The Tech Opportunity: Issuer Services

Opening up a world of opportunity in the Capital Markets

HSBC | Opening up a world of opportunity

Digitalising Issuer Services: transforming the client journey in capital markets

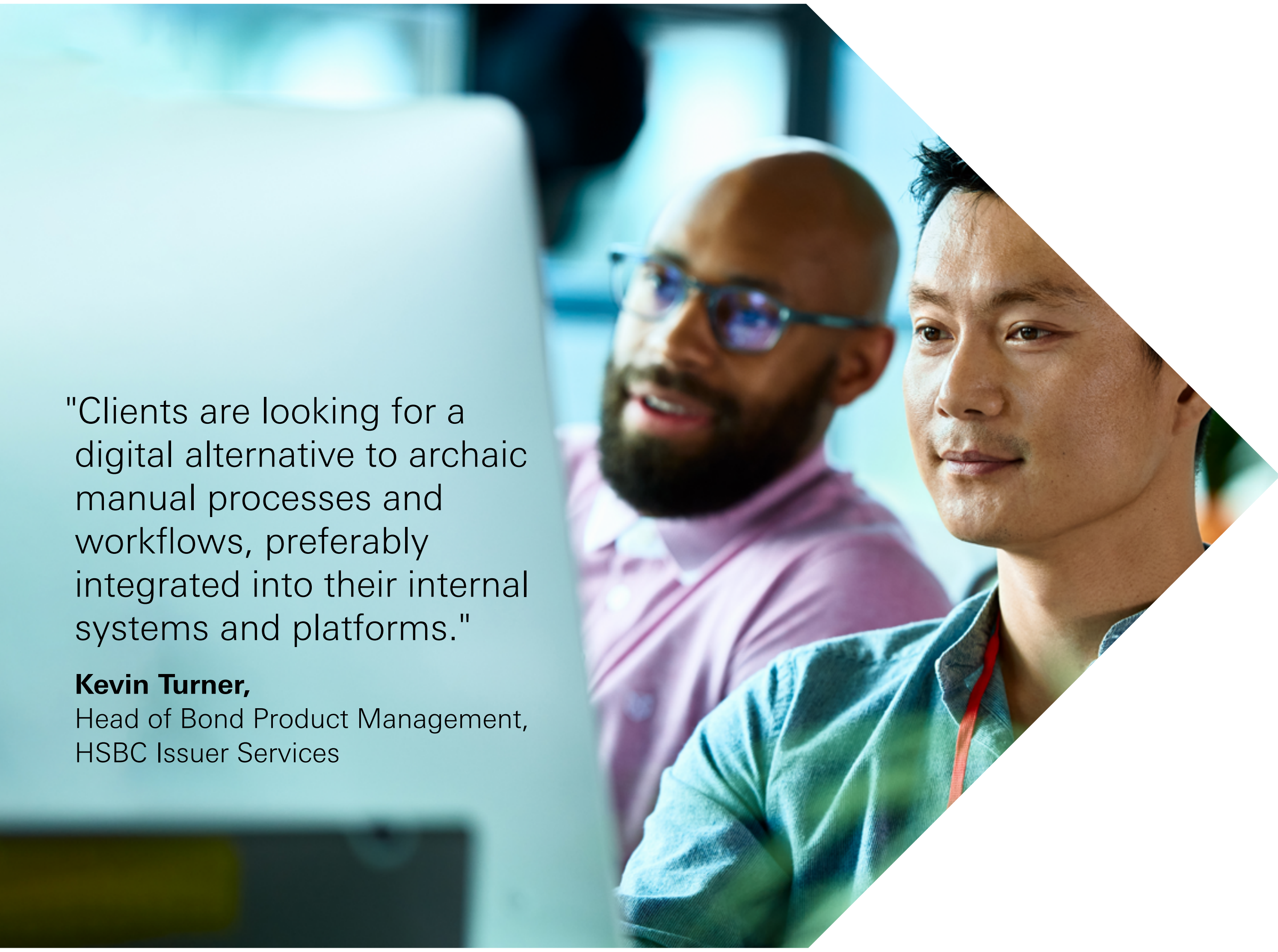
In the 25 years since the launch of PayPal, mobile banking, mobile wallets and 'Banking as a Service' platforms have become an everyday reality for private individuals.

Now, increasingly, clients in the global capital markets are asking why the self-serve and on-demand capabilities that are so common in consumer finance have not yet fully crossed over into the agency, administration and operations of issuer services.

Given that the financial services world is currently being disrupted by the proliferation and convergence of new technologies from distributed ledger and Web 3.0 to embedded finance and Generative AI, it's a fair but a complex question. The answer is that technological innovation is already well down the road to reimagining and reshaping issuer services in the global bond markets and more broadly in capital markets.

From the issuer to the investor and all parties in between, there is strong demand for a genuine end-to-end workflow and an end to fragmentation, silo-based working and convoluted email trails that still vastly characterise today's processes from issuance and settlement to maturity.

Ganesh Iyer, Global Head of Treasury and Escrow Product at HSBC Issuer Services, sums up the client wish list succinctly: "First, clients want to interact with us digitally. Second, they increasingly require end-to-end digitalisation, which means they want to interact with us on demand. They want to get self-serve data information and be completely empowered. Clients will not see the full benefit of digitalisation unless and until the downstream processes and systems are also digitalised."



"Clients are looking for a digital alternative to archaic manual processes and workflows, preferably integrated into their internal systems and platforms."

Kevin Turner,
Head of Bond Product Management,
HSBC Issuer Services

Market collaboration at the heart of digital innovation

With trillions of bonds transacted daily, digitalisation has the potential to enhance client experience, creating a future reality of improved connectivity, efficiency and resilience.

By curating the best of market participant collaboration and embracing fintech ingenuity, agility and nimbleness, transaction processes can be simplified, making them seamless, on-demand, and completely digital from end-to-end.

Digitalisation is moving rapidly towards the goal of a golden source of data, making those laborious manual processes a thing of the past.

At the same time, it promises to remove those familiar bugbears of fragmentation, duplication and complexity from the operational equation.

Instead, golden source provides a portal to a new world of faster settlement, straight-through and reduced risk processing, reduced costs and scalable growth. Use of APIs is crucial to delivering on this promise as it facilitates the exchange of data from high volume issuance programs replacing exchange of natural language PDF and Word attachments over emails.

Turner points out that, in addition to financial market infrastructure and service providers working together towards common goals, input from fintechs is also crucial to the deployment of smart digital solutions that can tackle the challenge of archaic systems to optimise new issuance workflows, the client journey and transaction lifecycle events. However, mass adoption will be dependent on solutions that are repeatable and can address problems or efficiencies at scale.

“We are also seeing green shoots of aggregation as fintechs unify their strengths by coming together or collaborate to create solutions that can then be deployed at scale. That is something that market participants can get behind,” says Turner.

"Our clients increasingly expect us to be able to consume structured golden source data and push it downstream through a digitalised value chain, implying the need to future proof our architecture amidst an evolving industry."

Simon Field,
Global Head of Issuer Services,
HSBC

Generation digital

Another key driver for that adoption and critical mass is the emergence of a new generation of digital-first clients who are not trammelled by legacy systems. Such clients are open to the exciting possibilities of digitally native bond issuance.

“These clients come to us and straightaway start discussing whether we are API enabled, and whether they can actually directly plug in, connect to, and access our data,” says Turner.

Meeting that growing client demand for connectivity and operational seamless services is dependent on having a proven API framework between core banking platforms and Issuer Services in-house systems.

“We’ve developed API solutions for our in-house high volume structured note programme that consumes the structured (digital) new issuance data directly from the Dealer and Issuer directly into our bond agency platform as soon as the trade is agreed,” says Turner.

This seamless process negates the need for workflow information to travel needlessly between multiple departments before it gets to Issuer Services in an over-annotated PDF that is sometimes not machine-readable.

The mission across HSBC Issuer Services’ core product groups (Bonds, Loans, and Escrows) is to move away from manual, natural language data and documents to sending and receiving structured (digital) data where possible.

Golden source is the golden goose

Turner explains that this is where the close collaboration with innovative fintechs is paying dividends: “We want to receive structured (digital) data, ideally from the golden source, in place of natural language documents that are not machine readable, and that's where our work with the fintechs comes in.“

In this context, fintechs are creating the golden source digital data with large communities of dealers and issuers operating on their platforms. Being connected to these platforms enables HSBC to easily receive and ingest the data into its in-house bond agency platform, which will ultimately lead to decreased transaction-related operational risk and increased settlement efficiency.

“The API connection we have in place with Origin Markets does just that and demonstrates our appetite to invest in digital issuance platform connectivity. Transaction lifecycle management and communication, e.g., digitalising workflows, is a logical next step for participants operating on digital ecosystems,” points out Turner.

Iyer confirms that HSBC has taken that same ethos into the escrow world with the development of an innovative end-to-end solution for the Indian market called MyDeal.

“With India being a very restricted market, clients looking to borrow capital overseas have to go through a lot of arduous, manual processes and fulfil regulatory reporting requirements to bring capital into the country and access it.”

“By assessing the challenges that our clients and intermediaries experience, we seized the opportunity to completely digitalize that workflow. We connected all our downstream systems, by way of APIs, and by way of messaging protocols. By doing this, we are offering a true end-to-end digital solution for External Commercial Borrowings (ECBs), one of the most prominent routes for clients to raise capital overseas and remit it back to India.”

Lastly, automation as designed in the processing of data from golden sources can help safeguard client confidentiality, an aspect that should further garner market participants’ engagement.

Digital evolution in practice

Both Iyer and Turner point out that regulatory requirements have previously inhibited innovation, but they acknowledge that regulators are moving fast to address these barriers. The European Union's three-year DLT pilot regime and the FCA's FMI sandbox will effectively create safe harbours for market participants to experiment with and test their new digital development propositions within safe boundaries.

HSBC's leadership in this area is already giving tantalising glimpses of what the future looks like. Recently, the European Investment Bank successfully issued the first sterling-denominated digital bond on HSBC's Orion platform using distributed ledger technology. HSBC Issuer Services also worked with industry participants and the HKMA to service its digital green bond – another industry first within the APAC region.

Further, the bank has also been working closely with the HKeX and market participants on a leading industry initiative called "Project FINI" ("Fast Interface for New Issuance"), which promises to fully digitalise the IPO market in Hong Kong. Iyer says: "Once live, FINI will reduce IPO settlement times from 5-7 days currently to 1 day, powered by a true end-to-end digital platform."

This opens the way to a seamless and frictionless world of secure and stress-free workflows on a one-stop shop settlement platform. But Turner cautions against silver bullet thinking.

"You have to beware of disintermediating parties such as central securities depositories (CSDs) and paying agents if the technology can't cover the full gamut of those parties' activities. You must have the technology solution but also fill the void of disintermediation that comes with embedding DLT-based technologies."

Asif Sherani, HSBC's Managing Director, Head of DCM Syndicate, EMEA, says: "Ultimately, our ambition across the investment bank and as a Group, is to capitalise on the evolutions brought by digitalisation to provide an end to end, holistic service to our clients. By combining the strengths of our Debt Capital Markets capabilities and of our Issuer Services proposition on the HSBC Orion platform, we are able to address key inefficiencies across the value chain of traditional bond issuance. We aim to address other challenges that currently hinder the clients' experience to make their pre and post transactions operations more seamless."

HSBC Issuer Services is poised on the cusp of digital issuance innovation, providing easy, quick, efficient and painless processing of complex debt market transactions while retaining the resilience, security and reliable operational and administrative services that clients know and trust.

Did you know?

Digitally native bond issuance, tokenised and issues on blockchain, is one of the most exciting developments in capital markets. It's an efficient technological solution to traditional issuance methods. Recently, the European Investment Bank issued its first sterling-denominated digital bond on HSBC's new Orion platform using distributed ledger technology.

Pivotal to its broader adoption on the market is the digitalisation of the capital markets value chain, including administrative and operational processes managed by Issuer Services.

Find out more about our Issuer Services capabilities.

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