Nick's Corner

FinSwitch Setting the Global Distributed Ledger Benchmark

"As revolutionary as it sounds, Blockchain truly is a mechanism to bring everyone to the highest degree of accountability. No more missed transactions, human or machine errors, or even an exchange that was not done with the consent of the parties involved. Above anything else, the most critical area where Blockchain helps is to guarantee the validity of a transaction by recording it not only on a main register but a connected distributed system of registers, all of which are connected through a secure validation mechanism." ~Ian Khan

The FinSwitch Board made a bold and decisive decision towards the end of 2019, partnering with #FNZ, to replace its aging platform with a new age application running on a Distributed Ledger (DLT), FinSwitch Chain. This would position and future proof both FinSwitch and the South African retail investment industry.

FinSwitch has been in operation for over 20 years as a trusted market utility and provides transaction validation and switching, fund pricing and data brokerage services to retail institutional clients. All industry participants will now be connected on the FinSwitch private DLT network and with the R2 trillion in annual flows, creates significant opportunity for innovation and savings.

The new FinSwitch chain platform is a modern, cloud native and efficient fund trading infrastructure that provides real time access to order information. It is designed for integration with global fund trading networks. Key is the DLT trading layer which allows for the encoding of business processes into fund trading lifecycles, allowing for the automation of low value business processes and data validations, lowering operational cost and over time reducing the cost of investment.

The approach has been simple, no disruption to the existing industry business process, big bang conversion, innovation and transformation driven by each client at their own time and pace, an open architecture to encourage innovation and client vendor selection thereby creating an enabling eco system.

What was clear from the recent CordaCon conference, is the significant investment into distributed ledger applications and companies repositioning themselves to leverage the opportunities that it offers i.e., Vodaphone is putting all its handsets, (with a unique identifier) on a distributed ledger. All these millions of handsets now become potential economic agents. It was also clear that FinSwitch is in a unique position as it is connecting an entire industry on a distributed ledger. There is nowhere else in the world that this is happening as consortiums are having to build out their network of users/participants. What is also apparent is that there is no other front-end application like the one being built for FinSwitch by FNZ.

There were a number of take-outs at the Corda conference. The focus on:

- interoperability between networks.
- settlement and payment and building an on and off ramp from fiat and integrating existing and new payment solutions and or digital currencies.
- ESG and some incredible initiatives such as tokenising Elephants to generate carbon credits as well as to ensure money flows back to the communities who now have a vested interest to keep them alive. The tokenisation of livestock in Brazil, allowing authentication of the meat and the ability of the farmer to raise finance against them.

Distributed ledger technology is here to stay and will quickly become a key component for any business.

The FinSwitch Chain solution, using a Distributed Ledger Technology 'DLT' trading layer, allows for real time, secure and private exchange of trading and market data, and lays the foundation for innovation in the South African fund trading market (including a focus on business process automation and improved asset information sharing). The FinSwitch Chain solution has been developed to allow for innovation in terms of providing cross border fund access, integrated settlement and identity verification services, and market analytics. There is significant opportunity for all participants to simplify and redesign business process and to delaminate costs. It further provides investor transparency and certainty and could over time lead to a significant democratisation of the savings industry. These opportunities are enabled by key ledger principles, trust, transparency, and traceability via a single ubiquitous record.

"Whereas most technologies tend to automate workers on the periphery doing menial tasks, blockchains automate away the centre. Instead of putting the taxi driver out of a job, blockchain puts Uber out of a job and lets the taxi drivers work with the customer directly." Vitalik Buterin, Co-Founder of Ethereum.

The FinSwitch/FNZ project is now nearing completion and is scheduled to go-live early 2023. This will be a big bang approach cutting over the entire industry on a weekend, with the existing operational processes and interfaces resuming on the Monday on the chain platform. "Business as usual," but with significantly different technology under the bonnet, creating the opportunity and the potential for the industry to innovate around process and product and to get back to core, product, distribution, fund management and service.

One of the key project successes has been to update the chain with real time "deltas" (post validated trades) from the live system and to provide clients read only access to their static data and trades. They can see in real time their orders loaded to the current live system, being instantly replicated on the chain. This "familiarisation" phase is critical, as it helps to prepare each client for the transition and to become familiar with the new front end. This has been supplemented by regular industry training sessions together with videos, that clients can download and use at their own time. While we have strived for no disruption, inevitably there have been opportunities to clean up legacy data and to correct, redesign and streamline some legacy processes. Another key focus has been to provide users with greater access to their data either through the new front end or via the new ISO API interface that is being implemented. The existing web services interface will remain in place after go-live but will then be phased out.

One of the key testing phases, will be to run a real time parallel, taking pre-validated instructions from the live system and running them to the chain. This will allow FinSwitch to simulate defined "day in the life" cycles, mirroring the exact daily processes. Both system outputs can then be matched side by side. Clients will then be able to test their own files giving them confidence that their daily processes are not compromised.

This is just the beginning of the FinSwitch, FNZ and South African Investment industry DLT journey. Once the platform is live, the industry will be able to leverage opportunities such as integrated settlement, identity verification services and additional fund asset information (e.g., ESG data) into existing fund trading lifecycles to drive product and business practice innovation. FinSwitch is ideally placed to facilitate the flow of ESG data in a standardised format to be integrated into various ESG tools or calculators. FinSwitch and FNZ are also looking to add market analytics services to support further market innovation and efficiency.

Client Services

We are pleased to advise that a testing period has been pencilled in for April 2023. Clients will be able to test the upload functionality as well as web services. We will confirm the exact dates closer to the time.

As we are getting closer to go live, please keep in mind the following critical changes that are required for go live:

- ISO standards for currency codes: South African Rand (ZAR) and Namibian Dollar (NAD)
- FTP site will be decommissioned (alternatives are front end or web services downloads)
- New login credentials will be provided to all web service users
- Free Format files will be decommissioned, clients must utilize the original file formats
- TER file requires an additional column at the end of the file, named "Status". The status column must cater for "Original" and "Corrected"
- API go live will take place after the chain go live, clients will have 6 months from API go live to migrate from web services to API

To all Security Custodians who have not returned a signed copy of the declaration form issued in September, we request that these be returned at your earliest convenience please.

We have consolidated all communication relating to the chain from 2020 to date, this can be found under "Documents" on FinSwitch.

Best Wishes
Tasneem Gydien
Manager: Client Relations