MANAGING THROUGH A PANDEMIC: THE IMPACT OF COVID-19 ON CAPITAL MARKETS OPERATIONS

A WHITE PAPER TO THE INDUSTRY
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FOREWORD

The global COVID-19 pandemic and resulting economic turmoil sparked widespread changes to global financial markets seemingly overnight – from record volume and volatility to significant spikes and valleys in a wide range of asset classes, and new paradigms that will influence the role of the office and how we will work in the future. It has been an unprecedented 15 months indeed.

While COVID-19 vaccination programs appear to be taking hold around the world and a return to normalcy is within sight, the impact of the pandemic will be felt for many years to come. Unlike some historical events where time must pass for context and perspective, we already know that the pandemic marks an inflection point for financial services and that we will never return to our previous business-as-usual approaches.

During the past year, we have gained insight into how firms are reprioritizing for a post-pandemic world, such as focusing on addressing longstanding operations and technology issues, reexamining operating models, embedding greater resilience throughout their organizations and placing a higher premium on collateral management, reconciliation, accelerated settlement and the need for increased automation. At DTCC, we sought to learn more about these opportunities and challenges by surveying market participants, with the support of McKinsey & Company, to better understand the implications of the pandemic on the capital markets. We at DTCC believe the findings, which we are sharing with the industry in this report, will serve as a guide to defining areas of emphasis as we collaborate to forge a better and stronger future.

The industry's ability to successfully manage through the pandemic reinforces the resilience, agility and adaptability of firms to react and respond quickly to disruptive events. We have successfully navigated the crisis so far, and at DTCC, we look forward to our continued partnership with our clients, regulators and other stakeholders in the years ahead.

Michael Bodson
President and CEO, DTCC
INTRODUCTION

In capital markets, as in the wider economic and social environment, the past year has presented significant challenges. The COVID-19 pandemic is first and foremost a humanitarian crisis. It has impacted lives and livelihoods, undermined economic activity, and caused intermittent bouts of financial market volatility. In early 2021, most economies around the world are operating well below their capacity. Capital markets participants, meanwhile, are continuing to adapt to the new normal, and working to ensure that trading continues uninterrupted.

Amid record trading volumes testing operating models, and with corporate clients struggling to service debts and being forced to draw down on lines of credit, banks have faced significant challenges. Globally, banks provisioned $1.15 trillion for loan losses through the third quarter of 2020, compared with $800 million for the whole of 2019.¹ At the same time, across global markets and investment banking, rising volatility created tailwinds in fixed income, equities and debt and equity capital markets.

In the post-trade processing space, record trading volumes in some asset classes coupled with the sudden shift to working from home (WFH) put a significant strain on market operations. Many firms reported increased fail volumes in settlements, payments, and collateral-related processes. And yet, despite the magnitude of the challenge, firms across the industry reported that post-trade operations (Ops) and operations technology (OpsTech) proved largely resilient.

These are some of the findings of a survey conducted with a global set of 35 buy-side and sell-side firms in December 2020 and January 2021, focused on three areas – the short-term impact of COVID-19 on Ops and OpsTech in capital markets; the immediate implications on firms’ operating models and priorities; and longer-term lessons. The survey was supported by in-depth interviews with 15 leaders in the Ops and OpsTech space.

In summary, as survey respondents reflected on their firms’ performance during the height of the pandemic, three themes emerge:

- Cash fixed income and cash equities stood out as the asset classes most impacted by the market volatility, with 30-35% of firms across the buy-side and the sell-side reporting operational post-trade processing challenges in these asset classes.
- From a processing perspective, settlements/payments and collateral/valuations were hardest hit, with 58% of sell-side firms reporting challenges in settlement and payments during the peak of the pandemic.
- The sudden transition to a work from home operating model, with nearly all Ops and OpsTech personnel working remotely, was achieved almost seamlessly, in most cases within a matter of days.

Reflecting on the events of 2020, several firms considered the pandemic an unusually prolonged business-continuity planning (BCP) event, for which they were better equipped compared to previous crises. Most firms were able to effectively manage the combined impact of working from home and the increase in transaction volumes by rapidly redeploying resources and implementing tactical changes to their operating models.

Efforts made after the financial crisis and in recent years to reengineer and automate processes and upgrade technology platforms were cited by firms as the main reason for their resilience during the pandemic. Indeed, a large majority of respondents to our survey say that recent events have validated, rather than caused them to question, their Ops and OpsTech priorities and investment plans. About 90 percent of surveyed institutions report that the events of the past year have not caused them to materially adapt or accelerate their transformation plans.

¹ McKinsey Global Banking Annual Review 2020, December 2020
Most of the interview and survey participants share the view that the pandemic in itself did not create an impetus for change, however, an emerging consensus could be observed when it comes to firms’ immediate plans for change in a number of areas:

- There is alignment, across the sell-side and buy-side, on the need for further simplification and standardization of some post-trade services which were hardest hit, in particular reconciliations, fails management, and collateral management/valuations.
- Firms also cited the impact that the pandemic-induced volumes and volatility had on liquidity and margins, and the need for continued focus on shortening settlement cycles, specifically for US securities.
- In each of these areas, over half of firms surveyed reported plans to either transform or increase capacity in support of these processes and focus areas.
- The stigma around working from home and productivity has been removed, with many firms looking to retain part of the remote and flexible working model post-pandemic.

In conclusion, feedback from market participants is overwhelmingly that they have passed the test of supporting unprecedented trading volumes at a time when nearly all Ops and OpsTech professionals were working remotely. While some firms may have targeted areas to address and further automate in their post-trade lifecycle, two topics are likely to continue to inform strategies across the industry over the coming period — the future of WFH, which remains uncertain, and the move toward shorter settlement times. By focusing initially on a move to T+1 for US securities, firms can reduce counterparty risk and cut margin requirements, therefore lowering costs and freeing up liquidity for the benefit of market participants and individual investors.
GLOBAL MARKETS BEFORE AND DURING THE PANDEMIC

The capital markets industry has been characterized over recent years by relatively stable or slightly declining revenue pools, ample liquidity, and strong asset market performance. Still, capital markets businesses have remained under pressure, operating in an environment of low interest rates, shrinking demand for more complex solutions, and tighter margins. Balance sheet de-risking post the 2008 financial crisis, and the subsequent evolution to an agency-based model for many asset classes, have also undermined performance. Costs, meanwhile, have remained high as a proportion of income, increasing pressure on firms to reduce expenses across the board, including in operations and operations technology.

Exhibit 1. The pandemic drove unprecedented market cap drops and volume spikes

Some business lines have come under more pressure than others. Flow and highly electronic businesses (cash equities, FX, rates) have seen significant margin pressure, reflecting factors that include rising competition in market making, the growing role of technology, and a regulatory push for transparency, both pre- and post-trade.

In the early part of 2020, as the COVID-19 pandemic spread around the world with tragic consequences, financial markets saw spikes in volatility that were unprecedented over the previous decade. The VIX index, or Wall Street’s “fear gauge” jumped from a reading of around 12 in January to 65 in March, amid significant selloffs across markets. As investors rebalanced their portfolios, trading volumes skyrocketed on many days reaching two or three times the pre-pandemic average.

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1. Indices of national stock exchanges of countries used for analysis: US: S&P 500 Index, Germany: DAX Index, UK: FTSE 100 Index, India: Nifty 50, China: SSE Composite Index, HK: Hang Seng Index, Japan: Nikkei 225, as reported by Bloomberg
2. Average of indices used for analysis (indexed to 100)
3. Number of indices of constituent stocks in the index

Source: Bloomberg
For capital markets, higher volumes were a positive. Indeed, many firms posted record revenues in the early months of the pandemic and went on to report a strong performance across the rest of the year. In the post-trade space, however, there were significant challenges along the way, with operations and operations technology teams across the buy- and sell-side, custodians and other capital markets infrastructure firms working around the clock to support the unprecedented volumes and enable uninterrupted trading for their clients.

**THE POST-TRADE LANDSCAPE:**
**PANDEMIC TURMOIL AND RESPONSE**

With global markets trading volumes soaring in the early months of 2020, and high levels of volatility persisting throughout the year, market participants’ capabilities in the post-trade space remained under pressure. Among the most liquid asset classes, cash fixed income and cash equities stood out in survey responses as areas facing the most challenges, while post trade-services, settlements and collateral/valuations were reported to have encountered unusually high levels of delay and fails.

Our survey reveals three key insights:

- The challenges by asset class and operational process varied depending on the size and type of firm and its business focus, as well as its track record of investment in operations technology.
- The buy-side was less impacted by the volume spikes than the sell-side. Broker dealers bore the brunt as they needed to reach out to and coordinate with hundreds of counterparties - clients and peers - to reconcile breaks and settle trades.
- Transitioning into an operating model with nearly one hundred percent of Ops and OpsTech personnel working from home was achieved almost seamlessly, and often within a matter of days. This was mostly due to the resilience of firms’ core infrastructure, as well as their experiences from past BCP events.
Product and process challenges

At the height of the pandemic in the early months of 2020, trading volumes rose to unprecedented levels (Exhibit 1), even when compared to other historic events. Amid margin calls, dividend cancellations, coupon deferrals, valuation changes and associated administrative requirements, some 30-35 percent of firms - buy-side and sell-side equally - saw operational post-trade challenges in cash fixed income and cash equities.

After fixed income and equities, listed derivatives were the most-cited asset class, with 20-25 percent of firms saying they struggled to keep up with processing demands, particularly in clearing. In a number of instances, multiple OpsTech releases were required to scale services, as some clearing brokers saw extraordinary daily volumes. The over-the-counter derivatives market was less severely affected, with fails concentrated among a few broker dealers and client segments. However, money markets were impacted, with high numbers of corporate events leading to increased post-trade disruption. The good news was that, despite these significant challenges, there was no systemic event and the majority of firms were able to process volumes quite effectively and avoid longer-term disruption.

The sell-side was most impacted in the fixed income business, with 47 percent of firms reporting problems. The buy-side meanwhile saw cash equities, money market instruments, and secondary loans come under the highest levels of pressure.

Exhibit 3: Asset classes most impacted by the COVID-19 pandemic

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Sell-side, n=19</th>
<th>Buy-side, n=12</th>
<th>Total, n=31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equities</td>
<td>26%</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Prime financing</td>
<td>21%</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>Cash fixed income</td>
<td>47%</td>
<td>17%</td>
<td>35%</td>
</tr>
<tr>
<td>Money market</td>
<td>11%</td>
<td>25%</td>
<td>16%</td>
</tr>
<tr>
<td>FX</td>
<td>5%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>OTC rates</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>OTC credit</td>
<td>5%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>OTC equity</td>
<td>21%</td>
<td>0%</td>
<td>13%</td>
</tr>
<tr>
<td>Equity portfolio swaps</td>
<td>0%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Listed derivatives</td>
<td>26%</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>Commodities</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Secondary loans</td>
<td>0%</td>
<td>25%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: interviews and online survey, Nov 2020-Jan 2021

From a process perspective, settlements/payments and collateral/valuations were hardest hit. In the former, market participants reported difficulties in obtaining settlement status, which in turn led to delays in matching and netting. In OTC derivatives and repo, collateral processes were encumbered by sharp margin hikes. Collateral was also an issue in exchange-traded markets, with fragmented schedules and uneven end-of-day remittances increasing friction.
Size and scale of firms mattered when it came to the type of processes and asset classes impacted. Large firms on both the sell-side and buy-side, as well as most quantitative traders, reported relatively few issues in cash equities, but encountered more severe challenges in listed derivatives – mainly futures – and these were a significant cause of fails. Smaller firms faced issues uniformly across cash equities and fixed income.

The absolute number of operational errors increased across the board. In fact, twenty percent of firms saw a spike
in reconciliation errors. Still, the rise was proportionate to the increase in trading volumes. Where error rates increased, the cause was usually platform breaks, rather than human or other operational shortfalls. Fail rates in the US remained largely flat, on a per-trade basis, compared with pre-pandemic levels, while in Europe they increased slightly – mostly attributed by the survey participants to the fragmented nature of the market. In absolute terms, of course, they increased in both geographies in line with volumes. Asset servicing also came under pressure, amid multiple dividend cancellations.

Challenges and disruptions to operating models, technology platforms, and products varied significantly by each individual firm, and often correlated with levels of past investment in those areas. Where processes failed, legacy technologies (e.g., settlements and futures platforms) were often the culprits, and some smaller firms suffered from a lack of capacity.

For some firms, asset servicing was a particular challenge, as large numbers of companies canceled or delayed dividend payments. Waves of paper-based corporate event notices prompted switches to electronic processing. This brought high volumes of unstructured data into IT systems. As a result, firms with better data marshalling capabilities and less fragmented tech stacks tended to outperform. For other firms, there were lesser but material challenges in client services – including slower client outreach to resolve breaks and disruptions in onboarding of new clients, to name a few. Firms also reported challenges in specific parts of their OpsTech stack but most were idiosyncratic to each firm.

Where processes or parts of the IT function were outsourced, third-party vendors faced similar challenges. Some 50 percent of firms reported at least some vendor disruption, and not all firms had a robust contingency plan in place with their providers. That said, more than 90 percent of survey participants report high levels of satisfaction with third-party providers and just a handful of firms had to take processes back in-house.

Despite the severity and disparity of challenges, many market participants were able to resolve the majority of issues within a matter of days, and without significant disruption to post-trade processing and client services. However, it evidenced the need for a streamlined and accelerated post-trade processing and better use of technology. Efforts to overcome the challenges were supported by cross-industry collaboration, with teams making use of online forums, and subscribing to several joint weekend sessions to reduce backlogs.

**The buy-side: an easier task at hand**

Most buy-side survey participants experienced less disruption to post-trade processes than sell-side firms. Their most significant challenges related to position exposures, for example where record volumes and high volatility put stress on collateral payments. Buy-side survey participants attributed their relative outperformance to their simpler operational model when compared to the sell side, the need to coordinate with only few counterparties, and robust digital transformation programs, at least for the larger firms. Still, there were exceptions to the rule. For example, manual tasks in client services such as onboarding created practical difficulties for some organizations. Firms running highly-automated trading strategies were also somewhat operationally stressed, for instance by the need to switch to manual reconciliations and create significant capacity to support issue resolution with their counterparties.

Dealers, meanwhile, faced a different scale of challenge, reflecting their need to coordinate with hundreds or even thousands of clients to resolve unmatched trades and fails. Sell-side firms uniformly reported challenges in reaching clients to resolve issues either because hundreds of clients contact information had to be updated or because of increased need for email or phone interactions required to resolve breaks. In a number of cases, the type and size of counterparties determined the problem. Highly quantitative firms, for example, sometimes did not have adequate staffing to conduct the number of live interactions required and took days in some cases to respond to their dealers, at least at the onset of the pandemic. Other times, it was dealers themselves that struggled to keep
up with their peers, reflecting a sentiment expressed in survey responses that the community could only be as strong as its weakest link. “Banks can deploy multimillion-dollar budgets to automate their processes and achieve extraordinary levels of efficiency internally,” one survey respondent says. “However, if a peer is not on the same path, then we are all forced to switch to manual processes and reconciliations when facing the street.”

**Shifting the operating model and increasing capacity**

Two operational challenges marked the early days of the pandemic:

- COVID-19 lockdowns and restrictions led to a sudden shift in working models, with nearly 100 percent of operations and operations technology professionals remaining at home, leading to significant operational, technology, risk, and compliance challenges.

- Firms needed to create and redeploy capacity to support the operational services and asset classes under the most pressure.

Despite the difficulties, which materialized over a short period of time, firms adjusted quickly — in many cases through implementation of existing business continuity plans. In a matter of days, workforces of thousands of Ops and OpsTech professionals were transitioned to a working from home (WFH) model, the success of which was attributed by many respondents to the resilience of core infrastructure and existing arrangements for flexible working.

To ensure business continuity, some firms already operated distributed physical networks out of multiple locations. This enabled them to re-balance process workloads and continue to work seamlessly. Further, when physical locations of trading floors were closed by lockdowns or travel restrictions, they were still able to handle high volumes of trades. Indeed, some firms say that having thousands of operations professionals logged on to the network from home was "a non-event." It was simple to transfer business phone lines to personal or cell phones and critical applications for trade processing that could be accessed remotely performed well, without significant disruption, outages, or delays. Firms were able to provide second screens, printers and other equipment, as necessary, to ensure appropriate home office set-up. Almost all survey participants reported high levels of satisfaction and in some cases admiration for the resilience of their firms' core infrastructure.

One reason for the market’s overall high level of resilience was their experience in dealing with volatility and business continuity events in the past, ranging from severe weather events such as storms and hurricanes in the US to Europe’s sovereign debt crisis to futures, Treasury, and FX flash crashes over recent years. Operations and operations technology teams had learned from these events and developed robust contingency plans. For example, after Superstorm Sandy in 2012, one firm introduced a one-day-per-month WFH model, while another already had a number of employees alternating working from the office on Fridays. Several firms had a policy of flexible seating on their operations floors, already enabling a culture of "I can work from anywhere". A few firms reported having a policy of flexible seating on their operations floors, and in some cases implemented a “campus” locations strategy. These approaches, as expected, were major assets during the pandemic.

When it came to creating capacity to address increased volumes, firms resorted mostly to two measures: redeploying professionals to the most stressed services and leveraging tactical automation. Some 40 percent of firms reported that they were able to re-deploy talent within a matter of days, and only in very few cases did firms need to resort to staff augmentation or re-hiring alumni. Many firms realized the benefits of internal mobility programs, in which operations professionals rotate across roles. This created a shared knowledge basis and allowed firms to move employees to supporting different processes. Not surprisingly, redeployments meant on-going change-the-bank (CTB) projects were disrupted, still, most firms say they adjusted quickly. Moreover, the net effect, at least in the first few months of the pandemic, was a boost to productivity – people got more done from home.
than they did in the office, and the impact persisted through most of the year. That said, several firms reported concerns about their employee's ability to sustain performance and materially longer daily hour working hours over the longer term, as well as the impact on their well-being.

**IMMEDIATE PRIORITIES AFTER THE ‘BCP TEST OF THE DECADE’**

While COVID-19 presented a significant challenge for capital markets operations and operations technology, when assessing the pandemic’s impact on their organizations, the vast majority of survey participants drew on historic parallels with 9/11, the 2008-2009 financial crisis and Superstorm Sandy and often referred to the pandemic as the “BCP event of the decade.”

It is the consensus from our survey that the industry proved to be largely resilient, handling unprecedented volumes while operating for the first time in its history with nearly all Ops and OpsTech personnel remote for all market participants in what felt like a twelve-month BCP event.

Firms attributed their ability to react quickly and effectively to the significant investments made in scaling, automating, and upgrading core operations and capital markets infrastructure over the past several years, as well as the significant BCP tests they have encountered in the past. Major sell-side firms, in particular, saw their ability to withstand the spikes in trade volumes as validating their investments in BCP preparedness and in putting in place a scalable infrastructure through significant multi-year transformation programs.

Smaller firms identified a greater need to increase investments in operations across the board. A number of firms shared they are actively looking into further streamlining connectivity and communication processes across counterparties, dealers and clients to improve trade information sharing. Others report plans to automate their futures platforms and upgrade workflow tools.

When it came to third party providers, only a handful of the thirty-five survey participants were planning to insource processes while most - given positive experience with vendors - were more favorable to outsourcing as a result of strong vendor performance in 2020.

These examples mainly reflect the desire of broker dealers, their clients, custodians and other capital markets firms to address issues in specific operational processes, such as reconciliations, or parts of the stack, rather than a need for end-to re-engineering of the post-trade space and supporting IT infrastructure and platforms.

“COVID-19 accelerated in select cases our strategy to go after scale as opposed to change it,” says one executive. Given these dynamics, respondents predict Ops and OpsTech budgets will most likely remain in line with those of recent years with two thirds of firms across the buy-side and sell-side reporting no changes to their budgets for the next two to three years.
Insights emerging from the survey and industry interviews suggest three major themes emerging as a result of 2020 events:

**Exhibit 5: Majority of firms don’t currently see COVID-19 materially changing post-trade processing across the industry**

Do you view the COVID-19 pandemic as an event that will be the impetus to transform the post-trade processing space?

<table>
<thead>
<tr>
<th>Who</th>
<th>Yes, COVID-19 will have an impact on post-trade processing</th>
<th>There could be some impact as firms act on learnings from the pandemic, but it is as of yet too early to say if it will have a material impact on the industry</th>
<th>No change in the industry as a result of the pandemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>42%</td>
<td>33%</td>
<td></td>
</tr>
</tbody>
</table>

| How are the firms thinking about impact of COVID-19 | Firms seeking to accelerate pre-pandemic strategies validated by COVID-19, with a minority of firms citing COVID-19 as a stepping stone for innovation in Ops and Ops Tech | COVID-19 seen as a unique volatility event, as yet unclear if significant changes in the industry are required post-pandemic, with majority of firm veering towards largely maintaining the status quo with few changes to the operating model and/or technology adoption | COVID-19 seen as a unique volatility event, which was dealt with successfully – validating pre-pandemic strategic priorities. Firms not seeking strategic shift as a result of COVID-19 alone |

Growing consensus on need for process change and shift in working practices

While most companies in the industry shared the view that the pandemic in itself does not create an impetus for change, survey findings suggest an emerging consensus when it comes to firms’ immediate plans for change in two select areas:

- The sell-side and buy-side are aligned on the need for further simplification and standardization of a specific sub-set of post-trade services which were hardest hit
- The stigma around working from home and productivity has been removed, with many firms looking to retain part of the remote and flexible working model post-pandemic, for Ops and OpsTech.

Emerging alignment on the need for process simplification and standardization

Reflecting on 2020, firms across the buy-and sell-side are broadly aligned on the need to tactically improve a number of specific post-trade services that were hard hit during the pandemic. For the sell-side, these include reconciliations and confirmations, while on the buy-side, fails and collateral management are top of the agenda. More than half of firms surveyed are planning to either increase capacity, build new capabilities or re-engineer post-trade processes.
Exhibit 6: In response to the crisis, firms have started to review their processes

Increased comfort with working from home models

Before the COVID-19 pandemic, many firms offered working from home as an option, while others provided "campus" like building facilities to enable flexible and remote working models. However, pre-pandemic there was a prevalent perception in the industry that WFH was sub-optimal. Three learnings emerged during the crisis that changed mindsets and attitudes:

1. The widespread availability and adoption of video conferencing, virtual whiteboarding and other digital tools eased communication and collaboration. Firms reported growing levels of acceptance and adoption of digital and virtual channels, enabling seamless collaboration for BAU processes and successfully making up for the lack of physical collocation.

2. Several "semi-manual" processes and their effectiveness and efficiency came into question. Physical signatures, four-eyes checks and printing outs of reports for supervisor review were examples of sub-processes that required re-engineering during the pandemic. But firms' ability to step up to the challenge in a fully remote environment and rapidly re-think sub-processes proved largely sufficient. As a result, several firms reported that WFH is no longer viewed as a challenge to perform several services that were previously thought of as only possible on premise.

3. A number of firms also reported that they considered the opportunity in the future to access new talent pools through WFH models and potentially – in more limited cases- new geographies for talent recruiting outside of their current footprint.
The big picture? It appears that the industry has reached a tipping point on WFH. And although many firms indicate that there are still areas such as product development and change management projects that are negatively impacted by remote-only interactions, and while there is widespread concern over sustaining company culture and the ability to mentor and develop new talent when fully remote, most firms see an opportunity to transform the ways of working leveraging a WFH model. Many firms, therefore, paint a picture of an emerging hybrid model for Ops and OpsTech professionals, with employees potentially working from home 2-3 days per week.

**LOOKING TO THE FUTURE**

Looking back on twelve months of operating in an environment of unprecedented challenges, survey participants saw years of investments in process re-engineering, automation and OpsTech platforms bearing fruit. The industry was able to process soaring volumes with an - until recently unimaginable - near hundred per cent WFH operating model, while avoiding material outages and disruptions. Each firm faced its own unique set of challenges, but the industry proved to be largely resilient and successfully passed “the BCP test of the decade”.

When looking into the future and beyond the immediate and mainly targeted changes firms have in the works in response to the pandemic, one question still remains open: As one buy-side industry executive noted “(...) now that resilience has been tested (...) what will be the industry’s leadership and innovation role?”

It is undisputed that multi-year efforts across the industry to develop new solutions, upgrade technology stacks and automate processes with the goal to create post-trade scale were validated by the successful response to the pandemic. However, some firms asked whether there is a danger that the relatively-smooth passage of 2020 may be a missed opportunity for step change that would create value in the longer run. “We’ve learnt [that] we can get innovation and decisions much faster during this crisis” one firm reported, and “will it [therefore not] be better to reimagine legacy [post trade] debt rather than continuing to rationalizing [existing infrastructure]?”
At the same time, market volatility and trading surges in the US equity market in early 2021 further highlighted the need to continuously evaluate clearing speed and efficiency, collateral management and valuations across the industry. And though these events were market driven, when considered together with the learnings from the pandemic, they still surface a number of important questions at this juncture for firms individually and for the industry as a whole in terms of the next frontier of transformational initiatives to pursue.

When faced with this question market participants mostly cited three areas of opportunity for transformation: 1) accelerated clearing and settlements coupled with improvements in capabilities around valuations and collateral, 2) predictive analytics, for example to support fails prediction by client and/or product, and unleashing the power of advanced analytics and technologies like machine learning to enhance operations, and 3) transforming the ways of working and re-imagining the future of work by leveraging WFH learnings not only around operating remotely, but more broadly around process re-engineering and further automation.

To boost efficiency, remain relevant to clients, and unlock new sources of value, firms across the buy-side and sell-side, as well as custodians and technology and service providers will continue to explore these areas and related questions in their response to market demands in a post-pandemic world. A focus on innovation will be required, as well as an openness to embrace collaborative approaches, common processes, and target operating models that meet the needs of a high numbers of market participants.

During and in the immediate aftermath of the COVID-19 pandemic, the industry once again proved resilient, yet opportunities for transformative change remain across the capital markets value chain. As the impact of the pandemic continues to play out, markets enter a new phase of record valuations, and volatility continues unabated, the advantage could start to shift to firms making those bold choices to transform their operations and set new standards for the industry.