

A HISTORY OF DIFFERENCE

Since the early days of global custody, Citi has followed a different path to service provision, leveraging its extensive global network. With the evolution of the industry to a more expansive securities services framework, how has Citi confronted the challenges that its peers have faced? Is its model still a differentiator? The vision and execution of Citi's securities services strategy has been led since 2014 by Okan Pekin, global head of securities services. Global Custodian put those questions to him and Matthew Bax, global head of custody, Citi.



Global Custodian: Before we reflect on its development over the years, could you describe your overall securities services strategy as it is today?

Okan Pekin: The globality of our network is central to the strength of our sub custody business, but increasingly global investors such as asset managers, insurers and sovereign wealth funds are seeing the value of the integration of our local market expertise and global solutions.

Citi has always had the advantage of being the industry's most global custodian by virtue of its brick-and-mortar presence in 63 markets. Our proximity to these local markets allows us to deliver market insights and efficiencies to our clients in ways that are more beneficial than many of our peers.

Under the leadership of our CEO Jane Fraser, Citi has undertaken a strategy refresh and outlined a transformation plan. Securities services is a top priority at the centre of the strategy because it is a high growth, network-centric business where Citi believes it has several unique competitive advantages.

As a house, Citi has always had the ability to serve the needs of investors as they deliberate their trading strategy, as they implement their trading strategy, and as they execute the post-trade ecosystem for their trading strategies. While it has become vogue in recent years for custodians to position themselves as being able to meet the end-to-end needs of institutional investors from the front office to the back office, there is nothing new about that at Citi. It has always existed. What is new is that Citi is now actively leveraging the advantage it has always had as a firm for the benefit of asset managers and asset owners.

Citi has increased its market share over the past five years and experienced strong organic revenue growth which is currently being masked by the low interest rate environment. The pipeline is significant, with \$3 trillion in assets being on-boarded on a \$30 trillion base from 2021 to 2023; so, the future remains bright with more to come.

GC: You spoke about unique competitive advantages. Can I put you on the spot? What, specifically, makes Citi different?

OP: There are several characteristics – some structural and some strategic – that



Okan Pekin, global head of securities services, Citi

we believe differentiate our securities services model and offers a more competitive value proposition for clients:

First, as I mentioned, is our vast proprietary custody network. We run both a global network and a global investor business. Our platform spans more than 100 markets including 63 proprietary Citi branch locations with over 95% of the world's market capitalisation in our custody network.

This is the largest footprint of any custodian and offers a competitive advantage because of our ability to provide the best local custody via a common technology platform with global consistency to both our global investors and local clients across all segments. We offer a variety of market access models, but have standardised critical areas including technology, operations, and client solutions. This approach allows

clients to enter new markets more easily knowing that Citi is committed to delivering a globally consistent operating model across all markets.

Secondly, we are a full-service institutional bank. Citi offers a full spectrum of financial services and sees its relationship with clients as long-term strategic partnerships, which is increasingly important as the financial world becomes more complex and fee revenue continues to contract. In other words, Citi embraces our clients at every stage of the investment life cycle from pre-trade to point-of-trade and in the post-trade trade space.

Citi is not in the asset management business and can therefore act to enable growth and progress for its institutional investor clients while not competing with them in any way. It is OMS-agnostic and integrates with all front office

order management systems. It has built strategic linkages with BlackRock's Aladdin, Simcorp, and Charles River to facilitate serving the point-of-trade and post-trade needs of investors across a variety of trading, risk, and portfolio management platforms without dictating this choice to clients.

Citi has been attracting and recruiting top talent and supplementing our internal expertise across product, technology, operations, and client management. While many of our competitors were downsizing over the past several years, we were hiring and will continue to hire over the coming years.

GC: Beyond your global platform, how does technology play into your strategy?

OP: The central tenet of our technology strategy is to enable growth and progress for our clients by being application-agnostic and data-centric. We are decoupling applications from data and using abstraction to incrementally replace legacy solutions without big-bang risk. Data and analytics are built into the core architecture supporting all products and services. We give our clients optionality for consumption of data and analytics by supporting dashboards, APIs and cloud-based consumption including third party integration.

GC: The original selling point of global custody was that the global custodian stood in front of all the markets and took away the headache of managing multiple service provider relationships. What's changed? What are the implications, if any, for Citi's global securities services architecture, which has always been somewhat different from its peers?

Matthew Bax: We have taken significant steps to further collapse the layers and redundancies between global and direct sub-custody in operations, technology, processes, and documentation that will better harness the power of our network by bringing our local market capabilities closer to global investors, facilitate the ability to trade in any asset class on any exchange or marketplace, whether traditional or digital, and enable a structural shift in the traditional post trade operating model.

GC: Taking a high-level view, have you seen much of a shift in volumes between institutional clients going through global

intermediaries for securities services in individual markets and clients going direct to the individual markets where you offer custody and other securities services?

MB: This really depends on the client type and the complexity of the market. In some of the more complicated emerging markets, some of our asset owner clients continue to want to trade the onshore market directly. We believe that these hybrid models will increasingly become more prevalent particularly as technology will continue to diminish the distinction between global and direct custody.

In addition, we've been seeing demand from clients looking to remove friction and latencies across markets and wanting to be able to grow their business with flexibility, speed, and scale. To achieve this, they are concentrating their wallet share with fewer strategic providers to maximise efficiencies.

GC: To what extent can the servicing of digital assets be accommodated within Citi's existing service model?

OP: We are seeing new digital marketplaces emerge along with new

assets, so, as a service provider, we need to provide connectivity to those markets. Citi is developing digital custody capabilities to support our clients' journey into these new markets and assets.

However, the old markets are not going away anytime soon. For us, it is important to be able to connect into both the new world and the old world. Clients do not want to appoint digital custodians for their digital networks and retain legacy custodians for their traditional networks. Custodians need to find a way of combining the old world with the new. It is also critical that we integrate new and old technologies in a seamless fashion.

Citi's approach will ensure access to new markets and assets is seamless for clients. Clients will be able to communicate with Citi via legacy means regardless of the type of asset or network. Our technical infrastructure will simplify change. We are in the process of extending our footprint and connecting to new digital marketplaces and networks, and in several cases, we are supporting new digital market

infrastructures as clients.

GC: So far you've touched on diverse client approaches, geographies and ambitions. How do the different servicing pieces fit together in terms of organisational structure? How do you manage any competing interests among clients?

OP: As Matthew said, we've taken steps to collapse layers and redundancies between global and direct sub custody. Citi provides custody services to the entire post-trade industry, including asset managers, asset owners, financial market infrastructure, non-custodian financial institutions, and other custodian banks. We are both a partner and provider to all of our Securities Services clients but also compete with some of the other custodian banks whom we serve.

We are diligent with respect to our obligations to have the necessary guardrails to ensure segregation and protection of sensitive client data, including separate client management teams.



Matthew Bax, global head of custody, Citi

Strategic history

Citi has a claim on being the original global network bank. "We had more branches internationally than any other bank through a combination of our core bank branches, acquisitions and bolt-ons," says Bryan Murphy, managing director and global head of banks sales and client coverage, Securities Services, Citi. "The initial focus was on trade products, then cash management products. Subsequently in the eighties and nineties, securities, clearing and custody were added."

In many cases, says Murphy, the expansion was initially on an internal basis. "We were holding on-balance sheet securities for our own trading businesses - fixed income, treasury, equities -and so it was a pretty logical extension for us to bring all of that together and roll it into a commercial third party offering," he explains. "And

that's what we did. We subsequently acquired a number of discreet securities services businesses, particularly in the sub-custody space. We acquired ABN AMRO's business in the early 2000s. They were a pretty big sub-custodian in actually some pretty surprising places, given the evolution of ABN AMRO's historical branch network, which followed the colonial footprint of Dutch companies into the Dutch empire."

Then in 2013, Citi acquired IMG's custody business in central and eastern Europe. "We picked up a significant book of business in Czech Republic and Hungary and various other markets in the region," says Murphy. "We integrated that onto our core technology platform. We've since added additional markets on an ad hoc basis when that's been required."

When Nordea exited the custody

business, the bank recommended Citi as a provider, enabling the bank to add significant scale in the region. Meanwhile in western Europe, says Murphy, "We made a very conscious, strategic decision about 10 years ago to follow an integrated model for T2S. We operationalised all of our servicing for western Europe in Dublin and created a consolidated operational framework for that. We also moved that into a single legal vehicle for all western European business. We now run all of our Western European business for T2S in a single legal vehicle."

At the same time, there were markets where international business was optional. "We built a global custody business offshore, out of our network. We were offering global custody from places like New York, London, Hong Kong, Singapore, Luxembourg, Jersey,"

says Murphy. "We have run shades of global custody businesses in places like Thailand and Indonesia and Australia/New Zealand and Taiwan, where we've offered these vehicles to support domestic investors in those markets."

Through offering global custody access in almost 100 markets and clearing its own business in over 60 markets, Murphy estimates that Citi covers around 98% of all global equity market volumes. "If we look at our footprint now, I think I can say with a reasonable degree of confidence that we are pretty much everywhere we want to be," he says. "There are no obvious anomalies in our current global footprint. We don't feel we've got any gaps in coverage now"

In any case, says Murphy, "Deploying another instance of the technology stack in a new market is relatively straightforward, because we run global

technology, global platforms, global processes, global governance, a global sales team and a global client team; it's hugely scalable for us to open in additional markets."

Beyond its geographical target areas, Citi has made a number of strategic decisions in terms of service scope. Several years ago, for example, it identified ETFs as a priority product area, making significant investments in the talent and technology required to elevate its ETF servicing capabilities.

These paid off most recently, when Blackrock awarded Citi the largest percentage of its US-listed iShares ETF assets for post-trade services. With close to one trillion in assets moving to Citi, this is one of the largest mandates wins ever won for Citi Securities Services and one of the largest deals ever in the ETF industry.