FinTechs – Post trade needs you!

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At Ascendant Strategy we think the innovation engines at fintech organisations need to grasp an opportunity by focussing on tools that support post-trade collaboration and data standardisation. Why?

First off, a little background. In the securities world, there is generally a gap between trade execution (buy Vodafone shares at market!) and settlement (Vodafone shares arrive in your account, money comes out of your account). This gets referred to as "T+n settlement" where n is the number of business days (yes, days…) in between the two events. Most markets now operate on a T+2 basis, some are looking to move to T+1 (in the US, the SEC just announced an intention to do this at end of Q1 2024).

What this means is that all the processes that need to take place to settle a trade will need to happen quicker. This shouldn't be an issue if everything is set up correctly, but for a surprisingly large number of reasons, it's quite frequently the case that manual intervention (usually associated with calls/emails to counterparties) is required to get to that point. Also it's quite frequently the case that things do not get fixed and settlement does not happen – it "fails". New regulation in the EU (CSDR) can make this expensive, particularly if the fail duration is extended.

As settlement cycles shorten, tools which accelerate the "fixing" are critical, and if they can do so by eliminating phone calls and emails, all the better. What we see as highly effective are collaboration tools that compensate for the fragmented business processes and application architectures that support these events within the buying and selling organisations. By creating a 'shared view of the truth' and using this to see errors and drive resolution that automatically feeds back into the in-house representation of the transaction, timelines for settlement readiness should be radically reduced. This can go further as the ability to participate in these collaboration venues and the associated network should drive standardisation of data representing the transaction, and its status. This reduces the potential for error.

We observe that over the last few years, organisations are much less resistant to these kind of collaborative approaches, especially where they improve costly, non-value add processes. If the provider of the service is not a competitor, or group of competitors, so much the better and this is one of the reasons why fintechs have an opportunity.

So as settlement cycles reduce (and T+0 will not be far behind T+1), what we are seeing is increasingly a drive to move "post trade" activities to "pre trade" – for example, ensuring in the case of a securities sale that the securities are verified as available to sell, compared to the typical existing process of doing this after execution has taken place. There has been much talk of DLT solutions being the enabler for "instantaneous" settlement, where the trade is executed and settled literally at the same time: no time for fixes! There will have to be a substantial change to business processes to allow this technological possibility to become process reality. And we think that fintechs who can provide the collaboration tools to support these changes are key to making this happen.

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