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## Press release

### **AFME outlines opportunities and challenges in developing utilities for capital markets in new report**

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AFME has today published a new report, “**Industry Utilities: A perspective for Capital Markets**”, setting out potential future opportunities for utilities use across the capital markets, as well as the challenges preventing utilities from coming to market. The report lays out best practice principles for developing utilities for the industry, providing guidance for market participants, as well as supervisors and regulators.

The report highlights that ‘utilities for capital markets’ are a way for all participants - from financial firms to supervisors - to pool resources and capabilities and to collaborate in order to achieve benefits of efficiency, scale and cost saving.

**James Kemp, a Managing Director at AFME**, said: “*At a time of rapid technological change, and as the industry continues to focus on reducing costs and increasing efficiency, the opportunity to create utilities is attracting renewed attention from capital markets participants.*”

*“Success in achieving the benefits of utilities will depend on the ability of financial institutions to work collectively to realise long-term benefits, whilst policymakers and authorities have a key role to play in driving forward common, harmonised, global standards.*”

*“Our latest report comes at a timely moment as the industry and regulators grapple with a rapidly changing technological landscape. The upcoming European Commission FinTech Action Plan will provide a further opportunity to coordinate a regulatory approach to utilities and to seek to deliver common standards that can help achieve scale and realise the benefits.”*

#### **The key findings of the report are:**

##### **Opportunities**

Utilities can provide capital markets participants with cost and efficiency savings, enhanced risk management opportunities and scalability. They offer a way for participants to collaborate on areas of mutual interest and to realise shared benefits in areas such as identification (KYC), post trade and servicing (reference data), and data aggregation (regulatory reporting). The report highlights that these functions are currently costly and complex to manage and would benefit from increased standardisation.

##### **Challenges**

However, utilities are complex by nature and there are barriers which can prevent both current and future utilities from coming to market, delivering the expected savings or from benefiting the industry in the long-term.

AFME’s paper identifies four high-level areas where common barriers exist for utilities:

1. **Internal investment factors** – where financial institutions look at a utility on an individual basis, rather than as an industry-wide offering, or where funding limitations may prevent firms from investing with a long-term horizon;

2. **External regulatory factors** – where the ability to invest in utilities may be limited by pressure on capital markets participants to focus resources on meeting their regulatory requirements, where the third-party liability associated with using a service may result in a lack of appetite to adopt it or where regulators have yet to provide guidance that a utility would be acceptable;
3. **Transformation** – where complex operational structures or the burden of legacy technology may restrict moving to a utility;
4. **Operation** – where firms may be reluctant to ‘give up’ control to a third-party or where security risk could be increased owing to the fact that utilities can lead to a concentration of a specific industry function or service.

### **Creating Industry Standards**

AFME believes that harmonised standards are critical for increasing the consistency, interoperability and participation levels of utilities. Greater collaboration across financial institutions, policymakers, regulators and third-party providers is needed to address many of the barriers to utilities.

AFME’s report identifies eight principles that aim to increase the adoption and benefit of utilities. These principles cover: governance, transparency, compliance, standards, interoperability, scale, economic sustainability and market efficiency.

The full report can be downloaded [here](#).

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### **AFME Contact**

Rebecca Hansford  
Head of Media Relations  
[rebecca.hansford@afme.eu](mailto:rebecca.hansford@afme.eu)  
+44 (0)20 3828 2693  
+44 (0)7825 081 686

### **About AFME:**

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe’s wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: [www.afme.eu](http://www.afme.eu). Follow us on Twitter @AFME\_EU