

## Nick's Corner



### FinSwitch Chain

FinSwitch in partnership with FNZ, is embarking on one of its most significant changes since its inception 20 years ago with the launch of FinSwitch Chain. FinSwitch plan to give our clients access (in a read only format) to the new FinSwitch Chain application in November this year. This will allow our clients time to familiarize themselves with the new online

interface, its modern design, look and feel as well as the new layout and some of the new features and functionality. They will also have access to existing fund, product, price and order records as there will be a real time interface from the current live platform. In the lead up to this release we will be providing users with material to help in the change management process. **This familiarization phase will last for several months** as it's important that clients are afforded every opportunity to prepare.



Key to the go live or write mode, towards the end of the second quarter 2021, is that existing client process, automation and operations should not be impacted or require change. Key will be for clients to familiarize themselves with the new API's as these provide enhanced functionality and ease of use as this will position them to leverage the potential of the blockchain trading and settlement capabilities more fully.

### Strategic Overview

The legacy technical and operational architecture of the collective investment industry is being reshaped by Distributed Ledger Technology (DLT) which enables very substantial gains in operational efficiency and risk reduction. This comes at a time when the potential of the existing FinSwitch platform has been largely realised thereby creating the likelihood that our services will be superseded in time by other offerings if it fails to adopt the emergent technologies.

The new infrastructure will be on an open architecture basis allowing access to all permissioned participants and allowing participants to select and or partner with their own vendor of choice with FinSwitch acting as an enabling utility.

### Motivation for Change

- FinSwitch currently provides critical market infrastructure which needs to evolve in the face of rapid commercial and technological change.
- Numerous consultancy and industry papers have highlighted the following core trends within the collective investment industry;
  - Increasing operational and technology costs.
  - Limited scope to reduce costs within the current operating model.
  - Speed of change.
  - Uncertainty as to how sustainable the current industry practices, platforms and operating models are going forward.
- New technologies such as DLT and smart contracts are being leveraged across global markets to re-engineer crucial market infrastructure.
- The current FinSwitch technical platform cannot be adapted to compete with the emergent technologies.

### Why a Distributed Ledger Infrastructure?

A distributed ledger would deliver a **single, transparent, and immutable record of ownership** through settled orders, to all permissioned parties in the distributed market. All market participants benefit from a single real-time synchronized view of all trades and balances, creating the ability to move to daily reconciliation of all registers thus facilitating more efficient and effective processing. Significantly it allows for the redesign of the current business processes with the potential to remove significant layers of cost from the subsystem making investments more affordable to the investor.

This new technology would allow FinSwitch to provide market infrastructure which enables the market participants to redesign its business model and reduce costs.

### Potential Industry Saving using FinSwitch Chain

It is important to note that savings are not expected directly in the FinSwitch "exchange" processes themselves. Rather, by introducing an industry infrastructure, players will be enabled to redefine their processes to bring about a "step-change" in their businesses. Likely benefits include the following:

- Potential areas of cost savings and reduction in operational footprint:
  - Reduced reconciliations.
  - Lower settlement and infrastructure costs.
  - Reduced manual keying at each stage in the value chain.
  - Removal of repeated registry updates.
- Improved controls:
  - Single version of the truth.
  - Immutable audit trail across whole transaction chain.
  - Real time visibility.
  - Automated order handling.
- Improved client service:
  - Simplified trading and settlement cycles.
  - New products and services for all parties.
- Provide for Settlement and facilitates a move to "Delivery versus Payment".
- Allow multiple industry and regulatory bodies (trustees, FSB etc) access to the same record.
- Vendors to provide specialist or bespoke services to companies making use of the DLI

### Conclusion

Rollout of the new platform will include an extended familiarization or read only phase during which users will have access to underlying static, transactional, pricing and confirmation data. Daily trades from the current platform will be integrated in a real time basis into the new FinSwitch chain platform. This phase will allow users to get familiar with the new functionality and more powerful and flexible API's and will enable them to start planning on how best to integrate, modify or fundamentally re-architect their existing operational topology should they wish to do so. As advised previously, while the new platform will offer users significant opportunities to improve operational simplicity and efficiency, adoption of these opportunities will be at the discretion of users.

The read only phase will be followed by a write phase towards the end of the 2nd quarter 2021, when users will all then process directly onto the new blockchain platform.

### BEE Certificate

Click [here](#) for the updated BEE Certificate.