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EXECUTIVE SUMMARY

KEY RESEARCH QUESTIONS

1. What are the key drivers of adoption of the utility model in capital markets?
2. What are the benefits of using utility solutions for capital market firms?
3. What are the challenges in adopting the utility model in capital markets?

Capital market firms have been reeling under pressure since the crisis of 2008. Cutting costs to boost sub-optimal levels of RoE is becoming essential against the backdrop of tepid revenue growth and regulatory changes. While most banks have taken short-term measures like headcount reduction to contain costs, they are now forced to consider long-term fundamental restructuring of operations to achieve the next level of cost reduction targets.

Traditionally, banks managed their operations in-house or through outsourcing arrangements with service providers. Many of these activities require significant upfront investments and entail regular maintenance costs, yet they are highly duplicative and do not provide competitive advantages. Banks therefore need to review their existing sourcing arrangements. As a response, we are seeing the emergence and steady adoption of newer models of operations that move beyond traditional in-house or outsourcing agreements. The next big opportunity lies in sharing of costs through multi-tenancy of operations at the group or industry level.

A few financial institutions, typically Tier 1 global institutions, have been using internal utilities for some time now; some have used them for almost a decade. The next stage in this evolution is the external utility model, through which banks completely outsource their technology and process to the utility provider. External utilities are a recent phenomenon seen largely in the last 18 to 24 months. Primarily, the functions that are non-core and non-differentiating for a financial institution are best suited for outsourcing to a utility. They also have to be highly standardizable, since it is difficult for a utility to customize its offering for each of its multiple users. The areas that have seen utility-type solutions include mid-back office functions such as post-trade processing, collateral management, reference data management, regulatory reporting, and transfer agency service, as well as some front-office activity such as Know Your Customer services.

The utility and other shared service solutions can offer a number of benefits to user institutions.
While the utility model can offer significant benefits to user institutions, lack of awareness and resistance to change could be challenging for some financial institutions. Achieving an optimal mix between standardizability and customizability would be an important factor. Other challenges for these new solutions include establishing common standards and ensuring data security.

The adoption of the utilities is likely to happen in phases, with some of the large financial institutions who have played active roles behind the development of the solutions likely to be the early adopters. Clients of the utility providers' existing clients would likely be the next adopters of these solutions. Successful use cases among the first two categories should pave the way for wider adoption of the utility solutions among other firms in the industry.
INTRODUCTION

The evolution of technology and operational models in financial services in general, and capital markets in particular, has been a constant theme of Celent's research. This has traditionally involved analysis of different software, technology platforms, and services in several sub-segments of the market, and it continues to be a focus area. Challenging times often produce innovative and radical solutions, and the capital market industry is currently in the midst of one such period. Economic and regulatory pressures are causing rapid shifts in business and operating models for capital market firms. As they look to move beyond in-house or traditional outsourcing arrangements and third-party software and platforms, we are increasingly seeing the emergence and adoption of new models such as shared services and utilities.

Celent has been tracking the utility landscape for the last two years with its coverage of the utility solutions in the Know Your Customer (KYC) space, since this segment was among the early adopters of the utility model. Over the last 12 to 18 months, we have seen a number of utility-type solutions launched in other areas of capital markets, and we have learned that a few more are currently in development. The objective of this research is to expand our coverage of the evolving operating models by analyzing several new utility-type solutions. In doing so, we aim to understand the rationale behind the development and use of these utilities, their target users, functional features, and delivery models. We analyze the benefits these solutions bring to their users, as well as the key challenges they pose for both the providers and users. Based on this analysis, we offer our views regarding the prospects of this new model of offering in the capital market.
EVOLUTION OF OPERATING MODELS IN CAPITAL MARKETS

Capital market firms have been reeling under pressure since the crisis of 2008. Revenue growth has been tepid and stubbornly high cost structures due to capacity build-up before the crisis have put pressure on margins and profitability. The situation is further compounded by an onslaught of regulatory changes, such as Dodd-Frank, European Market infrastructure, and OTC derivative regulations, which not only require banks to boost their capital, but also add to cost pressures through ongoing system and process updates. These forces have driven down return on equity (RoE) for the industry to below 10%. As noted in a recent Oliver Wyman-Morgan Stanley report, ongoing regulatory drag is likely to offset potential revenue growth in the near term. Fundamental restructuring of business is therefore essential to increasing overall RoE.

Figure 2: Outlook for Wholesale Banking RoE

As noted in the Oliver Wyman report, there are different ways to restructure the business model to achieve the desired level of RoE, such as strategic selection of or retreat from specific lines of businesses (e.g., fixed income) or markets (e.g., in Europe), depending upon firms’ existing and planned core competencies. One area that most firms need to address is a fundamental review of their operating model, shifting from proprietary infrastructure to supply chain-based infrastructure.

Source: Celent, Oliver Wyman Analysis

While most banks have taken short-term measures like headcount reduction to contain costs, they are now forced to consider long-term fundamental restructuring of operations to achieve the next level of cost reduction targets. Traditionally, banks have looked to own and manage most of their operations in-house or through outsourcing arrangements with service providers. Many of these activities, primarily in the mid-back office, require significant upfront investments and regular maintenance costs that run up to hundreds of million dollars, and yet they are highly duplicative and do not provide competitive advantages. Banks therefore need to consider carrying out those tasks differently and reviewing their existing sourcing arrangements.

As a response to the changes, we are seeing the emergence and steady adoption of newer models of operations that move beyond traditional in-house or outsourcing agreements. Internal utilities at individual institutions have been at work for some time now; shared services are also growing in popularity, paving the way for industry utilities.

One constant theme behind this evolution is reducing cost of ownership and on-going maintenance for individual institutions. Outsourcing or offshoring to low-cost locations, compared to managing in-house, once provided a big opportunity to cut costs, but the opportunity for further cost savings has plateaued in recent years. The next big opportunity lies in sharing of costs through multi-tenancy of operations at a group or industry level. As discussed, many mid-back office activities are highly redundant, repetitive, and standardizable, and are not core differentiators. Therefore capital market firms are looking to adopt multi-tenant solutions and industry utilities to usher in the next round of cost savings and efficiency improvement opportunities.
THE ESSENTIALS OF UTILITY MODEL

Table 1 highlights the salient features of the different operating models. As firms move from single tenant captive model to multi-tenant utilities, they gain benefits from the network effect and low and variable costs of ownership, but they lose some of the customization and control aspects that come with internal operations. Many of the processes in mid-back-office are highly standardizable and require minimal customization, so they are not competitive differentiators. The benefits of costs savings and efficiency gains through standardization, therefore, should outweigh the lack of customization and loss of control. Also, by getting rid of large parts of complex and redundant mid-back office work to service providers, banks can focus their efforts on building differentiating capabilities.

Table 1: Captive to Utilities—Different Models of Engagement

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>CAPTIVE OPERATIONS</th>
<th>ITO/BPO</th>
<th>MANAGED SERVICE</th>
<th>INDUSTRY UTILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENTITY OWNERSHIP</td>
<td>Usually owned by a single financial institutions (FI)</td>
<td>Outsourcing vendor</td>
<td>Service provider</td>
<td>Typically shared between service provider and user FIs</td>
</tr>
<tr>
<td>DEGREE OF STANDARDIZATION</td>
<td>Very low</td>
<td>Low, increases as vendor relationship matures</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>--DATA/IT</td>
<td>Single tenancy</td>
<td>Single tenancy</td>
<td>Potentially multitenant</td>
<td>Multitenant</td>
</tr>
<tr>
<td>--OPERATIONS</td>
<td>Maintain control and internal expertise.</td>
<td>Cost reduction</td>
<td>Cost reduction</td>
<td>Cost reduction.</td>
</tr>
<tr>
<td></td>
<td>Potential to differentiate</td>
<td>Converting fixed cost to variable cost.</td>
<td>No fixed cost, only variable cost.</td>
<td>Network effect.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Faster time to market and flexibility</td>
<td>Usage based cost structure.</td>
</tr>
<tr>
<td>VALUE PROPOSITION</td>
<td></td>
<td></td>
<td></td>
<td>Very fast time to market.</td>
</tr>
</tbody>
</table>

Source: Celent, Oliver Wyman

Figure 3 exhibits the evolution of financial institutions’ role in managing their technology and operations under the different models listed above. It can be seen that there is a secular trend of financial institutions’ reducing in-house involvement in non-core activities and increasingly outsource aspects that can be considered non-core or non-differentiator, but retain responsibility and oversight.
It should be noted that the separation wall among the different models is rather amorphous; its nature has morphed over time depending on firms’ needs and their relationships with service providers. Furthermore, a single financial institution may use a mix of these models for different aspects of its technology and operations, such as a KYC utility, managed service for post-trade operations, or an IT provider for trading platforms.

**DEFINING THE UTILITY MODEL**

The term “utility” is used in multiple contexts. Traditionally exchanges, central counterparties, and securities depositories were considered to be utilities within the capital market segment, carrying out functions on behalf of the whole industry and offering services to all industry participants. Therefore, some interpret the “utility” model as one where the utility provider fully carries out the tasks needed, and user financial institutions play minimal or no role in the process.

This notion is not accurate for utilities that have been launched in the capital market space in recent times. While there is no consensus on the exact definition of the recent “utility” solutions, in the present context of industry evolution and for the purpose of this report, we define utilities as a set of shared processes and technology solutions that were previously managed by financial institutions individually, but are now offered by specialist providers to a group of or all industry participants. While the utility provider performs most of the technology and operational tasks, the responsibility, oversight, and regulatory compliance burdens for the functions carried out by the utilities still lie with the user financial institutions, similar to that of traditional outsourcing arrangement.

It should also be noted that the difference between the utility solutions and managed service solutions offered on a multi-tenant basis is not often clear, especially among the current solutions in the industry. In some cases, utilities have been developed by enhancing an existing service offering that was previously offered on a managed service basis to a group of user institutions. The conflict between standardization and flexibility to customize the solution is at the core of differentiating managed service and utility solutions. Utilities should be highly standardizable with little need or scope for customizations, whereas solutions that need customizability fall under the managed service model, since they are difficult to completely standardize. At present,
many of the solution providers are looking to strike a fine balance by offering a set of configurable options that are standardized, but that allow users to choose the preferred set of configurations to achieve firm specific needs. Thus, rather than treating them as distinct and separate propositions, it would be prudent to consider the multi-tenant managed service and utility solutions as different points on a spectrum, with standardizability and customizability at the two extremes.

**SALIENT FEATURES OF THE UTILITY MODEL**

Figure 4 below highlights the salient features of the utility model. A key feature is the multi-tenant nature that necessitates common standards and frameworks, and allows achieving economies of scale, and network effects. We see three broad approaches in the development approach of the utilities that are being launched at the moment.

- In the first case, a group of user banks comes together to create a consortium that works with a service provider to develop a utility in the chosen area. In this case, it is easier to establish common standards and governance models because the banks themselves take the initiative to collaborate.
- In the second case, a provider first works with an anchor bank in building the utility solution that is then offered to more users. In this case, the initial solution has to be adjusted and modified as new users come onboard to allow room for their specific requirements.
- In the third case, a provider leveraging its existing solutions in a given space creates a utility/managed service offering on its own without active participation from a bank in the development process. Such solutions are typically seen from some of the large established service providers and are easier for adoption among the providers’ large existing client base in its early days.
- In yet another model, some financial institutions are looking to work with start-up firms in the fin-tech world that wish to create new and innovative solutions, which may be turned into a utility in the future; such efforts are yet to see a concrete solution emerge.

The second feature of the utility model is that the utility solution typically carries out highly repetitive aspects of mostly mid-back office activities that were previously done at every individual institution. This removes redundancy and duplication of efforts, allowing the utility provider to achieve economies of scale. Multi-tenancy also allows for sharing of costs among users, while economies of scale provides further room for cost saving. Utilities are highly standardized, enabled by the common set of governance and operating principles agreed upon by the user institutions and the utility provider. Built and maintained by an expert provider, it is much easier for the utility service to achieve industry best practices and latest and innovative standards compared to individual financial institutions spending resources to achieve similar goals with limited means.
There are significant benefits to adopting a utility solution.

- First and foremost is the extent of cost reduction. As standard outsourcing models reach saturation with limited scope for further cost reduction, multi-tenancy and sharing of costs across a group or industry offers the potential for the next round of cost reduction. Furthermore, financial institutions could significantly get rid of initial investments and on-going maintenance costs, allowing them to convert all operational costs into variable costs. Standard processes and procedures of a utility not only relieve user institutions from the responsibility of maintaining their systems and processes in-house, but they can also automate and streamline other activities that were previously managed manually.

- The ability to completely outsource processes to a utility and convert cost of operations into variable costs gives user institutions added flexibility to scale up or down their operations. Similarly, that ability also allows financial institutions to quickly enter into or close down operations in chosen markets or business lines. This is an important proposition, since financial institutions in recent times have sought ways to move into or scale up new markets (such as Asia) or businesses (such as wealth management) where they see opportunity, and scale down or opt out of certain markets (such as Europe) or businesses (such as fixed income) due to business and regulatory pressure.
It is also easier for the utility provider to keep track of and adapt the solution to the ongoing regulatory changes, compared to individual financial institutions. Even though ultimate regulatory responsibility for all activities lie with financial institutions, the utilities could do a great deal in the area of data management, operational agility, and reporting capability to help reduce the burden of regulatory compliance on individual institutions. By adopting a utility solution, the user institutions get assured, consistent, and high level solution and service at par with industry best practices and used by peer institutions. These could free up significant resources—both financial and human—for utility users, allowing them to focus on building differentiating capabilities and client service.

Figure 5: Benefits of the Utility Model

<table>
<thead>
<tr>
<th>Cost Reduction</th>
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<tr>
<td>Cost reduction through sharing of infrastructure and services at a group or industry level, reduction in manual and duplicative efforts, little need for upfront and ongoing in-house investments</td>
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<table>
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<tr>
<th>Efficiency through Standardization and Automation</th>
</tr>
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<tbody>
<tr>
<td>Standardization of processes and frameworks allow more automation in mid-back office resulting in efficiency gains</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Easier to Adjust to Fluctuating Volume</th>
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<tr>
<td>Pay per usage model allows for easier scaling up or down of operations and costs in accordance with fluctuating volumes</td>
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<table>
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<tr>
<th>Faster Time to Market</th>
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<tbody>
<tr>
<td>Financial institutions could leverage utility provider’s existing infrastructure and services to quickly enter or get out of business lines in key markets and geographies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Superior Regulatory Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instead of each institution interpreting and complying with waves of new regulations, it is much easier for an expert provider to carry out necessary operational tasks involved in regulatory and compliance functions</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Predictable Service and Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expert utility provider serving a range of industry participants can easily offer industry best practices and innovative solutions with predictable service and quality</td>
</tr>
</tbody>
</table>

Source: Celent

Favorable Areas for Utility-Shared Service

Shared service arrangements in general are not new to the capital markets. The following variants of operating models have been in place for some time and have also leveraged multi-tenancy features to reduce costs.

Internal or Intra-Firm Utilities: Where a financial institution internally shares technology and processes across asset classes, lines of business, and geographies. This is typically an arrangement between an individual financial institution and an outsourcing provider; and is highly customized for the specific financial institution with little room for replication at other institutions.

Software as a Service (SaaS): Where the software is shared by many banks, but processes are managed by individual banks, either through in-house teams or by engaging with an outsourcer.

Platform as a Service (PaaS): Where the bank outsources its technology and processes to an outsourcer; the technology is shared by many banks and the
processes are carried out by the outsourcing vendor with a dedicated team for each user bank.

**External Utility:** the next stage in this evolution is the external utility model, where banks completely outsource their technology and processes to the utility provider. Primarily, the functions that are non-core and non-differentiating for a financial institution are best suited to being outsourced to a utility. These functions also have to be highly standardizable, since it is difficult for a utility to customize its offering for each of its multiple users. These mean that mostly mid-back office functions (e.g., post-trade, regulatory reporting), but also some front office activity (e.g., KYC information collection and management), are most conducive to being served by utilities.

**Internal Utility**
A few financial institutions, typically Tier 1 global institutions, have been using internal utilities for some time now; some have used them for almost a decade. Here, a financial institution internally shares technology and processes across asset classes, lines of business, and geographies.

- The outsourcer typically provides global, enterprise-scale, end-to-end solutions, including people, process, and technology. It is a process-dependent model that requires minimal manual effort.
- Pre-configured business processes allow faster time to market.
- Outsourcer-provided technology platform allows scalability with pre-built deployment accelerators, as well as predictable and repeatable quality.

The internal utilities are mostly extensions of existing outsourcing arrangements and are one-off engagements between a specific financial institution and its service provider. Financial institutions use internal utilities in several areas of their operations, primarily in but not limited to the mid-back office areas such as reconciliation, clearing and settlement, custody, and corporate actions. Other areas of adoption of internal utilities include reference data management, KYC, and client lifecycle management. Some of the leading Indian outsourcers offer such internal utilities primarily to Tier 1 institutions.

**External Utility**
External utilities are a recent phenomenon seen largely in the last 18 to 24 months. The Know-Your-Customer (KYC) space was among the early adopters of external utilities; we are seeing emergence of similar offerings in other areas of capital market operations as well, notably in managing post-trade operations, reference data management, collateral management, regulatory reporting and transfer agency services.
The biggest opportunity for utility solutions is in the highly standardized, repetitive, non-core, non-differentiating operations. Therefore, post-trade processing is an area that is ripe for mutualization and utilitization. Most of the activities in the post-trade processing area, particularly those for cash equities and fixed income asset classes, are highly repetitive and redundant and do not add to competitive differentiating capabilities. Clearing and settlement of trades, asset servicing, corporate actions, financing, reconciliation, expense management, books and records, and tax and regulatory reporting are functions that all banks carry out themselves, spending tens of billions of dollars per year. A utility solution in the post-trade processing area can not only save substantial costs for the industry, but could also raise overall productivity and improve regulatory compliance and risk management, as well as exception management and recovery. Broadridge, a leading provider of technology solutions to capital market firms, is among the few players to have developed such managed service-utility type solution for post-trade processing operations.

Broadridge is a leading provider of investor communications, technology-driven solutions, and data and analytics for capital markets, wealth management, and asset management institutions and corporations. In the capital markets space the company offers technology and managed service solutions to investment banks, broker-dealers and clearing houses supporting clearing and settlement of securities in over 70 countries with over US$5 trillion average daily settlement value of trades in North American equity and fixed income securities, including approximately 60% of U.S. fixed income trade volumes. Seventeen of the twenty three U.S. primary dealers in fixed income and six of the top ten global investment banks in the equity business use Broadridge’s technology platform.

Broadridge’s technology solutions in capital markets span from front to back office. In the mid-back office area, it provides scalable integrated solutions that mutualize costs for regulatory and market changes across multiple firms, covering the securities processing lifecycle, from order capture and execution to trade confirmation, margin, cash management, corporate actions, clearance and settlement, reference data, reconciliations, asset servicing, books and records, and compliance and regulatory accounting. Leveraging these capabilities the company has built a complete suite of offerings for post-trade operations in the mid-back office that enable capital markets firms to completely outsource technology and operations to Broadridge. This allows individual institutions to reduce in-house investments in operations and infrastructure, allowing them to focus more on core business activities and increase speed to market, while responding quickly and cost-effectively to new regulations and market changes.

Global Post Trade Management (GPTM)
Leveraging its market and asset class focused post-trade solutions, Broadridge launched the Global Post Trade Management (GPTM) solution in May 2016. GPTM is a next generation offering that allows investment banks and broker-dealers to transform their operating models to gain operational and cost efficiency. The solution enables transformation by streamlining post-trade processing across asset classes, markets and business entities globally, and enhances banks’ and brokers’ financial and risk management and regulatory compliance capabilities.

Figure 6 depicts the different functions and asset classes supported by the GPTM solution. GPTM consolidates silo systems for different asset classes or markets onto one platform. The Unified Portal standardizes operations to support the post-trade processing lifecycle – clearing and settlement through accounting – across asset classes and markets. Global Position Manager provides a real-time view of a firm’s
trades and positions across asset classes, markets and entities, supporting securities financing, collateral and risk management. Global P&L produces a firm’s realized and unrealized P&L, enabling consolidated financial management. Global Sub-ledger delivers a consolidated sub-ledger, reducing risks and efforts associated with integrating multiple sub-ledgers with a corporate general ledger. Data Fabric aggregates all post-trade processing transactional data from Broadridge and third party systems, enabling effective data management and a comprehensive view of financials and risks.

Figure 6: Broadridge GPTM Solution Components

The Global Post Trade Management solution is offered and deployed in three ways.

- The solution is offered as a Software-as-a-Service, deploying configurable components as technology services for clients globally.
- The solution can be deployed as a fully business process outsourcing service, known as Managed Service, delivering technology and operations outsourcing for North America.
- Third, the GPTM solution underpins Accenture Post-Trade Processing, a strategic collaboration between Accenture and Broadridge offering technology and operations outsourcing for Europe and Asia.

**Broadridge Managed Services and Accenture Post-Trade Processing (APTP)**

Broadridge Managed Services allow banks and broker-dealers to outsource their post-trade processing technology and operations related to the entire securities transaction lifecycle, including asset servicing, securities lending and collateralization, record-keeping, custody-related functions, client onboarding, tax, and regulatory accounting. The Managed Services are FINRA and SEC ratified.

Broadridge has partnered with Accenture, a global management consulting, technology services and outsourcing company, to offer Accenture Post-Trade Processing (APTP) for the EMEA and Asia Pacific markets. This is a strategic collaboration that combines Accenture’s global business process outsourcing capabilities and global capital markets industry expertise with Broadridge’s post-trade processing technology.

Broadridge Managed Services and Accenture Post-Trade Processing offer scalable, cost-efficient securities processing for cash equities, fixed income, exchange-traded derivatives, foreign exchange and money markets. Broadridge Managed Services and APTP use the same GPTM technology stack to provide technology and operations outsourcing for North America and Eurasia respectively. Through GPTM, these outsourcing services provide a common, standardized and configurable platform that enables financial institutions to quickly and efficiently launch new
products and enter new markets. By mutualizing operations and costs from multiple institutions, the services are designed to reduce cost per trade by leveraging collective trade volumes. They provide access to real-time information regarding collective trading activity. Furthermore, they help financial institutions comply with current and emerging trading and accounting regimes, including regulatory and market structure related issues such as TARGET2-Securities (T2S) and Central Securities Depository Regulation (CSDR) and T+2 settlement cycle.

**Adoption and Outlook**

Broadridge's existing post-trade capabilities have been adopted by hundreds of brokerages worldwide. Its Managed Services have 28 clients that collectively account for more than 19 million customer accounts, over $800 billion in assets, over $13 trillion in monthly equity, fixed income and international settlements and an average of 2+ million trades per day. Broadridge has leveraged its existing capabilities in building its newest offering GPTM which includes new technologies and componentized architecture. As the new next generation technology platform, Broadridge GPTM has already been adopted by two top tier financial institutions and has received interest and positive responses from other global investment banks. The path forward for GPTM is likely to be favourable as Broadridge already has a significant global client base using its solutions.

APTP was launched in 2013, with Societe Generale Corporate & Investment Banking (SG CIB) becoming its first client. In this process a number of SG CIB employees with post-trade processing skills were transferred to join Accenture. Since then, two more financial institutions have decided to use APTP for their post-trade processing operations; specifically one of the clients is a major tier 1 global investment bank who looks to leverage APTP to manage its Eurasia operations. This client is also live on Broadridge Managed Services in North America, and as a result, Broadridge delivers a global experience for the bank.
While the utility model can offer significant benefits to user institutions, its true adoption among a wide range of industry participants will likely take some time for the following reasons.

- Since the utility model is a new and fundamentally different mode of operations in the capital markets, there are unknown factors and resistance to change for financial institutions. Some institutions are still on a wait-and-watch mode, trying to learn from successful use cases as well as pain points from the experiences of their peers.
- Not all institutions are familiar with the exact functioning of the utilities. Therefore, how to manage or decommission legacy systems and reorganize operations after adopting a utility to optimize costs is also not very clear for many institutions.
- Striking the right balance between standardization and customization is another challenging proposition for the utility solutions. Utility solutions work best when the functions supported by them are highly standardizable; yet financial institutions, especially large ones, can have firm specific requirements that the utility needs to support.
- Establishing common governance, standards, and frameworks by building consensus among a number of user banks can be challenging. Even though the level of collaboration seen among banks in recent times has been unprecedented, this can be difficult, especially for utilities that are not backed by a bank consortium in its development phase.
- Data and cyber security is another concern, especially in light of heightened focus on strengthening cyber security in recent times.
- Catering to local/regional specificities can be difficult because regulations and practices in local markets can be difficult to capture in a highly standardized utility.
- Choosing one (or more) from multiple utilities carrying out same functions (e.g., four utilities in KYC) can be difficult for some financial institutions.
CONCLUSION

Regulatory and cost pressures are likely to continue for capital market firms well into the future. Operational transformation would be key for survival and boosting return on equity. Capital market firms should therefore consider new operating models like utilities and shared services.

The utilities in capital markets are a new phenomenon with the potential to significantly transform how operations are carried out at financial institutions. Understandably, this has created a lot of interest and curiosity among several participants as they look to redesign their operations and solutions around the utilities to adapt to the changing situation. Uptake of the utility and shared services will be driven by a growing realization of value and can take a while.

Many large banks already realized the valuable proposition that a utility can bring and have therefore taken an active role in creating and developing some of the utility solutions. These institutions are best suited for utility adoption in the near term.

Some of the utility providers are large industry players with significant client bases in their respective markets; they can hand hold and provide a level of comfort to their clients as they consider and eventually come on board with the utility solutions. This would pave the way for next wave of adoption of the utility model and will likely take place over the short-to-medium term.

As the firms in the above two categories adopt utility solutions in the short-to-medium term and demonstrate successful use cases, others who are currently on the wait and watch mode are likely to adopt this new model in the medium-to-long term.

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