industry has had to manage the impact of political turmoil, evolving demands of regulatory bodies and the continued echoes of COVID-19. However, it is clear that there have been moments of brightness in this difficult environment.

2023 is sure to bring a new set of challenges, and firms must ensure that they are getting ahead of them and firefighting before it is too late. The question now is: are you ready? ■