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Future of Operations: Keeping Capital Markets on the Front Foot

Strategies for Enhancing Efficiency, Transparency, and Resilience in a Globalised Financial Landscape

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Introduction

Since the publication of the 2021 report on Global Operating Approaches, AFME has continued to track key changes in banks' operations functions. This report sets out the latest findings by exploring recent advancements in operational strategy, models, governance, and technology. It offers an in-depth analysis of the strategies employed by operations leaders to transform operations from a traditional back-office role into a central component of a bank's strategic framework and competitive advantage within wholesale capital markets.

In collaboration with PwC, AFME has explored current trends in operations within European capital markets to gauge their impact across:

- Operational objectives
- Strategy execution
- Risk management and compliance
- The role of technology
- Governance and the changing role of the COO

The trends and developments outlined in the report are based on the collective expertise and experiences of industry Operations leaders obtained through survey responses from, and follow-up interviews conducted with, Chief Operating Officers (COOs) and heads of Operations from across AFME membership.

In working with our members, AFME in conjunction with PwC aims to understand the links between Operations and advocacy. We hope this report serves as a helpful basis for discussions between Operations leaders and policymakers as we move into the next phase of strengthening financial markets.

Executive Summary

Wholesale capital markets are undergoing significant change driven by changing regulatory expectations, technological innovations and increasing cost pressures. This is impacting the strategy, execution, governance and innovation of banks' Operations functions.

This report identifies ten key trends in Operations functions across five critical areas, offering insights into the evolving landscape of Operations within European capital markets. In light of these trends, AFME has identified six policy recommendations through which policymakers can drive a more resilient, efficient, and innovative financial ecosystem that benefits all stakeholders.

Top Ten Trends within Operations

1. **Prioritising Cost Efficiency:** Operations leaders are driving cost savings and efficiencies, and process transformation is the lever by which banks are delivering these savings.
2. **Strategy and Objectives:** Operations strategies and the ways in which strategic Operations objectives are tracked and measured have matured to deal with growing operational complexity.
3. **Hybrid Operating Models:** Banks are striving to balance the benefits of standardised global shared services with the necessity of product-specific verticals to address diverse client needs and evolving regulatory requirements.
4. **Reshoring Processes:** Banks are constantly reviewing their offshored activities and functions, with decisions today typically based on access to technical expertise and service quality, rather than cost reduction.
5. **Compliance by Design:** Banks are integrating risk management into daily Operations with a "compliance by design" approach, enhancing efficiency and innovation.
6. **Strengthening Operational Resilience and Third-Party Management:** Efforts are focused on robust third-party management and operational resilience, driven by regulatory mandates and continuous monitoring.
7. **Enhancing Data-Driven Operations:** Addressing data quality issues from legacy systems, banks aim for enterprise-level data connectivity to drive decision-making and process visibility.
8. **Leveraging Cloud Technology and AI:** Banks are finding immediate opportunities to enhance data quality, technology resilience, and risk management in preparation for AI adoption.
9. **Evolving Role of Operations Leaders:** Operations leaders are becoming integral to business strategies, requiring a deep understanding of technology, risk, and regulatory environments.
10. **Developing Leadership in Low-Cost Locations:** Banks are enhancing senior leadership in low-cost locations to improve oversight, governance, and compliance.

Policy Recommendations

1. **Consider the operational burden and feasibility of regulations and ensure robust transition periods**
2. **Leverage direct oversight of third-party providers to ensure effective and sufficient oversight of supply chains**
3. **Work towards internationally-harmonised operational regulatory requirements**
4. **Avoid exacerbating fragmentation through localised obligations**
5. **Recognise that new and cloud based technologies are likely to bolster, not risk, operational resilience**
6. **Acknowledge that foundational improvements are happening in preparation for Gen-AI**

In conclusion, the evolving trends in Operations across the industry present a valuable opportunity for policymakers and operational leaders to collaborate on critical issues like AI and cross-regional regulation. Such collaboration can support and secure joint goals on innovation, resilience and market competitiveness.

"COOs are expected to be deeply involved in the details: understand the regulatory environment and client needs, stay close to the business, create an operational strategy, and identify key investments that drive their operational objectives."

Key Trends in Operations within Wholesale Capital Markets

Wholesale capital markets are navigating a period of significant transformation, driven by regulatory expectations, shifting threat-based risks, and technological innovations.

This report identifies 10 key trends in Operations functions across 5 critical areas, offering insights into the evolving landscape of Operations within European capital markets.

Target Objectives for Wholesale Capital Markets

Key Trends:

Trend 1: Prioritising Cost Efficiency: Operations leaders are driving cost savings and efficiencies, and process transformation is the lever by which banks are delivering these savings.

Trend 2: Strategy & Objectives: Operations strategies and the ways in which strategic Operations objectives are tracked and measured have matured to deal with growing operational complexity

Key Trend #1 – Prioritising Cost Efficiency and Compliance: Operations leaders are driving cost savings and efficiencies, and process transformation is the lever by which banks are delivering these savings

In the dynamic landscape of wholesale capital markets, Operations leaders play a pivotal role in steering their organisations towards achieving key business objectives.

Despite evolving roles and responsibilities within Operations (see the Governance section), many organisations continue to view their Operations functions primarily as cost centres, making cost management a key strategic objective. This focus on controlling and optimising expenses is essential for enhancing organisational efficiency and profitability. Operations leaders play a crucial role in this endeavour, as they are accountable for service costs by both the business and their customers. Maintaining competitive pricing and optimising resource utilisation are critical for sustaining business viability and meeting stakeholder expectations.

When asked to prioritise operational objectives that would have the greatest impact on cost, a majority of banks identified process transformation as the main lever to achieve the primary cost-based strategic objectives. This emphasis on process transformation underscores the potential for substantial cost savings through streamlining workflows, automating repetitive tasks and optimising resource allocation to significantly reduce operational costs and improve overall efficiency in middle and back offices. By investing in process improvements and people-led change initiatives, banks aim to align their operational capabilities with the firm's overall business strategy, thus achieving significant cost reductions.

- **Key Finding:** 73% of respondents reported that the operational trend that can drive the greatest impact to an organisation's cost base is Process Transformation.

Figure 1: How do you perceive these operational trends will impact cost within your Operations?

A significant portion of banks engaged in this project indicated that cost savings achieved are (in part) reinvested in growth initiatives, for example on adoption of new technology. This suggests an industry perception that there are still considerable opportunities to streamline costs, with a potential competitive advantage emerging for those looking to pivot towards growth through Operations.

While cost and efficiency considerations remain paramount, Operations leaders recognise the need to invest resources to navigate the increasingly complex regulatory environment, including compliance with evolving standards and regulations, and the need to fortify operational resilience.

- **Key Finding:** Survey results revealed that 87% of banks consider ensuring compliance with changing regulations as a top strategic objective for the next five years, underscoring the priority given to this aspect of their Operations.

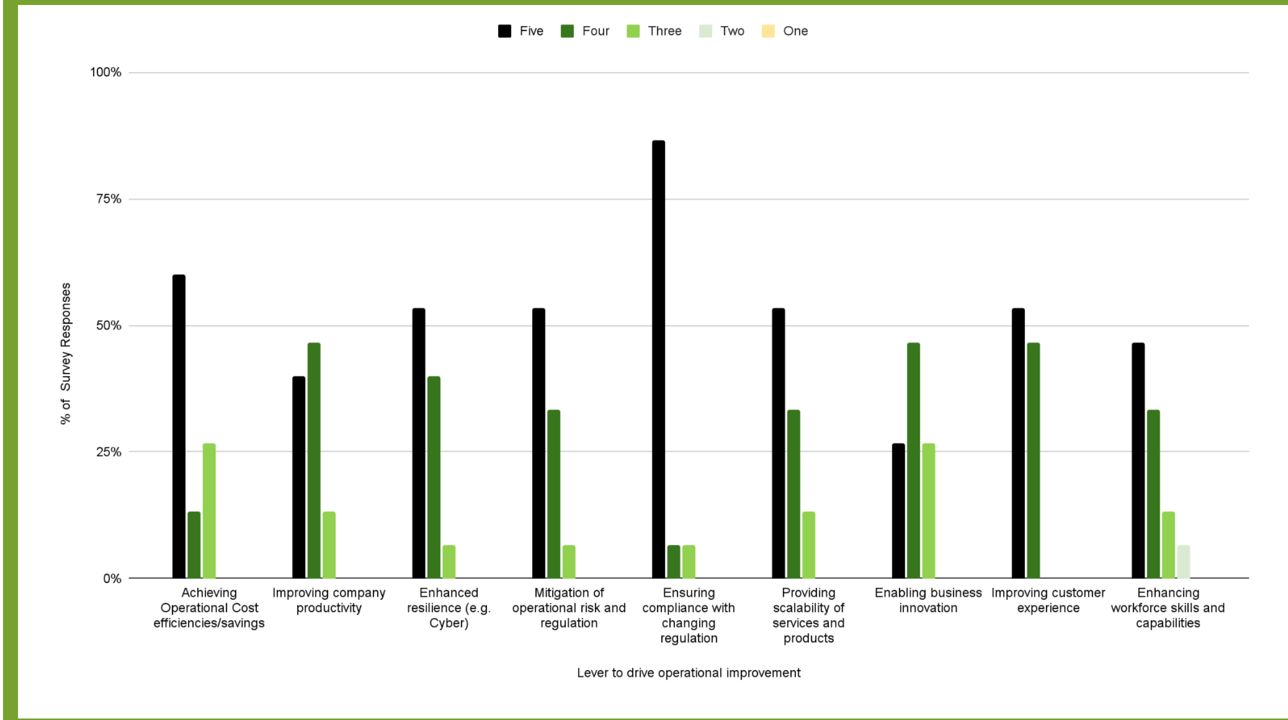
Key Trend #2 – Strategy & Objectives: Operations strategies and the ways in which strategic Operations objectives are tracked and measured have matured to deal with growing operational complexity

"Our challenge lies in empowering process owners and Operations leaders to identify automation opportunities and solve for products at a global level."

Many of the COOs and senior Operations leaders interviewed in this analysis indicated their Operations strategies have matured, with the focus shifting from merely meeting specific objectives to strategically considering how the Operations function want to pursue its operational objectives, deliver services to their business and measure the success of these efforts.

The survey and interview responses received for this report highlight the complexities of, and the many demands on, Operations in wholesale markets: as shown below in Figure 2, 73% of banks identified 4 or more headline objectives for their Operations function. This creates challenges for Operations leaders: how to not merely ensure that these objectives are met but are balanced and leveraged to drive a competitive advantage.

Figure 2: On a scale of 1 - 5, which of the following have been identified as objectives for your firm's Operations within the next 5 years? (5 = Top Priority)



To successfully meet this complex challenge, responses show that Operations strategies have also matured: as a significant portion of banks design operational objectives to be complementary to each other and include quantitative measures of success as part of programme design.

Measuring productivity at an enterprise level allows banks to prove the success of operational objectives:

Productivity is increasingly an important objective across wholesale capital markets. As outlined, operational leaders including Chief Operating Officers (COO) have a variety of goals, but without proper transparency and measurement of Operations functions at an enterprise wide level it can become challenging to understand the extent to which your Operations is effectively delivering on its strategic objectives and prove out any return on investment.

For many banks interviewed, productivity is also seen as the method through which they achieve their operational objects, i.e. driving output to serve a greater number of customers, increasing standardised ways of working or reducing cost.

80% of banks surveyed reported confidence in their measures of impact to their business once an operational objective has been completed, however, the measurements that exhibit the highest maturity and easiest access are often process-driven. In interviews, we observed that this is frequently linked to the advanced use of workflow and case management tools, which create consistent measurement frameworks, such as Straight-Through Processing (STP) and Right First

Time metrics. However, there is an opportunity to expand the measurement of operational objectives beyond just process productivity. A more holistic approach should include labour productivity metrics, enabling greater transparency about where time is spent (individuals do not spend 100% of time processing).

"We measure productivity based on process: how many buttons have to be pressed and output: how many things have been completed."

The highest maturity was shown where banks have evidenced implementing a balanced scorecard of success measures for each operational objective and where those measures are driving positive action and behaviours. With the extensive data available, banks require a clear visualisation of the data and the capability among operational leaders to analyse and measure it accurately. One bank interviewed shared an innovative approach, using operational effectiveness measures, such as trade information completeness scores, with their clients to collaboratively drive efficiency from the first point of interaction through to trade booking and closure.

One stand-out way in which the a balance between operational objectives is achieved is to include business objectives as part of regulatory change projects: as a baseline adhering to regulatory compliance is a critical aspect of managing Operations in wholesale capital markets, especially given the substantial impact of new regional regulatory requirements on the Operations function. These regulations necessitate significant adjustments and enhancements to ensure that banks operate within the legal framework. Indeed, banks typically report a greater likelihood of success for regulatory-based funding requests. The necessity to comply with new regulations can, therefore, also act as a catalyst for change within the Operations function: by embedding commercial goals within investments linked to regulatory requirements, Operations leaders can drive momentum for major change projects, fostering improvements, and fulfilling other commercial objectives.

Strategy Execution

Key Trends:

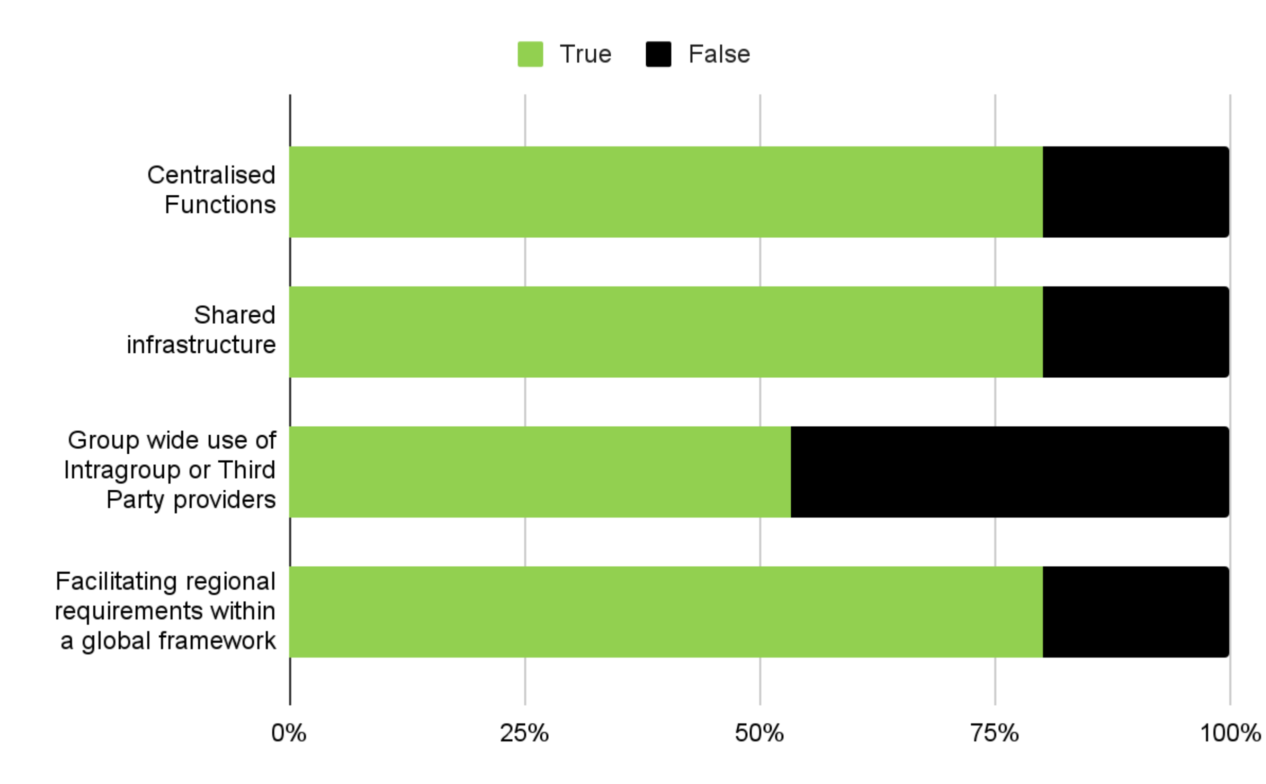
Trend 3: Hybrid Operating Models: Banks are striving to balance the benefits of standardised global shared services with the necessity of product-specific verticals to address diverse client needs and evolving regulatory requirements.

Trend 4: Reshoring Processes: Banks are constantly reviewing their offshored activities and functions, with decisions today typically based on access to technical expertise and service quality, rather than cost reduction.

Key Trend #3 – Hybrid Operating Models: Banks are striving to balance the benefits of standardised global shared services with the necessity of product-specific verticals to address diverse client needs and evolving regulatory requirement.

Despite an ongoing emphasis on cost reduction, most organisations maintain vertically aligned operating models, with few adopting a fully horizontal structure. Instead, there is a notable trend toward a hybrid model that combines globally shared horizontal services with product-specific vertical functions. This approach seeks to balance the need for standardisation with the need for customisation to meet diverse client servicing requirements and navigate evolving regulatory and supervisory landscapes.

Figure 3: If Operations are vertically integrated, how do you adopt a consolidated approach to Operations?



- **Key Finding:** Survey findings highlight that 93% of respondents are maintaining a vertical operating model, underpinned by a form of centralised function or shared infrastructure and governed locally in accordance with local regulations.

Operations leaders have reported investing in global initiatives aimed at creating an end-to-end process view, which can be leveraged to create standardised services and enhance customer experience - all in a cost efficient manner. This creates a greater potential for scaling and achieving operational maturity. For customers, this should also result in enhanced accuracy and speed of transaction processing, thereby supporting a common bank-wide effort to improve the overall customer experience.

- **Key Finding:** 47% of firms have implemented the integration of Operations functions with business lines across the entire firm, showcasing a broad initiative to streamline Operations on a global scale. Meanwhile, 33% have focused on integrating Operations within specific regions, reflecting a strategic effort to achieve regional efficiency. These widespread efforts highlight the importance firms place on optimising their operational frameworks through integration.

The most mature operating models are frequently seen in banks that have embraced hybrid structures. These models provide leadership with the flexibility to make strategic decisions about outsourcing, insourcing, offshoring, or transitioning to shared services on a case-by-case basis. This adaptability allows leaders to respond swiftly to changing objectives, such as stricter cost controls, evolving customer demands, or new regulations. As a result, these organisations are able to remain more competitive in the market relative to their peers.

However, interview findings confirm that hybrid models are not without trade-offs or risks: downsides of a hybrid approach include additional complexity in the operating model, which can lead to communication challenges or higher management overhead. Historically, such complexities have also contributed to the creation and maintenance of fragmented legacy technologies (See technology section), which often lack the integration and agility required to respond promptly to market changes and regulatory updates. This can further complicate the operational landscape and delay immediate investment in emergent technology capabilities.

"The division between regional and horizontal models, such as onboarding (horizontal) and sales (vertical), slows decision-making."

Key Trend #4 – Reshoring Processes: Banks are reviewing their offshored activities and functions on an ongoing basis, with decisions today typically based on access to technical expertise and service quality, rather than cost reduction

There has been a lot of focus over the past decade around the offshoring of operational processes, typically as an enabler of cost reduction. By relocating operational processes to countries with lower labour costs, businesses are able to reduce their overall expenditures significantly. This cost-saving strategy has been a central theme in policy discussions and business strategies over the last ten years.

The reality today is somewhat more nuanced, with some Operations leaders reporting that significant effort is spent conducting quality control for offshored activity. Nearshoring, especially in technical areas such as Finance Change/Tech in Hungary and risk reporting in Poland, has shown to be increasingly popular. Rather than simply moving Operations abroad to cut costs, many banks are taking a more sophisticated approach. They are meticulously evaluating the quality and efficiency of processes that are offshored to ensure they meet necessary standards. This careful assessment helps mitigate risks and maintain high levels of service and operational efficiency, revealing a more complex picture of offshoring than is often portrayed.

As a result of this careful approach, some banks are in fact also reshoring selected processes to ensure process quality and scalability. These banks have recognised that not all processes are equally suited to being offshored and in some cases have brought certain Operations back to their home countries as a necessary step to prepare processes for future automation.

"Offshoring to low-cost locations for automation often results in onshoring back to central locations for better control."

Risk Management

Key Trends:

Trend 5: Compliance by Design: Banks are integrating risk management into daily Operations with a "compliance by design" approach, enhancing efficiency and innovation.

Trend 6: Strengthening Operational Resilience and Third-Party Management: Efforts are focused on robust third-party management and operational resilience, driven by regulatory mandates and continuous monitoring.

Key Trend #5 - Compliance by Design: Banks are integrating risk management into daily Operations with a "compliance by design" approach, enhancing efficiency and innovation

As indicated in the Objectives section, operational risk and compliance are key objectives for banks' Operations functions. In recent years, there has been a significant shift towards embedding these elements into the fabric of everyday Operations, or Business-as-Usual (BAU), rather than treating them as standalone objectives.

In particular, banks are re-evaluating their approach to implementing compliance and risk management across the three lines of defence—Business, 2nd Line Risk/Compliance, and 3rd Line Audit—by promoting greater ownership and accountability of risks across end-to-end processes from the outset. This holistic management approach, which aligns with the principles outlined in Key Trend #2, acknowledges that regulatory compliance and risk management are not merely adjunct concerns but essential components of the operational framework. As part of this trend, interview and survey findings indicate that operational investment is strongly driven by risk management.

There are clear advantages to integrating compliance into day-to-day operational processes, banks can ensure that each stage of operational execution is safeguarded by the appropriate guardrails and technologies, thereby minimising risks and regulatory breaches and enhancing overall regulatory adherence.

Compliance by Design is a proactive approach to ensuring that regulatory and legal requirements are integrated into the development of operational processes from the very beginning of a system, product, or service lifecycle. This concept emphasises the incorporation of compliance considerations into the design phase, rather than addressing them as an afterthought. The goal is to create processes systems that can be globally scaled and inherently meet regulatory standards, thereby reducing the risk of non-compliance and enhancing operational efficiency.

Moreover, the shift also creates a clear change in perspective —it fosters a culture of continuous improvement, where risk management is not seen as a hindrance but as a catalyst for operational excellence. By leveraging advanced technologies and data analytics (see trends 7 and 8), banks can streamline their processes aligned to their obligations, reduce redundancies, and enhance decision-making capabilities.

As a result, the operational functions of banks are not only more robust and secure but also more agile and capable of adapting to the dynamic regulatory landscape.

RegTech is revolutionising the way banks approach compliance and risk management by automating complex risk management tasks and providing real-time risk assessments:

This disruption is characterised by significant reductions in manual risk management checks, which frees up valuable resources for strategic initiatives. Technology solutions enable banks to swiftly adapt to evolving regulatory landscapes, reducing the risk of human error and enhancing operational resilience. For instance, automated compliance monitoring ensures that all Operations adhere to regulatory standards in real-time, while dynamic risk assessment tools continuously analyse data to identify emerging risks. These capabilities not only mitigate risks but also provide a proactive framework for maintaining robust risk management practices, ultimately enhancing the bank's reputation and customer trust.

Solutions shared include:

- **Automated Compliance Monitoring:** RegTech can automate the monitoring of compliance requirements, ensuring that all transactions and Operations adhere to regulatory standards real-time. This reduces the need for manual checks and allows for immediate identification and mitigation of potential risk management breaches.

- **Dynamic Risk Assessment:** RegTech tools can provide dynamic risk assessments by continuously analysing data and identifying emerging risks. anomaly detection algorithms can identify unusual patterns that may indicate a cyber attack, while predictive analytics can forecast potential vulnerabilities based on historical data. These capabilities enable banks to adopt a proactive stance against cybercrime, protecting sensitive data and maintaining customer trust.

Key Trend #6- Strengthening Operational Resilience and Third-Party Management: Efforts are focused on robust third-party management and operational resilience, driven by regulatory mandates and continuous monitoring

Regulators are increasingly emphasising the supervision of third parties as part of the management of operational resilience within banks. This focus has prompted Operations leaders in wholesale capital markets to reassess their strategies for managing third-party relationships through investing in more robust frameworks for third-party management (TPM), which include and enable detailed due diligence, continuous monitoring, and comprehensive risk assessments of both direct third-party suppliers and onward supply chain.

These enhancements include mapping of third-party providers across a firm's critical business functions to ensure awareness of the interdependencies to ensure that firms can withstand and quickly recover from disruptions. Third Party Risk Management Programmes (TPRM) programmes are now at a mature level and will in future be supplemented by direct oversight of Critical Third Parties (CTPs) by the regulators.

"We have pass-through obligations for vendors and there is a need for regulatory clarity where a single type of product is used en masse by the market."

- **Key Finding:** 50% of respondents identified Third Party Management as the second greatest area where regulatory requirements have the most significant impact on their organisation, after process transformation.

Technology

Key Trends:

Trend 7: Enhancing Data-Driven Operations: Addressing data quality issues from legacy systems, banks aim for enterprise-level data connectivity to drive decision-making and process visibility.

Trend 8: Leveraging Cloud Technology and AI: Banks are finding immediate opportunities to enhance data quality, technology resilience, and risk management in preparation for AI adoption.

Key Trend #7 - Enhancing Data-Driven Operations: Addressing data quality issues from legacy systems, banks aim for enterprise-level data connectivity to drive decision-making and process visibility

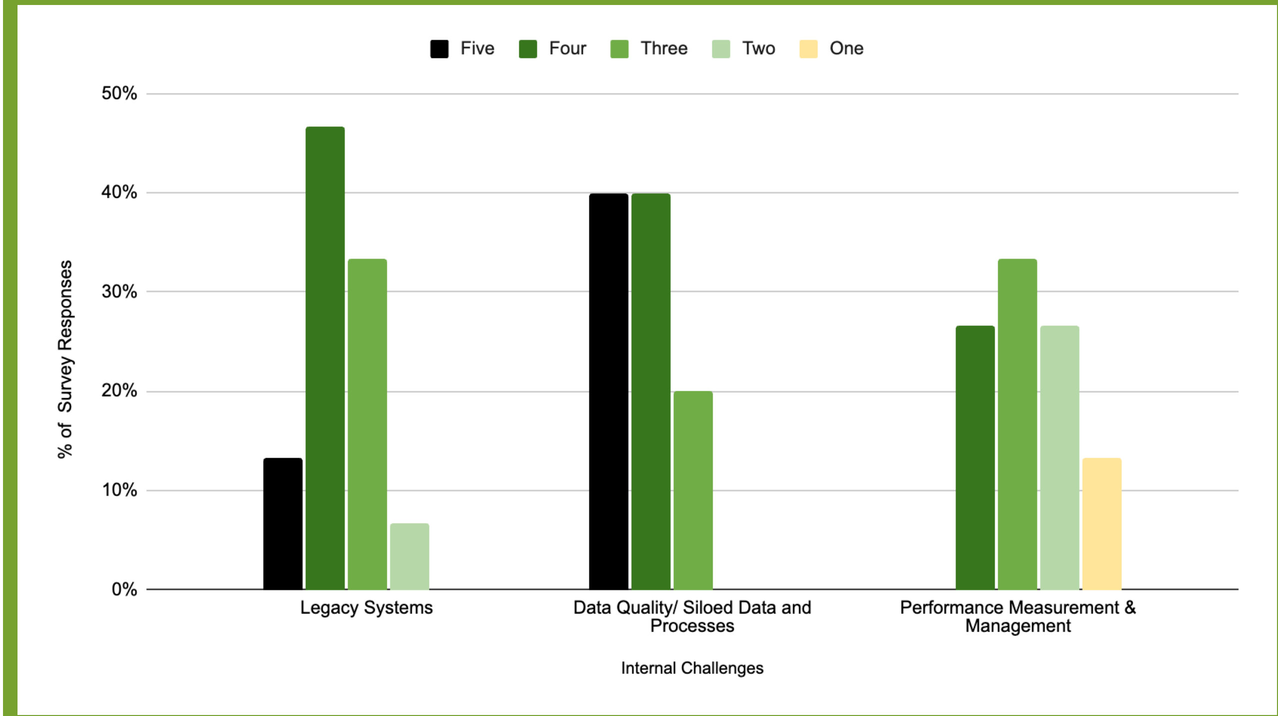
"Solving for data lineage in a complex processing environment is hard."

More broadly, banks are looking to derive greater insights from advanced data and analytics capabilities and see process intelligence as the fuel to drive data-driven decisions and in turn drive operational efficiency. The need to leverage and exploit data assets has become a business imperative as firms have sought to adopt best practices like process mining, productivity analytics and real-time monitoring. High quality decision-grade data can unlock significant business benefits, including personalised customer experiences and informed operational changes, boosting satisfaction and loyalty.

However, market trends indicate that data quality remains a significant challenge, with poor data quality driving significant cost and inefficiencies in organisations. Legacy systems contribute heavily to data quality issues, as many organisations struggle with outdated software that fails to integrate seamlessly with modern data platforms. This often results in data silos, inconsistent data formats, and manual data entry errors, making it difficult to maintain high data quality.

Operations leaders interviewed emphasised that addressing these challenges is crucial for unlocking the benefits of standardised data in risk management and cost reduction, such as optimising resource allocation and eliminating redundancies. However, this necessitates long-term investment and a well-defined change agenda. This observation is consistent with AFME and PwC's 2020 report, "Technology and Innovation in Europe's Capital Markets: A renewed imperative for the future of the industry," which underscores the importance of firms prioritising investment in a sustained and clear change agenda.

Figure 4: On a scale of 1 - 5, are these internal challenges likely to impact your firm's Operations (and the achieving of your identified Operations objectives) in the next 5 years?



- **Key Finding:** Survey results show that 80% of respondents perceive data quality, siloed data, and processes as an important challenge (scoring 4 or above) facing business Operations in the industry, with 40% of interviewed banks picking it as the top challenge (scoring 5). This aligns with the runner-up challenge of legacy systems, where outdated data management practices and systems prevent potential benefit realisation

Key Trend #8 - Leveraging Cloud Technology and AI: Banks are finding immediate opportunities to enhance data quality, technology resilience, and risk management in preparation for AI adoption

"In the next five years, we expect to AI to be intrinsic in Operations, engineering, and other areas."

As indicated in Key Trend #8, banks across wholesale capital markets are still developing the cloud-based infrastructure and process standardisation needed to fully leverage data analytics opportunities including AI.

The recent advent of Generative (Gen) AI enhances the priority of overcoming these challenges: whilst AI technologies are not novel in capital markets - with use cases varying from algo trading to strategic workforce planning, the latest 'Machine learning in UK financial services' survey from the Bank of England and FCA revealed 72% of UK financial services firms are using or developing machine learning applications, with firms anticipating a 3.5-fold increase in applications by 2026.

Indeed, many operational leaders reported a strong, top-down drive to harness the best of novel, generative AI capabilities. With this comes immediate opportunities for improvement in data quality, the integration of siloed data, and the automation of processes via cloud-based platforms. These platforms offer scalable storage solutions, real-time data analytics, and advanced machine learning capabilities essential for Gen AI.

Despite this momentum, our survey and interview findings reveal operational complexities in overcoming data and systems challenges, including the need for Technology and Operations functions to collaborate and co-invest in overcoming legacy infrastructure challenges before implementing emergent technologies in BAU (Business As Usual) Operations.

Given these challenges, it is expected that at-scale deployment, facilitated by cloud service providers and their AI toolkits, will be implemented more gradually over time.

The role of AI Agents in Operations:

An AI agent is a software entity designed to perform tasks autonomously or semi-autonomously, often by simulating human-like intelligence and decision-making processes, and interacting with users or other systems to achieve specific goals. Combining the power of advanced analytics and machine learning, AI agents have the potential to drive a competitive advantage for banks, through optimising resource allocation, enhancing customer service, and ensuring compliance with regulatory requirements, while also freeing up resources for more strategic tasks.

Examples of where an AI agent would drive efficiency in Operations:

- **Credit Risk Assessment:** AI agents can analyse vast amounts of financial data to assess credit risk more accurately and quickly, enabling faster decision-making and reducing the likelihood of defaults.

- **Risk Mitigation:** Generative AI can analyse market conditions, assess and generate risk reports, draft and distribute mitigation plans and remediation roadmaps to be executed by Operations once a risk has been identified.
- **Fraud Detection:** AI systems can continuously monitor trading and transactions in real-time, identifying suspicious activities and potential fraud with greater accuracy than traditional methods, thereby protecting the bank and its clients.

Governance & Leadership

Key Trends:

Trend 9: Evolving Role of Operations Leaders: Operations leaders are becoming integral to business strategies, requiring a deep understanding of technology, risk, and regulatory environments.

Trend 10: Developing Leadership in Low-Cost Locations: Banks are enhancing senior leadership in low-cost locations to improve oversight, governance, and compliance.

Key Trend #9 - Evolving Role of Operations Leaders: Operations leaders are becoming integral to business strategies, requiring a deep understanding of technology, risk, and regulatory environments

"The expectation of a COO is that operations leaders are deep in the detail and close to business, understand the regulatory environment, their client and global strategy and where investment should be made to achieve our broader objectives."

In the evolving landscape of wholesale capital markets, banks are increasingly integrating Operations into broader business strategy and encompassing firm-level strategic discussions. This shift signifies a departure from the traditional siloed approach, recognising Operations as a critical component in driving overall business success: Operations leaders are expected to possess a comprehensive understanding of not only their specific functional area but also the broader strategic objectives of the bank. It also requires them to develop a robust understanding of technology, risk, and regulatory environments. Leaders must navigate and leverage technological advancements, understand and mitigate various risks, and ensure compliance with evolving regulations.

By doing so, they contribute to the bank's resilience and agility, enabling it to adapt to changing market conditions and regulatory landscapes. Indeed, this changing roles aligns neatly with the objectives of new operational resilience (OpRes) regulations such as the UK's Supervisory Statement 21/5 (SS21) and the European Union's Digital Operational Resilience Act (DORA), which require a more proactive engagement of senior management in operational resilience risk management.

This integration ensures that operational decisions are aligned with the bank's long-term goals, enhancing efficiency, risk management, and competitiveness in the market.

- **Key Finding:** 93.3% of respondents indicated that senior management have recently reviewed their approach to Operations, implying efforts are being made to closely align operational strategies to business objectives.
- **Key Finding:** 100% of respondents have established ownership for their Operations strategy

across the organisation and have clear guidelines and guardrails concerning operational decision-making. This demonstrates a clear allocation of responsibility, crucial for effective governance, promoting consistency and reducing risks.

In our analysis we found a range of leadership capabilities across wholesale capital markets Operations leadership. High maturity was noted where Operations functions had defined strategies and operational playbooks for engaging and serving the business. It was noted that historical promotion culture has often not yet adjusted to this recent change in the role of Operations leaders, whose promotion criteria often still emphasising subject matter expertise over leadership skills. If this gap is resolved, Operations have the potential to drive significant improvements and foster innovation across the sector.

Key Trend #10 - Developing Leadership in Low-Cost Locations: Banks are enhancing senior leadership in low-cost locations to improve oversight, governance, and compliance

In response to regulatory demands and the need for more effective oversight, banks are increasingly developing senior leadership capabilities in key low-cost locations.

This strategic move aims to ensure robust MD-level oversight and improve control mechanisms across a global operating model. By positioning senior leaders in these locations, banks can leverage local expertise and cost advantages while maintaining high standards of governance and compliance. This approach not only enhances the supervisory capabilities of banks but also aligns with regulatory expectations for stronger oversight and risk management.

"Due to the local and regional desk head structure, there is greater responsibility on the local desk heads to provide effective supervisory oversight."

Policy Recommendations

The key trends set out above show that resilience, enabling efficiency, innovation, and providing a better client experience are all key objectives for banks and their Operations leadership.

The goals and ambitions of banks in wholesale capital markets largely align with policymakers' objectives, as articulated in the recently relaunched Capital Markets Union (CMU) initiative, which aims to grow European capital markets, enhance financial stability, and foster economic growth.

However, there remains significant potential for policy design to further support the achievement of these shared goals against the backdrop of an evolving financial landscape, and in light of key Operations trends identified above.

Accordingly, this report identifies 6 policy recommendations across 3 critical areas, offering areas where policymakers can help achieve a more resilient, efficient, and innovative financial ecosystem that benefits all stakeholders.

1. Implement an Operations-focused regulatory design process

Recommendation #1: Consider the operational burden and feasibility of regulations and ensure robust transition periods

As set out in key trend #5, regulatory drivers and compliance with regulations are actively shaping operational strategies across the board. This shows the importance firms attach to compliance, but it also reflects the sheer scale of (manual) operational uplift which new regulations often entail.

Three examples of the financial and logistical impact on financial institutions:

1. **Cost of upgrading IT systems:** To meet new cybersecurity standards can be substantial, requiring significant capital investment and ongoing maintenance expenses.
2. **Logistical challenges:** Retraining staff, updating operational processes, and integrating new compliance software can disrupt daily Operations and strain resources.
3. **Data management and storage costs:** Implementing advanced data analytics and AI technologies necessitates significant investment in scalable storage solutions and data management systems, which can lead to increased operational costs.

Policymakers are urged to ensure that regulations are designed with a comprehensive understanding of their implementation costs and operational feasibility.

It is therefore important that policymakers consider how incoming regulatory requirements interact with existing operational structures and permit sufficient windows for transition and implementation. As capital markets and their participants generally operate globally, policymakers are encouraged to consider developments in other jurisdictions as well when assessing the operational impact of (new) regulations (see also recommendation 3).

More specifically, policymakers are encouraged to adopt an Operations-focused approach to regulatory design and implementation. Such an approach would consist of:

1. **Carefully assessing marginal operational impact of new regulations**

   This marginal operational impact should be considered vis-à-vis:

- Status quo regulation: i.e. considering what the required operational uplift would be to implement a proposed regulation compared to the existing state-of-play. As one notable example, the Register of Information under DORA builds upon the existing EBA outsourcing registers and in that sense may appear to present a limited regulatory compliance change. Nevertheless, from an operational perspective, the differences in data fields, data formats and methods of submission have led to a significant additional burden, in effect requiring banks to build a whole new database from scratch.

- Regulations in other key jurisdictions: in particular whether a regulation introduces operational (e.g. reporting or data-collection) requirements that exceed those in other key jurisdictions. For example, the EU's Markets in Financial Instruments Directive II (MiFID II) imposes stringent reporting and transparency requirements, necessitating extensive data collection and detailed transaction reporting. This approach contrasts with other key jurisdictions, notably the US, thus requiring highly burdensome operational processes to be created to accommodate a regional framework.

2. **Attempting to streamline requirements across regulations to avoid operational overlap and duplication**

   Within a jurisdiction, multiple regulatory initiatives can have an effect on the same operational processes by addressing the same underlying objective. Ensuring that these initiatives do not create operational duplication is critical.

   In the EU, for instance:

- The determination of *Lex Specialis* under DORA for NISD is a positive example of where regulators helped streamline incident reporting obligations.

- Multiple regulatory and supervisory initiatives currently exist on outsourcing, for example through the incorporation of DORA for ICT outsourcing alongside pre-existing EBA outsourcing guidelines.

- Financial services sector-specific regulation on cyber risk management, such as DORA, is at risk of overlap with incoming horizontal regulation as seen with the Cyber Resilience Act.

- The ECB Cyber Risk Stress Test examined the same underlying assets and infrastructure as many recent operational resilience tests at both EU and national level.

3. **Ensuring adequate implementation timelines**

   Providing adequate implementation timelines are key to enabling market participants to assess the regulatory requirements and adjust operational processes to meet them, where possible linking the compliance goals with other operational objectives.

By designing policies through an operational lens, policymakers will not only enhance the efficiency of bank Operations but enable banks to thoroughly embed the underlying objective into all aspects of Operations. Taking the example of risk management, this would ensure clearer insights into potential vulnerabilities and enable more proactive and effective risk mitigation strategies, rather than risking a tick-box approach to regulatory uplift.

Recommendation #2: Leverage direct oversight of third-party providers to ensure effective and sufficient oversight of supply chains

Outsourcing will inevitably continue to be a cornerstone of wholesale Operations due to its cost-effectiveness and the necessity to navigate an increasingly intricate digital landscape. This trend will likely heighten the focus on third-party risk management (TPRM) set out in Key Trend #6, as banks strive to maintain control over their extended value chains.

However, overseeing the entire value chain presents significant challenges, particularly as it becomes more complex and dispersed across multiple third-party providers. Banks often rely on flow-down (global) contractual provisions to ensure comprehensive oversight beyond the direct third-party provider. This causes complexity, especially for globally-operating banks: providers' willingness to engage and align with (regional) regulatory requirements may depend on whether they are within scope of the relevant regulations.

In the EU and UK, the introduction of Critical Third-Party regimes aims to strengthen third-party compliance with regulations by enabling direct oversight by regulators of certain third-party providers. From late 2025 it is expected the sector's most critical providers will be subject to regulatory standards on resilience, risk management and information sharing. This oft-termed "extension of the regulatory perimeter" marks a step-change for TRPM.

Leveraging these regimes appropriately can provide supervisors and authorities with either first-hand intelligence as to the operational state of the provider, or greater transparency over Nth party providers further along the supply chain.

"When looking at risk management of 3rd party vendors, 4th parties have now become a thing and outsourcing regulation is becoming increasingly heavy."

Policymakers should consider in future where direct oversight of CTPs would prove more effective management of third-party vendors. These regimes offer an expedited way in which to achieve regulatory goals relating to third party providers and should be fully leveraged following establishment in coming months, but with a focus on tackling those risks, such as concentration risk, which individual financial institutions would struggle to address. This would also help tighten vendor accountability and their role in the financial ecosystem.

2. Tackle fragmented regulatory requirements that create operational inefficiencies and impede innovation

Recommendation #3: Work towards internationally-harmonised operational regulatory requirements

"We need harmonisation and rapid modernisation."

Capital Market participants often operate across borders, and indeed globally. For such participants, therefore, consistency in regulation across jurisdictions is key to ensuring operational efficiency and streamlined service to clients, as well as avoiding unlevel playing fields. This is especially true when it comes to regulatory requirements that have a direct operational impact, such as requirements that require banks to collect, share or report data.

Inconsistencies in such regulatory requirements can lead to a host of operational challenges that can undermine the efficacy of financial institutions, in two key ways:

Firstly, fragmented regulatory requirements result in disjointed and asymmetric databases across a firm's Operations. This report has demonstrated how this directly impedes process automation and the adoption of new technologies, due to the need for harmonised data sets of high data quality. Without unified regulatory requirements, it becomes harder for banks to maintain consistent and accurate data, which is crucial for leveraging advanced technologies and automation. Disjointed reporting requirements – for instance related to incidents or third-party providers – are a key example of how regulatory fragmentation can have adverse operational impacts and create data silos within banks.

Secondly, regional frameworks - or the absence of a shared approach -exacerbate variations in the servicing of clients across wholesale markets. This leads to inefficiencies or anomalies which typically require manual remediation. These inconsistencies force financial entities to dedicate significant resources to reconcile differences and manage operational risks, detracting from their ability to innovate and provide seamless services to their clients.

Our interview findings confirm this, showing that varied compliance strategies are prevalent across banks, underscoring the challenges they face in meeting disparate regulatory requirements. For example, a bank operating in both Europe and the U.S. must navigate distinct frameworks for trade reporting, risk management, and compliance procedures, leading to duplicated efforts and increased operational costs. In Asia, jurisdictions like Hong Kong and Singapore each have unique sets of rules and standards for market conduct and financial reporting, adding another layer of complexity. This regulatory fragmentation significantly increases the cost and complexity of compliance, highlighting the inefficiencies and operational burdens it imposes on financial institutions.

Global efforts to standardise and converge regulatory requirements are widely welcomed across wholesale capital markets. However, it is evident that as yet these are failing to cut through in many areas of Operations, with 64% of respondents in our survey stating minimal impact on reducing operational burdens and 14% suggesting a negative impact driving duplication.

To avoid operational fragmentation as a result of regulations, policymakers are advised to:

1. **Coordinate regulatory initiatives with other (key) jurisdictions**

   Coordinating regulatory implementation across jurisdictions, with the aim of synchronising or sequencing incoming initiatives would greatly assist industry participants with the cumulative burden of compliance. Currently, for instance, globally-operating capital-market participants are having to contend with the EU's incoming DORA, the US's shift towards a T+1 settlement cycle, implementation of the UK's Operational Resilience framework; all of which have a significant impact on Operations.

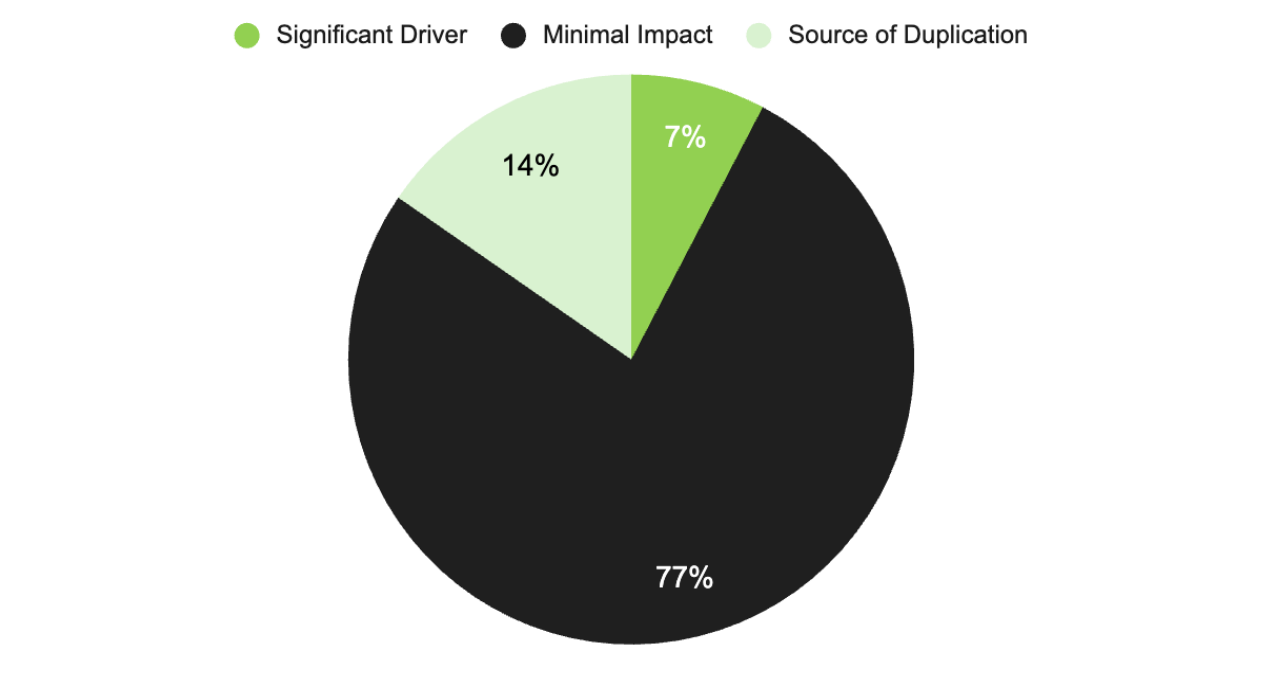
   Policymakers are encouraged to coordinate on timelines and substance of relevant regulatory initiatives, in particular with respect to requirements with significant operational impact including data-collection and reporting requirements.

"If I could have one ask of policy makers: Standardise the global process for trade date affirmation, eliminate optionality around place of settlement, so we all have a fully formed trade record at T."

2. **Drive global harmonisation through standardised templates created through industry pilots**

   While principle-based international approaches are appreciated for their flexibility and broad applicability, they appear to be falling short when it comes to having a tangible impact on the *Operations* of businesses across different jurisdictions.

Figure 5: Are existing global initiatives aimed at regulatory convergence having a tangible impact on your business?



It may be that a lack of specificity associated with principle-based regulations may work well in other areas of regulation but can lead to inconsistencies and inefficiencies when it comes to requirements with a significant operational impact. In contrast, global baseline templates that are more detailed and specific, for example in areas like financial reporting, can ensure that all market participants are adhering to the same standards, thereby enhancing transparency and comparability.

When it comes to operational pain points and requirements such as reporting policymakers should consider whether international harmonisation could be driven via specific templates created through industry pilots.

A positive case in point is the development of global baseline templates for reporting, which can be a significant step toward achieving harmonisation. The Financial Stability Board's (FSB) Format for Incident Reporting Exchange (FIRE) initiative serves as a notable example of a challenging but commendable effort to achieve such harmonisation. This initiative aims to create a standardised reporting framework that enhances transparency and consistency across jurisdictions. Such cross-collaboration between industry and regulators can provide regulators with first-hand insights into the operational challenges of meeting regulatory objectives, thereby fostering a more resilient and efficient global financial system.

Two examples of processes where global harmonisation would enhance compliance, resilience, and efficiency are:

1. **Incident Reporting:** A globally harmonised approach to incident reporting would enable banks to swiftly and accurately communicate disruptions or breaches across all jurisdictions where they operate. This would not only improve the speed and effectiveness of responses but also ensure that all regulatory bodies receive consistent and comprehensive information, facilitating better coordinated oversight and remediation efforts.

2. **Pre-Settlement Matching:** Standardising affirmation processes across jurisdictions would streamline transaction confirmations and settlements, reducing the operational burden on financial entities. This would lead to fewer discrepancies and errors, enhancing the overall efficiency and reliability of financial markets. Global harmonisation in this area would also foster greater trust and cooperation among market participants, contributing to a more stable and resilient financial ecosystem.

Recommendation #4: Avoid exacerbating fragmentation through localised obligations

The widespread reliance on third parties within wholesale markets is driven by the technical and specialist expertise of providers. This expertise is crucial for ensuring that capital markets participants have access to the most innovative solutions, thereby enhancing the efficiency and international competitiveness of European capital markets.

It is essential, therefore, for regulation to safeguard access to providers, such as cloud and technology providers, across international markets. Any requirements compelling financial institutions to localise databases, functions, or responsibilities should thus be avoided. For instance, the proposed localisation requirements within the EU's latest cybersecurity certification schemes (the EUCS cybersecurity scheme for cloud services) and provisions within DORA on Third Party Providers designated as Critical having 12 months to establish a local subsidiary, could risk a loss of access to critical services and thus dilute competition and impede innovation.

The argument that localisation strengthens operational resilience is highly debatable and not supported by industry trends. Forcing localisation risks fragmenting the global service delivery model, creating inefficiencies and bottlenecks. Localisation mandates often result in increased costs and reduced service quality, without necessarily enhancing security or resilience.

EUCS: A case study of localisation.

The EUCS was intended to establish a set of minimum security and trust criteria for cloud services within the EU. However, the draft scheme contained a series of localisation requirements which could have applied to financial services data, from only using EU law to govern contracts, enabling only EU-based employees to access data and in extreme cases for global HQs to be relocated. By effectively prohibiting third country providers, European companies could have been deprived of a real market choice. Given the state of maturity of many EU based providers it was also potentially endangering operational resilience and stifling digital innovation. AFME is urging the EU to proceed with the EUCS as a purely technical scheme focused on cybersecurity standards, with the localisation proposals removed.

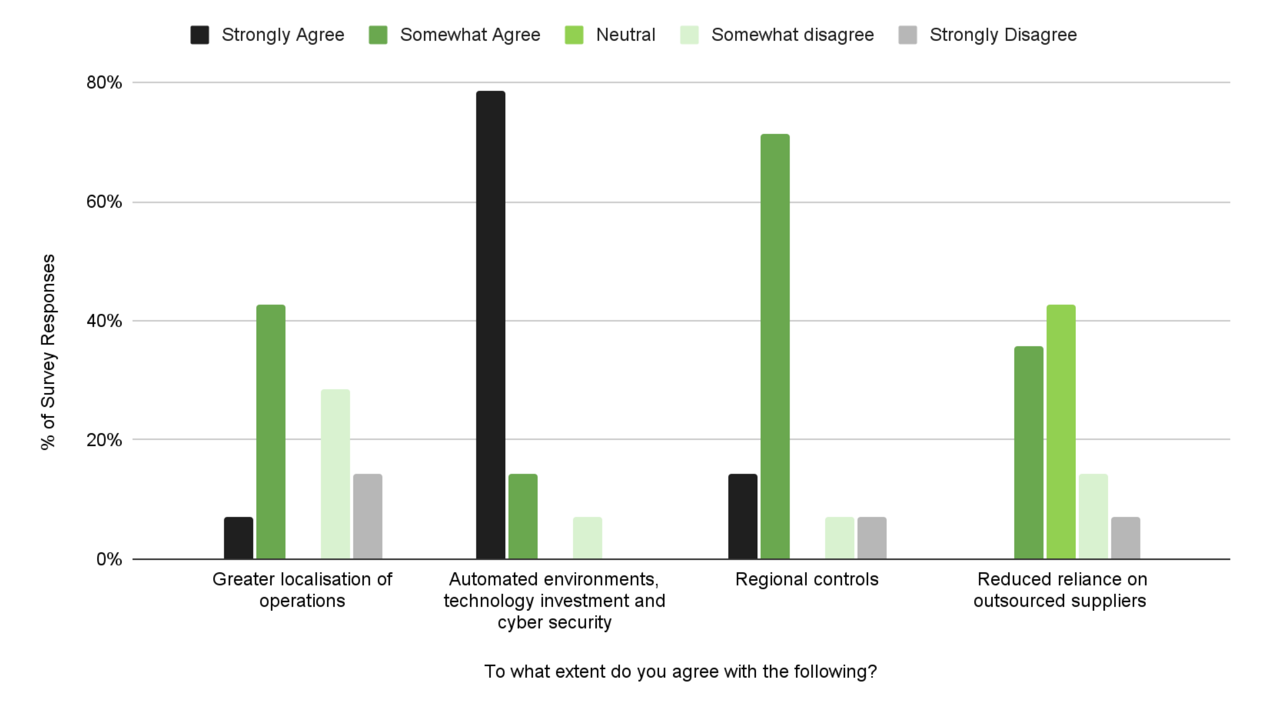
Policymakers should be mindful of the operational impacts of regulations and avoid localising key parts of the operational chain, such as IT and data systems (including cloud services). Mandating localization can lead to increased costs, reduced flexibility, and potential disruptions in service delivery. Instead, regulations should support the use of and access to global, integrated IT and data systems that can operate efficiently across borders. This approach allows firms to leverage the best technologies available, regardless of their geographical location, and scale innovations across a global business.

3. Take a calibrated approach to new technologies to enable reaping of benefits to operational efficiency and resilience

Recommendation #5: Recognise that new and Cloud-Based Technologies are likely to bolster, not risk, Operational Resilience

As highlighted in figure #7, 79% of AFME members surveyed strongly agreed that automated environments and technology investments would enhance not just efficiency but also operational resilience and security. This increased resilience can be achieved by minimising human error, enabling greater real-time oversight, and providing enhanced intelligence and defences against cyber-attacks.

Figure 6: To what extent do you agree that the following will bolster operational resilience and security?



Cloud technologies in particular offer unparalleled capabilities for real-time monitoring and analytics. This can swiftly identify anomalies and potential threats, providing organisations with the agility to respond proactively rather than reactively. Moreover, cloud-based solutions offer inherent flexibility and scalability. These technologies can be easily scaled up or down based on the organisation's needs, making it easier to manage peak loads and unexpected events. This scalability ensures that businesses can maintain continuous Operations during disruptions, such as natural disasters or cyber incidents, thereby supporting data integrity and availability. Furthermore, cloud platforms often come with built-in redundancy and failover mechanisms, which are crucial for maintaining operational continuity.

As a result of these resilience and other efficiency and innovation benefits, wholesale banks have over the past decade increasingly embraced cloud technology, either through full or hybrid migration models. This shift has been transformative, allowing operational leaders to gain a deeper understanding of the substantial benefits that cloud-based technologies and regulatory technologies (RegTech) can offer in bolstering operational resilience. These advancements are not just technological upgrades but strategic enablers that can redefine the Operations landscape.

As operational leaders push forward with the adoption of cloud-based technologies, it is critical that policymakers recognise the benefits to operational resilience brought about by cloud technologies, and how cloud can make organisations become more resilient, agile, and capable of navigating the challenges of the modern financial landscape.

Where policymakers feel that further action is required to address the risk of new and cloud based technologies we urge them to build on the maturing regulatory and landscape, rather than introducing new technology-specific regulations. By embedding supervisory expectations for new technologies within existing risk management frameworks, policymakers can foster a balanced approach that enhances operational resilience and adaptability. This strategic alignment ensures that cloud technologies are effectively integrated, maximising their potential to bolster the resilience of financial institutions in an increasingly complex and dynamic environment.

Recommendation #6: Acknowledge that foundational improvements are happening in preparation for Gen-AI

As set out in Key Trend #8, banks are turning significant attention towards the adoption of Generative AI (GenAI) in financial services. The GenAI technology holds significant potential to improve various aspects of the financial industry and the Operations function, from automating routine tasks to providing sophisticated data analysis.

However, as outlined, the at-scale deployment of GenAI necessitates further developments in processes, data management, systems infrastructure, and workforce skills—developments that will unfold over time. Indeed, our survey results show that while banks are actively working on GenAI deployment, the deployment is proceeding at a more deliberate pace than could be surmised from the public attention GenAI has received.

It is important for policymakers to recognise and consider that GenAI represents the latest wave of technological advancements aimed at enhancing market efficiency and optimising global processes, following for instance the introduction of workflow technology in the 1990s and Robotic Process Automation (RPA) in the 2000s.

Given past experience with the introduction of new operational technologies, the benefits that GenAI can provide for both operational efficiency and resilience, and the continued uncertainty about when and how GenAI will be fully integrated into capital markets, it is crucial for regulators and policy makers to adopt a flexible approach focused on understanding developments, fully assessing the effects of this new technology before introducing any new regulatory requirements and working with industry and associations such as AFME to develop good practices for managing GenAI in capital markets.

AFME's proposed regulatory approach to GenAI:

- **Proactive monitoring:** Regulators and supervisors should engage with industry on the deployment of GenAI technologies and gauge their positive impact on supervisory objectives as well as the emergence of risk. This approach allows for adjustments in response to technological developments and ensures that regulatory frameworks are informed by practical insights into the broader impact.
- **Working with industry:** Consider adopting a phased regulatory approach in collaboration with the industry and supporting businesses that evolve in tandem with the maturity of new technologies, including GenAI. Initial guidelines can focus on ethical considerations, data privacy, and security, with more specific regulations introduced as the technology matures.
- **Innovation encouragement:** Strive to create a regulatory environment that encourages innovation, working with industry to recognise that this can actively boost a firm's cyber resilience and risk management. This balance will enable financial institutions to explore the benefits of GenAI without compromising on security or regulatory compliance.

Such a flexible and adaptive regulatory approach can help ensure that regulations remain relevant, up-to-date and conducive to innovation. This will ultimately enable the financial services sector to harness the full potential of GenAI, driving operational excellence and a more personalised, digital experience for customers in wholesale capital markets.

Contributors

We extend our gratitude to the banks and AFME Technology and Operations Division members whose survey responses and interview responses were crucial to this project. Your insights have been instrumental in shaping the Future of Ops project and its findings, paving the way for a more resilient and efficient operational landscape in wholesale capital markets.

About AFME:

The Association for Financial Markets in Europe (AFME) is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent the leading global and European banks and other significant capital market players. We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work. Focus on a wide range of market, business and prudential issues Expertise deep policy and technical skills Strong relationships with European and global policymakers Breadth broad global and European membership Pan-European organisation and perspective Global reach via the Global Financial Markets Association (GFMA).

Future of Operation: Keeping Capital Markets on the Front Foot was led by the AFME Technology and Operations Committee as an initiative within the broader Technology and Operations Division.

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