



The SWIFT platform for capital markets: Your mission, our vision

The SWIFT platform for capital markets: Your mission, our vision

Introduction	3
The conundrum: Many operating models, many challenges	4
Time for a new approach: A collaborative post-trade platform	6
Critical elements in creating a post-trade platform	8
The benefits of a collaborative platform are well aligned with industry requirements	12
Making this vision a reality	14
Building for and with our community	17
How can you take part?	17

Introduction

“This is the start of an exciting journey. Our strategy leverages SWIFT’s unique position as a neutral cooperative to bring together key industry voices to tackle the challenges facing capital markets. We look forward to co-creating future proof solutions to industry challenges and helping to shape the future of capital markets.”

Charifa El Otmani

Director Capital Markets Strategy, SWIFT

Facing increased upstream disintermediation, growing competition, new regulations, tokenised assets, high costs of doing business, cyber threats and evolving customer expectations, capital markets players need to be more agile than ever. While financial institutions are at different stages of their digital transformation journey, many are now re-evaluating their business models, operational flows and partnership arrangements, as well as amplifying their regulatory compliance game and refreshing their technology stacks.

Yet keeping costs in check, increasing efficiency and providing customers with the level of experience they demand remains a challenge. In this environment, the need has never been greater to re-evaluate how the post-trade industry operates and to transform the way capital market services are provided. That’s why, in collaboration with our community, we are reengineering the SWIFT platform.

Our goal is to enable smarter securities processes through expanded platform capabilities such as tracking of securities settlement instructions as well as analytical tools covering all holdings – securities, cash and others. This smarter processing will help our community avoid or better address settlement failure and other types of exceptions, and reduce the cost of doing business.

This paper takes a closer look at recent post-trade operating models and the challenges that come with them. It then sheds light on the benefits and capabilities that the industry demands moving forward and lays out the key components crucial in the development of an industry platform. Finally, we share our plans to enhance the SWIFT platform in line with your business and operational objectives.

The conundrum: Many operating models, many challenges

Various solutions have been tried and tested in the quest to reduce costs, increase efficiency and enhance customer experience.

Taking an “inside-out” view, some players have adopted the approach of building out their front-to-back capabilities and look at internal integration strategically. Working on constantly shifting grounds, it is common to hear of participants outsourcing segments of their post-trade activities to third-party providers. It's estimated that 45% of investment banks are currently outsourcing post-trade operational activities, of which 28% have plans to expand the scope for outsourcing activities.¹ Some players have expanded their technology and service capabilities through vertical acquisitions such as State Street's completion in 2018 of its acquisition of Charles River Development and Blackrock's extension of its Aladdin portfolio management offering.

All good, but... to successfully achieve firm-wide alignment often requires an operational overhaul, streamlining of front-to-back processes and addressing legacy systems, which involves significant time and resources, not to mention migration risks. We also still hear of participants having to maintain large infrastructures, particularly for post-trade processing, and are constantly challenged by the very same conventional operational obstacles that they were trying to alleviate. For example, standalone firm-wide integration is missing the counterparty view and often, to resolve exceptions, institutions still have to contact their counterparties, adding to frictions and disrupting the straight-through processing (STP).

In the spirit of industry collaboration, some players have partnered with fintechs, formed consortiums or co-created with industry peers. It is an opportunity to simplify their existing architecture and externalise non-differentiating or non-critical services. Over 40 market utilities exist in the financial services industry.² It is a symbiotic, cost and time efficient approach to leveraging the latest innovative solutions that the industry has to offer, often focusing on specific operational functions that can be scaled and integrated into full service models. Examples include Symphony, a platform for secure communication and workflow management between financial institutions; and Proxymity, an industry-backed platform specialising in investor communications.

¹ Post-Trade Processing, Investment Banks Rethink Third-Party Strategies, Oliver Wyman 2017

² Strategy&, PWC, Market Utilities in Financial Services: What Role Will You Play, 2016

All good, but... such alliances are not easy to execute. It raises challenging questions like: How best to align business agendas? What is a balanced and fair governance structure? How to manage the go to market? Who will be the infrastructure host? Who will bear the risks and responsibilities? And, most of all, who will foot the bill?

Many have successfully closed the services loop by offering their solutions through microservice-based post-trade platforms, leveraging innovative new technologies. Again, all good but... the currently limited scale for these solutions, and aggressive competition have resulted in a fragmented post-trade environment. Furthermore, implementing standalone solutions, in small groups or via closed consortiums, lacks ubiquitous reach and the ability to scale, and is limiting in terms of interoperability across segments.

As the financial industry accelerates its evolution – especially post-Covid – with extensive digitisation and service innovation, we believe the industry's survival lies in transforming various market operational initiatives into a single, collaborative market utility. One that offers the capital markets community a mutualised post-trade platform that is interoperable across geographies, securities segments and multiple generations of back-office systems. One that is scalable, transparent, and enables real time, frictionless and secure financial transactions.

"As an ecosystem, by collaborating to remove inconsistencies and increase standardisation in areas where we don't compete, we can focus much more on driving forward value-added innovation. And that's a good thing for the whole industry."

Hannah Elson

Head of Global Custody, EMEA, J.P. Morgan

Time for a new approach: A collaborative post-trade platform

While the various operating models mentioned above each have their own benefits, they also have their limitations, especially in an increasingly fragmented post-trade environment. In addition, service quality concerns and the cost pressures of technology maintenance have made capital markets players more receptive to shared services that the industry as a collective can offer and benefit from.

Market participants are demanding operational excellence and a convenient user experience from their service providers – incumbents and new solution providers alike – in order to help elevate their post-trade capabilities. To achieve this, we must go beyond traditional sequential messaging. As capital market players transition into the next phase of their growth journey, high levels of security and scalability have become minimum base requirements.

For capital market players, a collaborative platform is an opportunity to take the next step forward on how they provide services to their customers and drive increased efficiency across the industry as a whole. Such a model presents many advantages such as economies of scale in the quest for operational and cost efficiencies, alleviation of transaction frictions through transparency, improved risk management and opportunities for industry innovation through analytics on consolidated information.

For participants, a collaborative post-trade platform brings:

A secure and trusted ecosystem

A platform creates a means of connection for users across segments, asset classes and markets, enabling them to transact and interact in a highly secure, reliable and trusted ecosystem.

Access to specialised services and solutions

Through a well-connected and agile post-trade network, and capabilities based on the latest technologies and tools, platform users have access to many specialised services and solutions to support their post-trade flows.

Ability to innovate and scale to industry requirements

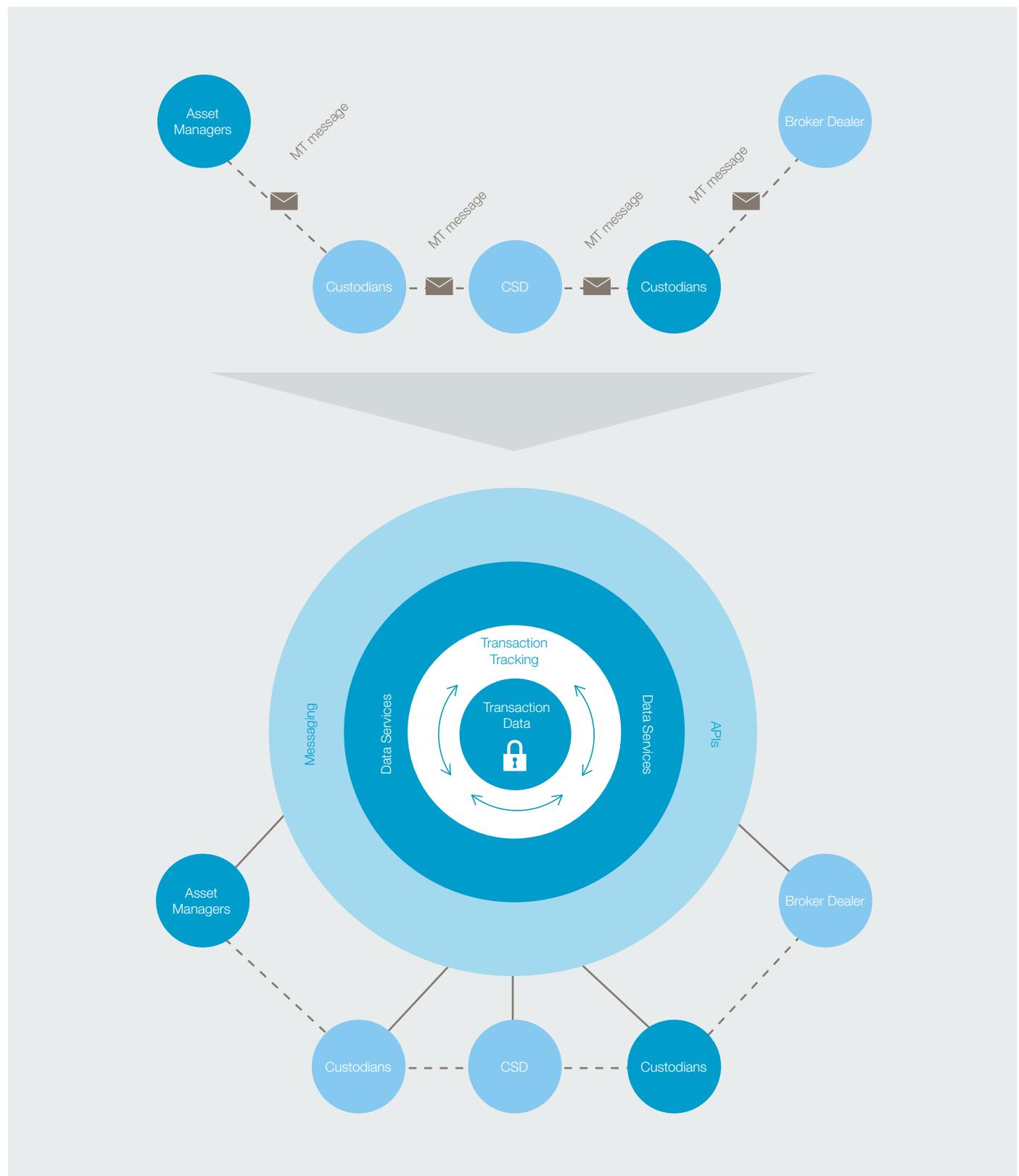
Global platforms build on strength in numbers and the breadth of reach of their participants. The more users that connect and contribute, the faster it is to develop, scale and share services for the benefit of the participants of the ecosystem as a whole.

Interconnectivity and collaboration

A collaborative platform offers the opportunity to connect with ease and plug into other platforms, providers and external data sources with the objective of providing an industrial-strength solution.

Industry post-trade processing demands can be addressed by transitioning from sequential messaging to an end-to-end view of transactions via a secure, collaborative platform.

Source: SWIFT



Critical elements in creating a post-trade platform

To introduce meaningful transformations when building an effective post-trade platform, underlying elements have to keep pace with the evolving values of modernising financial systems and processes. Among the considerations are:

Ease of onboarding

The fast pace of developments in capital markets today calls for a “plug and play” onboarding experience to the platform. Easy to integrate, user friendly and light implementation requirements – for instance through APIs and the use of cloud technologies – are among the common demands of market participants. The ability to quickly connect to the platform helps reduce time to market, minimise operational interruptions to existing back-office environments and save on implementation costs.

Bridge the standardisation gap

A shared platform is also a way to enable the industry to collaboratively “pace-set” and introduce higher levels of standardisation to operational aspects, including security components, data models, market practices, as well as service level agreements to transaction flows.

From a standards messaging perspective, it is understandable that each entity will want to transform their data and adopt standards at their own pace. Not all back-office applications will be ready to adopt the same message standard or data format from day one. While the platform’s core will be based on ISO 20022, participants will be able to choose the communication formats they wish to use when they interact with, consume or provide information to the platform. The platform can be pervasive and flexible in terms of accepting financial information in different formats, protocols and channels – ISO 15022, ISO 20022, APIs, FIX, or even free format.

In addition to translation capabilities, the platform should be capable of the agile retrieval and distribution of data, and provide the reference format for different connectivity points. Increased levels of standardisation will have a positive effect on market harmonisation and interoperability across segments. This ultimately lowers the barriers to participation to the platform and reduces industry operational risk. Further, the platform stands to unlock scalable industry value by aligning the approach of innovative technology like APIs with a common language and rich data model like ISO 20022.

Intuitive, enriching and transparent transaction flows

Participants must be able to track and trace transaction movements with ease along the transaction flow. Transaction tracking and tracing should also not be limited to linear and singular business flows either. This can be facilitated by using a correlating global tracking reference that transposes through links across different flows. For instance, the two legs of a settlement instruction, or at a more sophisticated level, a corporate action with a link back to the ensuing settlement of funds.

As the information is communicated downstream, a copy of the transaction information should be stored safely on the platform along with its unique transaction status and tracking reference. At the same time, it is important that participants along the post-trade transaction flow have timely end-to-end visibility of the transaction and status updates of any action performed or update received – such as the matching status at the central securities depository (CSD) – along the processing chain. For processes like pre-validation of essential settlement data, this helps reduce repetitive and duplicative efforts along the chain and may facilitate data enrichment.

“The SWIFT network effect can help drive the adoption of standards of not only formats but also transaction identifiers that help facilitate the much demanded transaction transparency.”

Jason Brasile

Vice President, Product Management, State Street

Safeguard data privacy and cybersecurity while ensuring effective financial crime compliance controls

Transactions in high volumes and at high values, which settle quickly and are often sent right before cut-off times, make the securities industry an attractive target for cyberattacks. There are multiple points of entry for attackers too, given the industry's complex structure and long transaction chains.

Among the chief priorities of any platform is security of the data that it processes and stores. Specifically designed embedded and mandatory security controls should be implemented to safeguard the data security and privacy of the platform and its participants. Equally important is the possibility to screen transactions, specifically the asset identifier and issuer, against international sanctions lists, as well as client data to reduce the risk of non-compliance. Similarly, the platform should help automate and centralise know-your-customer (KYC) checks specific to the capital markets, and support anti-fraud protection.

Market inclusiveness

To create value and offer holistic business benefits, the platform should address post-trade transaction needs for the various capital markets segments, and the related business areas. This extends the platform capabilities to firms providing payments, FX and liquidity management services, thereby enabling a holistic offering along the securities flow across the financial ecosystem. For this, the platform needs to be able to attract and host diverse user segments from across the financial industry, and make the collective creation of value and tangible shared benefits possible.

As the distinction between capital market players and fintechs is gradually being blurred, the platform should be capable of facilitating the processing of not only traditional multi-asset classes, but also consider over time tokenised assets as part of its value offering. Naturally, this will enable the growth of an ecosystem that will allow both incumbents and new entrants to validate collaborative partnerships on the same platform, with access to a single pool of liquidity and asset class agnostic settlement.

Market collaboration and interconnectivity extends to strategic connections through vendor partnerships and external data sources as well. This enhances the platform's ability to utilise and process external data with the help of innovative means such as artificial intelligence (AI), machine learning (ML), predictive models and benchmarking tools. It is also an opportunity for third-party solutions to tap into the quality data made available on the platform and in turn offer value-added services to the participants.

Future proof

The platform should be dynamic to not only alleviate today's challenges, but also be ready for the future. The platform and its participants must be prepared to look beyond today's available technology and consider the potential in a collaborative and value-generating environment that leverages co-creation initiatives among financial institutions, services providers and other third parties. Options for interoperable or customised applications developed by providers that can be further enriched or distributed via the platform should also be available for the platform community.

Essentially, the platform should function as a self-sustaining marketplace for post-trade services. And, as a collaborative platform, framed by an appropriate governance process, participants and vendors can also use it to grow and connect their business, products and services as well, thus extending the value of the platform.

"Standardisation and interoperability in offered solutions to enable a more seamless integration and coexistence period, is critical towards the success of and access to new unified platform models. And SWIFT is in a unique position to offer this through its new platform strategy."

Russ Stamey

Senior Vice President, Global Services,
Northern Trust

The benefits of a collaborative platform are well aligned with industry requirements

The benefits of a collaborative post-trade platform model come from the capabilities of the platform itself, as well as the value the community of users creates on the platform. These benefits can be broken down into four main types:

1 Faster transaction processing and improved visibility

Frictionless transaction processing is among the intrinsic values of a platform. This directly translates into shorter transaction processing times. Greater visibility along the processing chain also facilitates accelerated settlement timelines by enabling the detection and correction of possible settlement failures before they happen, further enabling operational efficiencies on a collective level. Costs can be better managed through fewer interventions, investigations and, ultimately, increased settlement certainty through improved reconciliation, whether for settlement, securities financing, or asset servicing-related flows.

2 Revenue generating opportunities

By feature and service design, the platform prioritises the needs of the community. It helps with the heavy operational lifting and allows participants to free up resources to focus on higher profit margin and added-value activities within their core business. Benefits from the platform may start at the transaction level but inevitably lead to the strategic relationships formed among platform participants.

Wider utilisation of the platform and its shared services will accelerate cost efficiencies across the community, encourage faster realisation of mutual operational benefits and increase the adoption speed of service refinements. It also lays the groundwork for further revenue generating products and services developed by users of the platform.

3 Access to high quality data for actionable insights	<p>Whether based on information exchanged over the platform or sourced from trusted third parties, the platform provides avenues for the community to expand on the potential of transaction data for process improvements such as pre-validation of essential data, sanctions screening, transaction tracking, exception management and case resolution. Similarly, data analytics can be applied to identify new investment opportunities as well as to measure performance of counterparties and service providers, benchmarking against the entire industry's flows.</p> <p>With appropriate embedded capabilities, the platform can correlate and aggregate data into meaningful business insights – and potentially predictions – such as multi-asset holding positions including cash and securities, across geographies and servicing parties, and accounting for payments, securities and foreign exchange transactions. Among other benefits, this can help provide empirical evidence from the aggregate of transactions and holdings on the platform to underpin smarter investment decisions, identify new sources of revenue, reduce credit lines and better manage operational risks and costs.</p>
4 Enables a marketplace of users and innovative ideas	<p>The platform creates opportunities to connect users and service providers, strengthening strategic business relationships. It serves as an industry marketplace, where its community and third parties can leverage the native capabilities of the platform and enrich their applications in areas such as compliance, risk management, regulatory requirements, visibility throughout the settlement and reconciliation value chain, workflow automation and reporting.</p> <p>The platform is a marketplace that induces sustainability by bringing together both users and providers to catalyse developments within its community and incentivise co-creation initiatives that introduce new value-added services to support business growth. In essence, the platform gives access to a broad and connected potential client base for third parties, and access to best-in-class third-party solutions to clients, complementing the platform's embedded core functionalities.</p>

Making this vision a reality

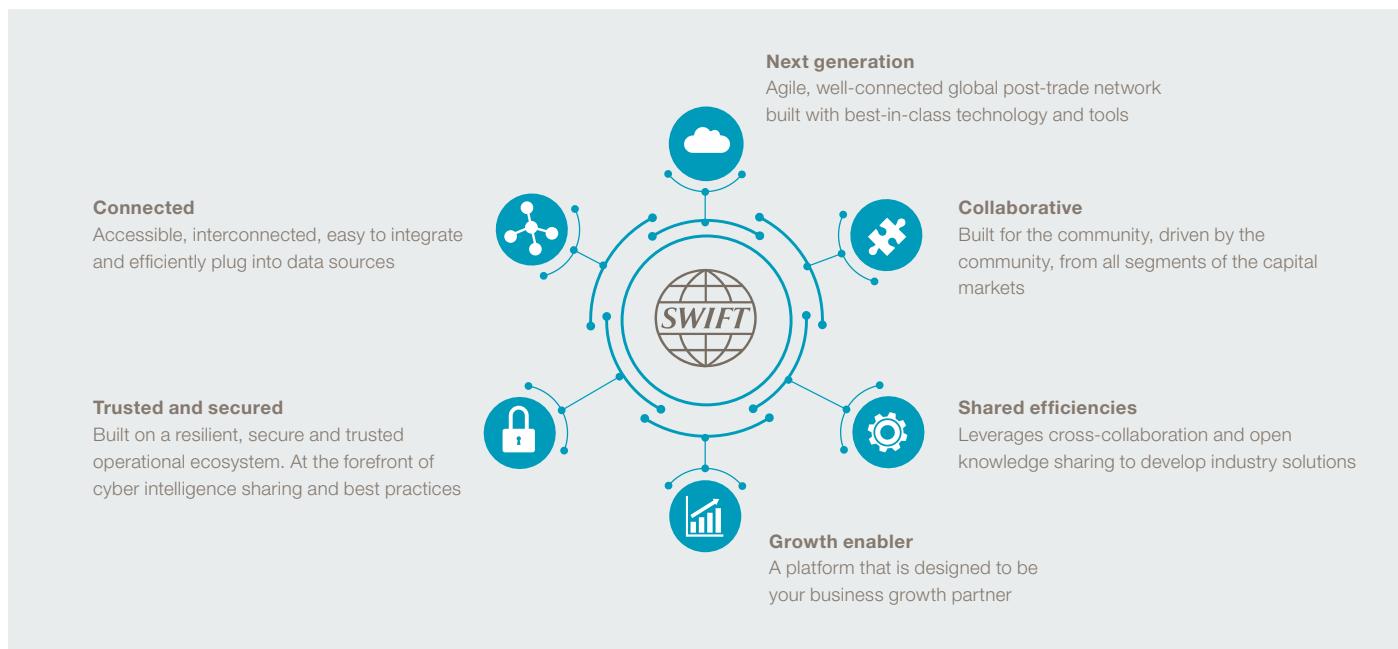
We have heard the demands for a collaborative post-trade platform of the kind described above and are building on our strong foundation as an industry cooperative with high levels of community participation to make it a reality.

Its benefits are clear and will provide extensive returns to the continued development and sustainability of the industry. Together with our community, we are transforming the SWIFT platform to provide a smarter, faster and better way of managing transactions.

We put responsible, purpose-led innovation at the heart of everything we do and work closely with our community to explore, develop, test and deploy improvements in our products. We aim to uncover hidden opportunities and value creation in service offerings that may not be possible in today's fragmented market.

We carry with us a wealth of experience built through the many market-leading initiatives and transformation projects that we have been a part of, including T2S, SWIFT gpi and ISO 20022, to name a few. This is evidence to our tenacity and capability in delivering complex and multi-term technology projects at scale.

About the transformed SWIFT platform



We are a leading proponent of market harmonisation and our vision is to become a connector to other platforms. By fostering high quality data, system security and trust, we aim to seamlessly bridge existing and new platforms.

Our goal is to scale at speed with our community through accessible platform connectivity options. Appreciating the need for convenient on-boarding and implementation, we aim to provide participants with the ability to plug-and-play – namely through APIs and cloud technology – with short integration timelines and minimised impact on existing systems.

Safety and security are at the heart of everything we do, and we've taken this principle into our new platform strategy as well. And on top of this, the Customer Security Programme continues to help capital market participants secure their SWIFT-related infrastructure, policies and practices.

In the true SWIFT community-centric spirit and the cooperative construct that we operate in, our platform vision puts financial institutions first. And as a global and neutral infrastructure connecting over 11,000 financial institutions, we are strongly committed to providing a safe, trusted and resilient environment for both customers and providers.

Platform transformation in progress

We are exploring the following areas with our capital markets community as part of our enhanced platform vision:

① Visibility throughout the settlement and reconciliation value chain

② Real-time view of multi-asset holdings

③ Tokenised assets and future proof developments

-
- 1 Visibility throughout the settlement and reconciliation value chain**
- We are exploring how the platform can enable increased transparency via a single end-to-end view of transactions and critical pre-validation services, in particular by enriching securities standing settlement instructions (SSI) in flow. Early detection of errors helps participants reduce costs; manage risks associated with settlement failure by ensuring issues are detected early on; and gain actionable insights shared throughout the transaction chain.
- Just as inaccurate SSI reference data is an important source of operational failures, we are also looking to include screening of International Securities Identification Numbers (ISINs) against sanctions lists as part of our pre-validation services, as a complement to our financial crime compliance portfolio.
- After securities settlement, the power of the transformed SWIFT platform will be deployed towards other securities flows like corporate actions, collateral management and investment funds.
-
- 2 Real-time view of multi-asset holdings**
- In addition to transaction tracking, the platform will enable securities servicing institutions to build real-time global balances across all cash and holdings for their customers. By offering dynamic access to operational data, users will be able to better understand where to focus and have the possibility to integrate this with their intraday reporting based on data exchanged over SWIFT.
-
- 3 Tokenised assets and future proof developments**
- The platform will enable the financial industry to better prepare for the future. We will also explore collaboration with our community in areas where asset tokenisation and traditional finance are merging. This includes navigating the challenges of market fragmentation by developing the necessary standards to support the secure transfer of tokenised assets.

Building for and with our community

The strength of the SWIFT community is that it provides the solid base of participants necessary to build the foundation of the platform.

With our community, we are now working to make this vision a reality. A thriving platform powered by the contribution and commitment of participants of the very market it serves. A platform that will transform how post-trade interactions take place in the future and how better data quality and efficiency gaining services are shared.

The success of this vision relies on the contribution and active support of all participants. We invite everyone interested in shaping this future to join us on this journey. Not only as participants of the platform, but also as co-creators in defining post-trade processing efficiencies for the global financial community.

How can you take part?

There are a number of engagement groups and pilot projects ongoing as part of this transformation. To learn more about how you can get involved in shaping the future of post-trade processing, contact your SWIFT account manager or email us at securities@swift.com.



About SWIFT

SWIFT is a global member owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging and standards for communicating, and we offer products and services to facilitate access and integration, identification, analysis and regulatory compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories. While SWIFT does not hold funds or manage accounts on behalf of customers, we enable our global community of users to communicate securely, exchanging standardised financial messages in a reliable way, thereby supporting global and local financial flows, as well as trade and commerce all around the world.

As their trusted provider, we relentlessly pursue operational excellence; we support our community in addressing cyber threats; and we continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies. Our products and services support our community's access and integration, business intelligence, reference data and financial crime compliance needs. SWIFT also brings the financial community together – at global, regional and local levels – to shape market practice, define standards and debate issues of mutual interest or concern.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's international office network ensures an active presence in all the major global financial centres.

For more information about SWIFT,
visit www.swift.com.