

Challenges facing firms in post trade

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S&P Global Market Intelligence

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Market Intelligence

The capital markets industry has faced numerous regulatory and market practice changes over the last decade, but the coming years will see further emphasis on efficiency, resilience, and transformation.

As traditional revenue streams feel the margin squeeze, asset servicers and custodians are expanding their services to support clients in other areas. This requires investment in technology and processes, including improving both external and internal data sets.

Global trends toward shorter settlement cycles and increased regulatory focus on operational resilience are driving the industry shift. These changes necessitate legacy system modernisation to determine whether they are fit and appropriate for the changing market as well as scalability to meet future volume requirements as

more retail investors enter the market. The top challenges facing the post-trade space in the next five years comprise of:

1. Improving settlement efficiency

Regulators are pushing for a global shift towards a T+1 settlement cycle and are considering further reductions. European market participants are preparing for the transition to T+1, though regulators in the EU, UK and Switzerland have not yet confirmed the date.

The main driver for the move, highlighted by a June 2024 survey at The Network Forum's annual meeting in Poland, is to reduce the settlement cycle misalignment between North American and Europe.

A major challenge in Europe is synchronising multiple market infrastructures and regulatory jurisdictions. The UK and EU's settlement penalties further highlight the need for firms to address their operational efficiency.

2. Reducing operational risk and addressing resilience

Resilience and operational risk reduc-

tion have become global regulatory mantras post-pandemic with extraterritorial regulations giving firms added incentive to address deficiencies in these areas. EU regulations like the Digital Operational Resilience Act (DORA) aim to ensure firms are prepared for the potential operational outage.

Regulators are urging firms to minimise operational risks in technology for cybersecurity and robustness as these are some of the main reasons why legacy platforms need updating, as per The Network Forum 2024 audience vote. Despite industry attention on emerging technologies like AI or DLT, firms also recognise the need to assess their existing technology stack.

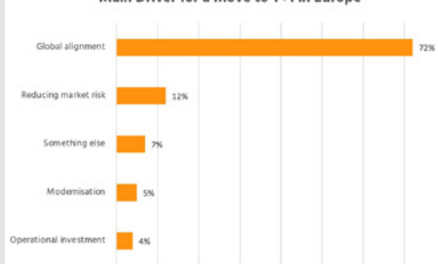
3. Monetising internal and external data sets

Firebrand Research estimates that the global industry spending on data management technology will increase to US\$1.86 billion by 2025. Many in the industry are keen to enhance client services and identify new areas of opportunity to add value. This enables them to better manage resilience and operational efficiency through enhanced settlement and custody services with data and analytics capabilities via new data services.

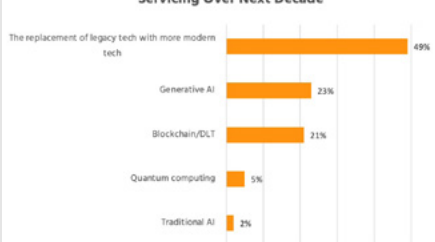
There are many challenges for firms in introducing new services, including meeting increasingly stringent data privacy requirements. This will necessitate more investment in ensuring the quality of required internal and external data sets.

The future profitability and resilience of the industry is dependent on key investments to enable the business to grow and scale, to changing market and client requirements. ■

Main Driver for a Move to T+1 in Europe



Most Impactful Technology Development on Asset Servicing Over Next Decade



Source: Voting at The Network Forum Annual Meeting 2024