

DTCC

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**RE-IMAGINING POST-TRADE:
NO-TOUCH PROCESSING
WITHIN REACH**

“Imagine a world in which post-trade processing encompasses a no-touch workflow from post-execution to settlement finality, centralized golden source data, and the ability to eliminate virtually all fails.”

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Overview

Despite continued growth in assets under management, the investment industry faces ever-growing pressure on profits. Margins have declined more than 5% annually since 2016 even though the asset base has grown at an annual rate of nearly 7%.¹ The sell-side faces profitability challenges as well, with competitive pressures contributing to shrinking commissions and regulatory mandates raising expenses.

Although the industry has responded with heavy investments in digital technology, post-trade processing has failed to keep pace. Brokers, investment managers and custodians continue to struggle with demands from an unwieldy mix of multiple asset classes, platforms, systems and providers. In addition, much of the post-trade process is still handled manually. This results in higher risk, frequent errors and increasing costs. For example, according to industry estimates, around 20% of settlement fails are due to inaccurate standing settlement instructions (SSIs), mostly resulting from local data stores and manual processing.

These inefficiencies have long been a burden on the bottom line. Spending on post-trade processing is estimated at \$6-9 billion annually,² so the potential for cost-cutting is significant. On the sell-side, consulting firm Oliver Wyman estimates that reforms of middle- and back-office operations, including post-trade processing, could produce enough savings to boost industry pre-tax profits by 25%.³

Government regulators also have taken notice of the system's settlement failure rates. To address this problem, beginning in September 2020, Central Securities Depositories Regulations (CSDR) in Europe will encourage the adoption of automation and straight-through processing. Cash penalties and buy-ins will be imposed for all settlement fails.

Cybersecurity is also a concern in post-trade processing, especially given the demands of increasingly tight settlement timelines. Manual handoffs and data exchanges across multiple markets, processes and participants make post-trade processing more susceptible to cyber threats. The need to lower this risk, which will require an elimination of local data stores and manual processes, is increasingly urgent.

In short, a convergence of financial, regulatory and security concerns has brought the industry to a place where it must address the post-trade environment. At DTCC, we believe that, given the potential benefits of reform, this environment is ready to be re-imagined.

The Vision: An open, integrated platform delivering no-touch processing

Imagine an open, post-trade infrastructure that eliminates all redundancies and manual processing

across asset classes. And imagine if you could manage the entire trade lifecycle—from post-execution to settlement—from one platform.

In a no-touch processing infrastructure, reference data is centralized, and enrichment of key reference data occurs just-in-time from golden data sources. This would facilitate downstream processes and eliminate the need for local data stores. Parties agree on trade economics and SSIs on the trade date, resulting in an authoritative trade record. All parties (buy-side, sell-side, depositories) are notified with the same authoritative instruction and are tracking and resolving any exceptions to ensure settlement finality.

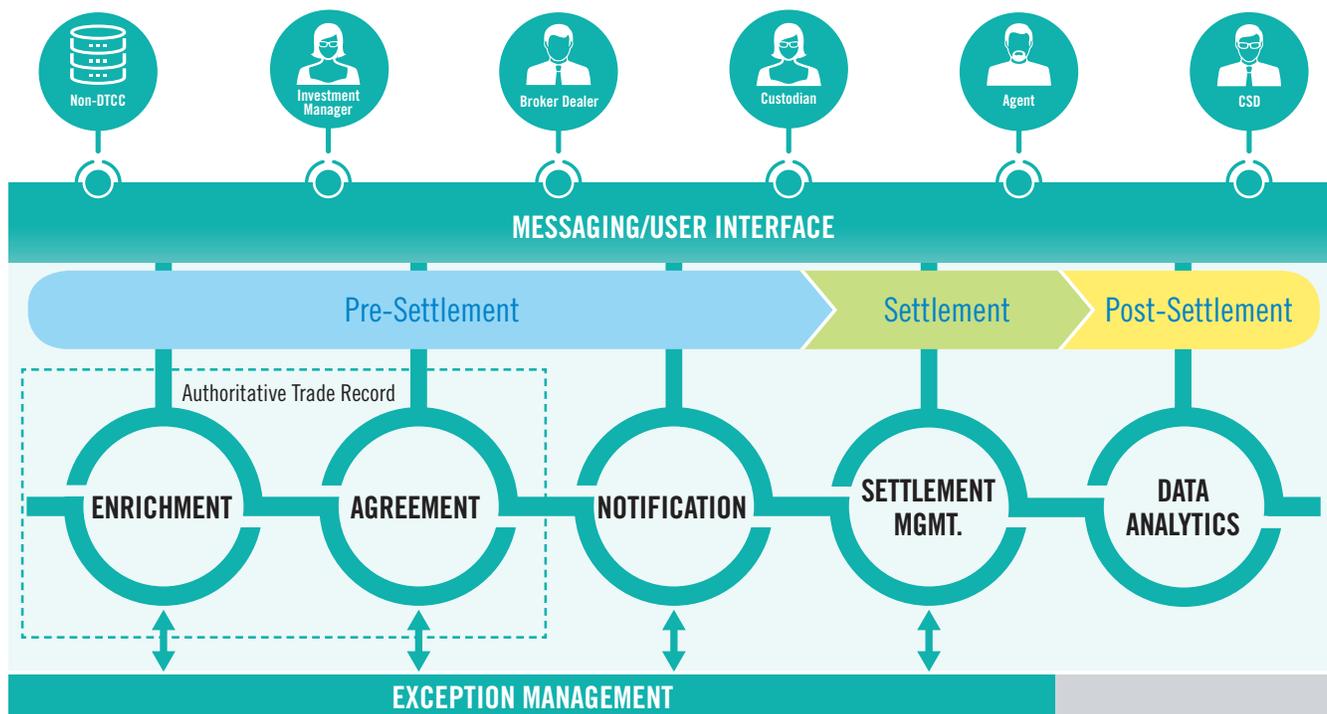
In addition to capturing all exceptions and consolidating settlement management, this one platform would provide operational data, analytics and reporting to provide transparency into the root cause of common

exceptions. And workflow and collaboration tools would be available to help resolve them.

Furthermore, in today’s increasingly complex environment, the need to enhance business resiliency has become a top priority for many financial firms. We believe these efforts need to focus holistically across services and the broader ecosystem and include all relevant stakeholders, with the goal of maintaining operations—or recovering quickly—in the event of a disruption or systemic shock.

The platform will reduce operational costs for all market participants. With the replacement of the current error-prone manual processes, all parties—brokers, asset managers and custodians—would realize significant efficiencies and put the industry on the path to true no-touch processing, eventually eliminating all fails (except those that are cash- or inventory-related).

Optimal No-Touch Processing Workflow



The Building Blocks: Leveraging existing infrastructure

Fortunately, the majority of this no-touch processing vision is already in place today within DTCC's Institutional Trade Processing (ITP) solutions. Maximizing the use of these components by following recommended best practices will enable ITP clients to continue realizing the benefits of their existing investments. This gives us—and our clients—an advantageous starting point in putting the industry on the path to a no-touch workflow.

Maximize your investment to facilitate a no-touch workflow



CTM The strategic platform for the central matching of cross-border and domestic transactions that automates the trade confirmation process across multiple asset classes.

- Submit and agree on all trade details centrally on market trade date
- Use tolerance matching on financial amounts when possible to avoid mismatching
- Do not hide financial values, so that your counterparty can resolve mismatches in a timely manner
- Do not perform duplicative matching
- Support just-in-time enrichment for all matching components and use golden source data
- Automate the selection of correct settlement preferences
- Use ITP Settlement Notification or the authoritative trade record resulting from a central match for instructing custodians/agents/CSDs, including SSIs received from counterparties



ALERT The industry's largest and most compliant online global database for the maintenance and communication of account and standing settlement instructions.

- All SSIs added and managed by custodians or prime brokers
- 100% SSI compliance with all local market rules and validated Legal Entity Identifiers (LEI)
- All LEIs added and in an active status



DTCC Exception Manager The platform that allows market participants to publish, manage and communicate on exceptions throughout the trade lifecycle, and delivers a significant reduction in the number of exceptions.

- Actively manage exceptions on a daily basis
- Receive automated settlement status messages or settlement confirmation files from a custodian or prime broker to monitor settlement status
- Communicate in real time via secure chat

Benefits of an open, end-to-end infrastructure

Investment managers will:

- Achieve a no-touch post-trade process from trade capture to settlement finality
- Manage post-trade data from their entire network of brokers and custodians in one central location
- View timely and consolidated trade and settlement exceptions, and quickly resolve them with collaboration tools
- Reduce manual touch points, lowering costs

Brokers will:

- Consolidate workflows and technology to reduce complexity
- Drive towards elimination of fails (other than for inventory or cash) and regulatory penalties
- Access their global client community, including serving current “manual” clients (whether manual SSIs or allocations)

Custodians will:

- Realize gains from automated SSI maintenance and the drive towards 100% reduction in SSI-related fails
- Eliminate the need for reconciliation and pre-settlement matching
- Achieve a more efficient work flow with new CSDs and local agent networks

The Transformation: Why DTCC is best-equipped to lead

DTCC has a long legacy of transforming the post-trade lifecycle. For over 45 years, our collaboration with the financial services industry has inspired innovations such as the first electronic allocation engine, the first settlement instruction database and the first central matching service for global capital markets. It is a history of success we continue to build upon.

Our solutions currently enable more than 6,200 clients across 52 markets around the world to instantly access counterparties in the global markets, driving best practices, promoting effective communications and accelerating their post-trade processes.

Given our extensive client community, our history of collaborating across the industry and our robust portfolio of innovative post-trade solutions, we believe we are uniquely able to bring about this much-needed transformation.

The Goal: Achieving a true no-touch workflow

We aim to enable clients to reduce the number of touches in their post-trade processing and to leverage consolidated exception and settlement management capabilities to drive settlement finality.

How close is your firm to achieving this goal? We've created an ITP Best Practices Scorecard to help clients evaluate where they stand on the journey to re-imagine post-trade processing, leverage their current investments in technology via ITP and implement a no-touch processing workflow. The Scorecard addresses each phase of the lifecycle—trade enablement & enrichment, agreement, notification & settlements management and data analytics. It provides best practice recommendations and highlights ways in which clients can utilize their current ITP solutions—at little or no cost—to effectively achieve a no-touch processing workflow.

Are you interested in learning more about where you are on the path to a no-touch workflow? Visit www.dtcc.com/ITP to download a copy of our ITP Best Practices Scorecard and begin the journey toward no-touch processing today.

To learn more visit www.dtcc.com/itp.

¹ Julie Segal, "Asset Managers' Shrinking Margins Are Nearing 2009 Levels," *Institutional Investor*, February 7, 2019, www.institutionalinvestor.com.

² Base60 analysis. Oliver Wyman/Morgan Stanley data. Wholesale Banking & Asset Management: 2014, 2015, 2016. Based on annual spending for core post-trade and related functions within highly standardized asset classes.

³ Wholesale Banks & Asset Managers 2016: Learning to Live with Less Liquidity, Oliver Wyman and Morgan Stanley.

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