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Issue 162 Conference Special

Asia: Now is the winter of its disconnect

Continent of complexity

Stock disconnect

Outsourcing in APAC

The race to DLT

Plus: Results from the R&M Investor Services Survey 2017

EU blocks merger of Deutsche Börse and London Stock Exchange

The European Commission has prohibited the proposed merger between Deutsche Börse and the London Stock Exchange Group, saying it would cause a "de facto monopoly", and that the proposed measures to counter this were not enough.

Although LSEG's sale of its France-based clearing house LCH.Clearnet SA would have resolved concerns around single stock equity derivatives, it would not have addressed the creation of a monopoly in fixed-income clearing, the commission maintained.

Margrethe Vestager, commissioner in charge of competition policy at the European Commission, said: "The European economy depends on well-functioning financial markets. That is not just important for banks and other financial institutions. The whole economy benefits when businesses can raise money on competitive financial markets."

"The merger between Deutsche Börse and the London Stock Exchange would have significantly reduced competition by creating a de facto monopoly in the crucial area of clearing of fixed-income instruments. As the parties failed to offer the remedies required to address our competition concerns, the commission has decided to prohibit the merger."

In February, despite the proposed sale of LCH.Clearnet SA, the commission raised concerns regarding MTS, LSEG's Italian electronic trading platform for European wholesale government bonds and other fixed-income securities.

Following market testing of the proposed merger, the commission requested LSEG to sell the MTS platform. However, the board of LSEG declined, calling the request "disproportionate" and suggesting alternative structural changes that would have meant MTS accounted for less than 10 percent of its overall gross income.

In a statement, LSEG disputed the notion that these measures were inadequate and criticised the decision to block the merger.

The statement said: "LSEG does not agree with the view that a business of LCH SA's scale would not be a viable stand-alone competitor without the concurrent sale of MTS."

It went on to say that that package it put forward was "clear cut, viable, and addressed the commission's competition concerns".

While the statement affirmed LSEG's confidence as a standalone business, it also said: "LSEG believes the proposed merger with Deutsche Börse, in combination with the LCH SA remedy, would have preserved credible and robust competition in all markets."

"This was an opportunity to create a world-leading market infrastructure group anchored in Europe, which would have supported Europe's 23 million small and medium-sized enterprises and the development of a deeper capital markets union (CMU)."

Deutsche Börse said in a statement that it "regrets the decision taken" and will now focus on other initiatives, including its Accelerate growth strategy. It also took the stance that the decision is a negative development for Europe's CMU.

Joachim Faber, chairman of the supervisory board of Deutsche Börse, said: "The prohibition is a setback for Europe, the CMU and the bridge between continental Europe and Great Britain. A rare opportunity to create a global market infrastructure provider based in Europe and to strengthen the global competitiveness of Europe's financial markets has been missed."

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UK finally triggers Brexit

The UK has officially pulled the trigger on Article 50 and commenced the two-year negotiation process that will end in its exit from the EU.

With the activation of Article 50 of the Treaty of Lisbon, EU legislators are convening to decide what positions they will take on a range of issues, from the rights of EU citizens in the UK to financial services passporting.

The Article 50 letter, signed by UK Prime Minister Theresa May on 28 March, was handed to Donald Tusk, president of the European Council, at lunchtime on 29 March.

Official negotiations between the European Commission and the UK's Brexit team are expected to commence soon. The process can take no more than two years, unless the European Council approves an extension.

Membership of the EU is complex, with many aspects of UK legislation intertwined with, or underpinned by, regulations and directives designed in Brussels.

UK ministers will have to negotiate the terms of the exit from the EU, lobby for and begin discussions about a new trade deal with the 27 remaining member states, do the same with every other country around the world, and begin reforming its own laws.

The mooted Great Repeal Bill will preserve EU law in UK legislation in one fell swoop, although this is still subject to parliamentary scrutiny and controversy over the power it gives ministers to tear up the statute book.

A leaked European Parliament resolution suggested no free trade deal will be forthcoming in the next two years, and that any post-Brexit transition arrangement beginning in 2019 can last no longer than three years.

In particular, the resolution "opposes any agreement between the EU and the UK that would contain piecemeal or sectoral provisions, including with respect to financial services, providing UK-based undertakings with preferential access to the single market and, or the customs union" and "underlines that after its withdrawal the UK will fall into the third-country regime foreseen in EU legislation".

Steve Georgala, CEO at fund administrator Maitland, suggested that third-party passporting is highly likely. He said: "I can't imagine the UK not being given the same third-party passporting rights as other European nations."

"The UK market is the most sophisticated and regulated jurisdiction in the EU. There is too much vested interest from both sides and people want to invest in the UK."

He added: "Whilst it's too early to predict the impact on passporting of financial service products from the UK into the EU, it is clear that market participants are already hedging their bets as they wait to see how Brexit negotiations evolve."

"We do think the triggering of Article 50 will have a positive impact on our business and we have already seen an uptick in requests for our third-party management company in Luxembourg."

The UK voted 52 percent to 48 percent in favour of exiting the EU in June 2016, after former Primer Minister David Cameron launched the referendum to appease eurosceptic Conservative colleagues.

SEC to move US to T+2

The US is to move to the shorter settlement cycle of T+2, after the Securities and Exchange Commission (SEC) formally introduced widely expected rule amendments.

The amendment of Rule 15c6-1(a), which was introduced on 22 March, is designed to enhance efficiency, reduce risk, and ensure a coordinated and expeditious transition by market participants.

Broker-dealers will be required to comply with the amended rule from 5 September, as recommended by the SEC's industry steering committee.

From that date, all securities sales contracts must assume a T+2 settlement cycle unless otherwise expressly agreed to by the parties at the time of the transaction.

The rule change includes transactions for stocks, bonds, municipal securities, exchange-traded funds, certain mutual funds, and limited partnerships that trade on an exchange.

Members of the SEC's industry steering committee, including the Depository Trust & Clearing Corporation (DTCC) and the Securities Industry and Financial Markets Association, were quick to praise the commission on the amendment.

In a joint statement on the rule change, the committee said: "Shortening the time it takes to settle trades from the current three-day cycle, known as T+3, to T+2 will provide significant benefits to investors and market participants. A shorter settlement timeframe will reduce credit, market and liquidity risks, promote financial stability, and align the US with other T+2 settlement markets across the globe."

DTCC noted that, given the lower levels of risk associated with a shorter settlement cycle, the move will reduce the average daily capital requirements for clearing trades through DTCC's National Securities Clearing Corporation (NSCC) by 25 percent, or $1.36 billion.

Murray Pozmanter, head of clearing agency services and global operations and client services at DTCC, said: "We are pleased to see the SEC take important action to align the US settlement cycle with other key markets around the globe."

"We commend acting chairman Michael Piwowar and commissioner Kara Stein for their dedication and leadership on this issue."

"This critical step will ensure that market participants are working towards a common

Regulators in Singapore and France team up for fintech

The Monetary Authority of Singapore has signed agreements with two French regulators to boost cooperation on financial technology.

The French Prudential Supervision and Resolution Authority and the Financial Markets Regulator, better known by their acronyms ACPR and AMF, will share information about emerging fintech trends and regulatory issues pertaining to innovative financial services with the Monetary Authority of Singapore. They will also cooperate on potential joint innovation projects.

The framework will allow authorised fintech companies in Singapore and France to facilitate their understanding of regulatory requirements in each jurisdiction, so as to foster trades and flows across the two markets.

Ravi Menon, managing director of the Monetary Authority of Singapore, and ACPR chair Francois Villeroy de Galhau, who is also governor of the Bank of France, welcomed the agreement, saying it "underscores" their commitment to promoting innovation in financial services and will create synergies for the two markets and promote innovative services, products and applications.

AMF chairman Gérard Rameix added: "The accelerated pace of digital transition in financial services is bringing deep-seated changes in cross-border financial trades and flows. The newly established fintech bridge between France and Singapore is an important step for innovative players willing to develop their activities internationally."

"Cooperation between our authorities will create significant synergies for the two markets and greater understanding enabling fintech firms to extend their global reach and learn from their foreign counterparts."

goal, which will ultimately reduce risks and costs for the benefit of the industry."

Stein, speaking ahead of the vote on the adoption of the T+2 amendment, in which she was a central player, praised the initiative to tackle counterparty risk, but concluded that, due to the technology that now exists in financial markets, trimming one day from the standard cycle should only be considered a stop-gap solution.

She said: "Today's amended rule is an attempt to catch up with technology developments in the world around us. The current settlement cycle standard of three days after a trade is woefully behind the times. Currently, standards vary around the globe, but most are moving to shorter settlement cycles."

Stein also recommended a new study be completed into what "further improvements" could be made. The results of the study are due within three years of the T+2 compliance date.

"While movement to a T+2 standard settlement cycle is an improvement from the current T+3 standard, more can and should be done. At this very moment, technological, operational, and communications improvements exist that could enable T+1 and end-of-the-day settlement cycles," she said.

New London HQ for Deutsche Bank

Deutsche Bank has signalled its commitment to staying in the UK following Brexit, entering into negotiations over a new headquarters in London.

Staff were reportedly told on 23 March that the German bank would remain in the UK following the country's exit from in the EU in 2019 and that it will move to a new building at 21 Moorfields.

Deutsche Bank UK chief Garth Ritchie reportedly said the move, scheduled for 2023, "underlines the bank's commitment to the City of London", where it currently employs more than 7,000 people across a dozen or more sites.

Site owner Land Securities confirmed 21 Moorfields is undergoing redevelopment, with demolition of its current buildings underway, although it was reluctant to confirm that any pre-let deal with Deutsche Bank had been agreed.

The property company commented: "Land Securities is also in discussions with Deutsche Bank regarding a pre-let for the development which would require alterations to the design of the building above ground. These negotiations will take several months and there is no guarantee they will lead to a transaction."

Goldman Sachs was the last high-profile bank to confirm it would move jobs away from the UK and create a stronger presence in mainland Europe following Brexit. The bank did point out that these are contingency plans and didn't confirm any specific details.

ESMA issues final SFTR standards

The European Securities and Markets Authority (ESMA) has issued its final report on standards for implementing the Securities Financing Transactions Regulation (SFTR).

The SFTR reporting requirements come as part of the EU's bid for greater transparency in transactions resulting in a demand for a complete breakdown of their details.

Commenting on the final SFTR rules, Ben Challice, COO at Pirum Systems, said: "It's good to see that ESMA has listened to the industry with regard to items such as collateral reporting moving to value date+1, but it's clear that a lot of the concerns raised by market participants and infrastructure providers have not been addressed."

"The concept of an execution timestamp as a data field has not been removed, which is surprising given under the second Markets in Financial Instruments Directive, securities finance transactions are recognised as 'non-price forming transactions' in relation to best execution. ESMA has, however, included a one-hour tolerance when subject to reconciliation."

Challice added: "This has not addressed key concerns raised by market participants such as the fact that it is a principal level reporting requirement (but only the omnibus delivery would have a timestamp) together with the fact that the majority of transactions or lifecycle events (trade reallocations, corporate actions) are not executed on a trading venue and, therefore, within the securities finance industry there is no infrastructure to agree, record and maintain an execution timestamp."

As a result, "running the transaction through a reconciliation process before reporting is the only way to achieve the expected matching at the trade repository", Challice explained.

The implementing measures are expected to enter into force by the end of 2017. Market participants would have to start reporting their transactions to trade repositories 12 months after publication. The reporting obligation will be phased in over nine months.

ESMA chair Steven Maijoor said: "Bringing transparency and oversight into the multi-trillion euro market of securities financing transactions is an important step in closing a regulatory gap."

Stephanie Palmer reports

Growing pains

Amid much complexity, Andrew Gordon of RBC Investor & Treasury Services outlines what he thinks will dominate the agenda at FundForum Asia 2017

What do you expect from this year's FundForum Asia?

FundForum is the biggest asset management-focused event in Asia each year, with a healthy combination of the global managers, many of whom are already very active already in Asia, and some who would like to be more active in Asia, as well as local players and service providers that support the industry. It's an opportunity for everyone to take the temperature of where the industry is, and consider where they're going.

Despite a few clouds on the horizon, the macroeconomic climate in the region remains strong. There is continued strong economic growth in China and a number of other markets, and we are seeing themes of an emerging middle class that has disposable income and the ability to buy investment products. Different markets in the region have different demographics.

Some have young populations with long-term savings needs, while others are already facing old-age crises. Those factors make for a dynamic environment for asset managers.

Beyond that, there are some interesting specifics around China—a market that offers unique challenges. Here, there is clearly growth in the asset management industry, but I would caution that it is not easily addressable, particularly for foreign players.

Will China be a big talking point on the conference agenda?

China is always a big talking point, with numerous themes emerging. We are seeing the rapid emergence of technology-driven distribution, particularly for money market funds (MMFs), that are distributed effectively over the Alipay platform. This is not a particularly sophisticated investment product, but it is a very innovative distribution technique that has raised a large amount of assets, more than doubling the size of the Chinese mutual fund industry over a relatively short amount of time.

A number of our clients are distributing their UCITS funds into China, primarily through the private banks. It's not a high-volume business because of the qualified foreign institutional investor quota, but there is modest activity coming out of it. Asset managers are also able to run joint ventures—some successfully, some less so—and this has enabled foreign firms to gain direct experience of the Chinese market, in terms of producing new products and selling those products through secondary distribution channels.

We are also starting to see activity around the wholly foreign-owned enterprise (WFOE) in China. It's only recently that overseas asset managers have been allowed to own a WFOE and to manage domestic assets on behalf of domestic clients—previously, they were limited to minority interests in a joint venture. That's quite a significant opening up of the market that has allowed, and encouraged, global managers to expand their footprint.

Asset managers have also been using the stock connect programme, which now covers the Shanghai and Shenzhen exchanges, and many are looking to test the inter-bank bond market.

On top of this, a bond connect programme is expected to be opened up by the end of the year.

There is a lot happening around China, and it will be interesting to see whether asset managers will take investment exposure there or gather investor capital. Everyone needs a deliberate strategy, and, given the characteristics of the market, I think it's important to take a pro-active decision in how to approach it.

How does the Mutual Recognition of Funds scheme between China and Hong Kong compare to other fund passporting schemes?

Each of these schemes is moving at a different pace, and each has its own portfolio of markets that it covers. The Hong Kong-China Mutual Recognition of Funds (MRF) scheme has been fully active for over a year, but there is a fairly small number of funds that have been approved for northbound distribution so far. There are funds that have met all of the conditions, and appear to be waiting on foreign exchange approval from the Chinese authorities. This may be a macro situation, in which China is managing its foreign exchange reserve position and the value of its currency. That may be what is driving whether the tap is on or off, and currently it is off.

The impact of a disappointing first year means asset managers are increasingly viewing mutual recognition as something they would like to do, but not necessarily in the short term.

The other significant fund regime, the Asia Region Funds Passport, is not up and running yet, but is believed to be on track. With the breadth of markets it covers, including Japan, some market commentators believe this will be the winner over time, but it's too early to tell at the moment. Where there does seem to be a consensus, however, is that the Association of Southeast Asian Nations collective investment scheme is so far failing to deliver expected volumes.

A very small number of funds have been approved and an even smaller value of assets have been raised by them.

How will the introduction of these schemes affect UCITS distribution?

Cross-border fund distribution in Asia today is still dominated by UCITS. They're heavily sold in markets such as Hong Kong, Singapore and Taiwan, and in other markets to a lesser extent, either directly or through feeder funds.

Having many local funds can pose a risk of fragmentation. If you're going to set up funds in multiple markets, run different structures with different rules, and work with different service providers, you're going to inject more operational risk into your business—much more than you would have if you were distributing a UCITS fund with a greater volume of assets and more consistency around operating parameters. A UCITS provides one big fund rather than a portfolio of smaller funds with similar, but different, rules.

Everyone in financial services is concerned with the proper management of risk, and Asia is particularly challenging because in order to get outperforming strategies into the hands of a wide variety of investors you have to deal with various different jurisdictions and practices. It has to be worth it, and you have to have the appetite—and the resources—to do it properly. UCITS funds still offer a relatively easy way of managing this, but there are questions in the market as to whether they will continue to have such a large share of cross-border distribution in Asia. That's where the fund passports come in.

What other major challenges do you see on the horizon in Asia?

There are always going to be regulatory questions that need to be answered. In Hong Kong, the regulators are starting work on something similar to the UK's Retail Distribution Review. It looks as though Hong Kong will go down the transparency of fees route, rather than prohibition on the payment permission for fund sales. That type of change in the environment could be huge if it doesn't go in the direction the industry anticipates. Nobody underestimates the ability of regulation to reorder priorities. Each market is very different, and the fact that Asia is so many markets means managers have to make conscious decisions about where they want to do business and in what way.

The second point has to be technology. There are a lot of technology disruptors and not only in the financial technology space. There are robo-advisers setting up in Hong Kong, Singapore and China and there are traditional service providers embracing robo-type technology. So far, none of them have made any real impact, but in three to five years, it would be sensible to assume that they will have, let alone looking ahead 10 years or so.

We're also seeing pure online distribution of funds, and there is a government-sponsored online funds supermarket in South Korea already. It has not done well so far, and the main reason appears to be confusion—there is too much choice and not enough advice to help investors. In many ways, I would see this as a positive for the industry, but there are also online providers in Hong Kong offering business-to-customer and business-to-business models of the same kind of platform, so I don't see this trend fading.

We will also hear more about China. China has changed so much in the last couple of years, so in a two- to three-year, or longer-term horizon, further change is difficult to predict. Asset managers need to spend time getting their strategies right and be flexible to how the liberalisation of Chinese markets may evolve in the future.

Finally, fund penetration is low in Asia, and it is a long-standing challenge for the industry to increase it and make sure funds are used in an appropriate way, as long-term savings and investment tools rather than as short-term trades. However, five, 10 or even 20 years ago, I would have said exactly the same thing. Despite a bigger industry and favourable macro and demographic themes, this is still one issue the industry is grappling with. **AST**

"Everyone is concerned with management of risk, and Asia is particularly challenging because of the different jurisdictions and practices"

Andrew Gordon, Managing director for Asia, RBC Investor & Treasury Services

Power to the people

The R&M Investor Services Survey gives investment managers and asset owners chance to voice their opinions on their providers, and this year's results put client relationships at the heart of the business

The annual R&M Investor Services survey pits financial services providers up against one another, quizzing clients from around the world on everything from corporate actions and relationship management to securities lending and breadth of network.

While this year's results threw up some surprises, the overall winners' table arguably did not (see Figure 1). Pictet emerged as the winner, pulling ahead of the Royal Bank of Canada (RBC), which it held joint-first place with last year. However, both banks saw a slight drop in their overall scores. While each scored an average of 6.29 out of 7.00 in 2016, this year Pictet scored 6.24, getting the edge over RBC's 6.06.

Northern Trust retained its third-place position, while BNY Mellon and J.P. Morgan came in at fourth and fifth, respectively, and at the lower end of the table were BNP Paribas and State Street, scoring 5.38 and 5.12, respectively.

Survey responses from Pictet clients called the provider "very helpful" and "very reliable", praising it for "enabling us to provide best services for our clients". Similarly, an RBC client called the bank an "excellent service provider", drawing particular attention to its "outstanding customer service".

At the other end of the scale were comments from State Street clients citing responsiveness that is "slow relative to other custodians" and foreign exchange rates that are "too expensive".

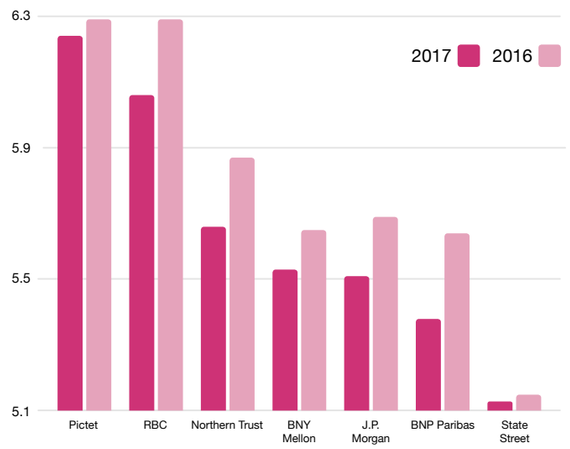
While the order of the overall leaderboard was not drastically different to in 2016, what is notable is that every service provider scored lower than it did in 2016. As Richard Hogsflesh, managing director of R&M Consultants, noted when presenting the results, R&M could not produce its usual ranking of 'most improved' banks, "because no bank did".

Pictet's score dropped by a marginal 0.05 points, however, RBC saw a much more significant dip of 0.23, with its second-place position perhaps proving testament to the strength of its score last year. BNP Paribas saw the biggest drop in score, falling by 0.26 points to 5.38.

Hogsflesh suggested that, historically, low scoring years have coincided with dips in stock market values, but this year that is not the case. He speculated that, rather, the general overall decline in satisfaction could be down the continuing pressure to comply with regulation. Alternatively, it could reflect budget cutbacks at the providers, stretching client service to the limit.

Figure 1: Overall Score

	Overall Ranking	2017	2016	Change (17/16)
1	Pictet (=1)	6.24	6.29	-0.05
2	RBC (=1)	6.06	6.29	-0.23
3	Northern Trust (3)	5.66	5.87	-0.21
4	BNY Mellon (5)	5.53	5.65	-0.12
5	J.P. Morgan (4)	5.51	5.69	-0.18
6	BNP Paribas (6)	5.38	5.64	-0.26
7	State Street (8)	5.12	5.15	-0.03
	Overall Score	5.72	5.85	-0.13



Expert opinion

When it comes to 'the experts' results, that is, results from respondents that work with five or more providers, BNY Mellon redeemed itself, as did State Street (see Figure 2).

BNY Mellon found itself at the top of the table with an average score of 5.23, slightly up on last year's score, which landed it in second place.

RBC jumped from fourth place in 2016 to second, with a score of 5.19, while State Street retained the third-place spot with 5.11.

In general, overall scores were lower in this subset, perhaps illustrating the unique ability of these respondents to make a proper comparison between providers. However, HSBC's score of just 4.00 came as a particular shock, as it fell from first place in 2016, with a score of 5.17, into eighth place this year, in what Hogsflesh called "a big tumble for them".

20Citi also scored poorly, coming in seventh place with a score of 4.22. Hogsflesh noted that R&M struggled to get many responses in for either Citi or HSBC, meaning they didn't feature heavily in the results. He added, however, that those results that did come in were largely critical.

HSBC's spectacular fall from grace could be partly attributed to client aversion to change. One respondent noted: "An internal reorganisation at HSBC changed our client service/relationship manager and they have not been as good as original team [sic]."

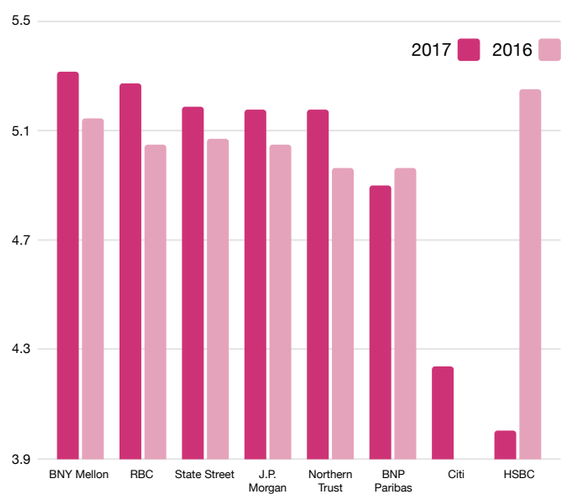
However, this is not the only issue. Elsewhere it was claimed that HSBC "do not adhere to best practice for corporate actions", while "payment of cash following optional dividends is frequently delayed", and the bank's tax reclaim reporting was called "not as detailed or timely as peers".

A Citi client was similarly scathing, saying: "Citi cope with the day to day queries well, but struggle with anything that falls outside the norm. There is a lack of urgency to progress issues, with far too many layers of management to get anything done quickly."

Figure 2: The Experts

Managers responding on multiple providers

	Overall Ranking	2017	2016	Change (17/16)
1	BNY Mellon (2)	5.23	5.07	0.16
2	RBC (4)	5.19	4.98	0.21
3	State Street (3)	5.11	5.00	0.11
=4	J.P. Morgan (5)	5.10	4.98	0.12
=4	Northern Trust (6)	5.10	4.90	0.20
6	BNP Paribas (7)	4.84	4.90	-0.06
7	Citi	4.22		
8	HSBC (1)	4.00	5.17	-1.17
	Overall Score	5.04	4.99	0.05



Top of the chain

A further subset of results considers only responses from the top 200 asset management firms, as ranked by Investment & Pensions Europe.

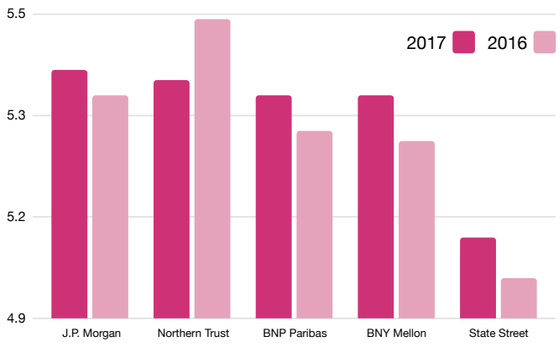
Here, J.P. Morgan jumped to first place with a score of 5.39, up from third place last year. This was followed by last year's number one, Northern Trust, with 5.37, while State Street came in last place with 5.06. It is interesting to note the minimal difference between these scores, with only 0.33 separating first and last position.

Client comments serve to shed a little more light on this, with one respondent claiming to have a "long lasting relationship with J.P. Morgan built on mutual expertise, quality and trust", adding that the bank is "our preferred global custodian".

Sentiments regarding State Street are not quite as warm but, despite the concerns around responsiveness and costs, one client suggested that its "service has gotten much better", and another praised its network management team, saying it "actively responds to queries and requests for information".

Figure 3: Top 200 Asset Managers

	Overall Ranking	2017	2016	Change (17/16)
1	J.P. Morgan (3)	5.39	5.34	0.05
2	Northern Trust (1)	5.37	5.49	-0.12
=3	BNP Paribas (4)	5.34	5.27	0.07
=3	BNY Mellon (5)	5.34	5.25	0.09
5	State Street (6)	5.06	4.98	0.08
	Overall Score	5.30	5.27	0.03



Crossing borders

It is perhaps also interesting to note that Pictet appeared in neither of the two latter results tables, due to not enough responses being submitted from its clients. That said, Pictet does appear to have a significant global reach, scoring the highest in North America, Australasia and the 'rest of world' category, including the Asia Pacific region, South America and, for the first time, respondents from Papua New Guinea.

Pictet also came in second place in the UK, mainland Europe and Switzerland, only failing to reach the top two in the Nordics, where it did not appear at all.

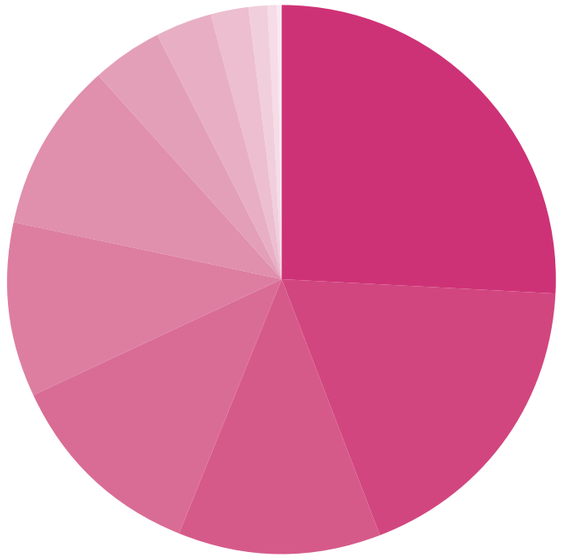
In the UK, RBC came in first place, while in mainland Europe and Switzerland, the top spot was taken by Credit Suisse.

In fact, although Credit Suisse did not appear in many of the regional breakdowns, because it didn't qualify in many geographies, in the two it did feature in it topped the list, proving itself memorable for all the right reasons.

One Credit Suisse client said they have had no serious issues over the last 12 months, adding that any minor issues have been solved in a manner that is "timely and to our complete satisfaction". The same

Figure 4: Service Category

	% of vote
Settlement and Safekeeping	25.99
Client Service and Relationship Management	18.26
Client Reporting	11.92
Monthly Accounting / Valuation Reports	11.92
Service Quality	10.36
Corporate Actions	9.95
Customer Facing Technology	4.19
Tax Reclaims	3.37
Network	2.14
Proxy Voting	1.23
Ancillary	0.49
Securities Lending Programme	0.16



respondent also specifically mentioned an "excellent contact" at the bank, and praised support on open trades and email response time.

Credit Suisse was also the clear winner among asset manager and asset owner respondents. Among asset managers, it topped the table with an average score of 6.69, while among asset owners it scored a huge 6.88 out of 7.00, improving very slightly on last year's score of 6.85.

Performing a little less well, globally, were State Street, BNP Paribas and BNY Mellon, despite the latter's success in the experts category.

One respondent suggested BNY Mellon's services could be affected because of heavy workloads. Although client engagement has improved, they said, this will "pale into insignificance unless they ensure relationship managers are appropriately resourced and equipped".

Another was less understanding, saying: "Out of the relationships we have, BNY Mellon consistently cause us the most issues in most areas. They do not have the infrastructure to turn queries around quickly enough, with too many answers having to be double checked or sent back as they are not complete."

Yet another noted: "Client care is quite poor".

Staying in touch

Finally, for the first time, respondents were asked to select the three service elements they consider to be the most important. The most valued service emerged as settlement and safekeeping, which Hogsflesh called "the core of the business", and which received 25.99 percent of the vote.

This was followed by client service and relationship management, named by 18.26 percent, and then client reporting, and monthly accounting and valuation reporting, which received 11.92 percent of the votes apiece.

> *Relationship managers may be good at their jobs and valued by clients, but a lack of resources means they're stretched, and this is affecting the service they can deliver*

The importance placed on client relationships was an ongoing theme that also came across in many of the comments, with one respondent saying: "At the end of the day, it's the people make the difference [sic]."

Other comments suggested that, while relationship managers are good at their jobs and valued by clients, a lack of resources means they're stretched, and this is affecting the service they can deliver.

Hogsflesh summed up, saying: "Quality of client service and relationship management is the biggest differentiator between providers. That has always been the case, and it continues to be the case."

"Providers tend to be very large organisations and things are much more automated than they used to be, but at the end of the day, this is still a people business." **AST**

Results Tables

Asset Managers

		2017	2016	Change (17/16)
1	Credit Suisse (1)	6.69	6.81	-0.12
2	Pictet (3)	6.16	6.25	-0.09
3	RBC (4)	5.95	6.16	-0.21
4	BNY Mellon (8)	5.52	5.52	0.00
5	Northern Trust (6)	5.50	5.64	-0.14
6	BNP Paribas (9)	5.39	5.45	-0.06
7	State Street (10)	5.20	5.15	0.05
8	J.P. Morgan (7)	5.19	5.61	-0.42
	Overall	5.72	5.84	-0.12

UK Asset Managers

		2017	2016	Change (17/16)
1	RBC (2)	5.78	5.89	-0.11
2	Pictet (1)	5.76	6.05	-0.29
3	Northern Trust (4)	5.35	5.46	-0.11
4	BNY Mellon (7)	5.28	5.27	0.01
5	BNP Paribas (6)	5.25	5.28	-0.03
6	J.P. Morgan (5)	4.96	5.42	-0.46
7	State Street (8)	4.85	5.19	-0.34
	Overall	5.37	5.52	-0.15

US Asset Managers

		2017	2016	Change (17/16)
1	Pictet (1)	6.52	6.58	-0.06
2	BNY Mellon (2)	5.83	5.92	-0.09
3	Northern Trust (3)	5.63	5.78	-0.15
4	J.P. Morgan (4)	5.43	5.66	-0.23
5	State Street (5)	5.27	5.32	-0.05
	Overall	5.89	5.96	-0.07

Asset Owners

		2017	2016	Change (17/16)
1	Credit Suisse (1)	6.88	6.85	0.03
2	RBC	6.59		
3	Pictet (3)	6.43	6.33	0.10
4	J.P. Morgan (5)	6.13	5.93	0.20
5	Northern Trust (4)	5.82	6.07	-0.25
6	BNY Mellon (6)	5.64	5.72	-0.08
7	BNP Paribas	5.49		
	Overall	6.10	6.25	-0.15

Banks

		2017	2016	Change (17/16)
1	J.P. Morgan (2)	5.87	5.55	0.32
2	BNY Mellon (1)	5.79	6.47	-0.68
	Overall	5.83	6.12	-0.29

About the R&M Investor Services Survey

The survey is carried out by asking investment managers, asset owners such as pension and sovereign wealth funds, and other organisations that deal with banks for regional and global custody and related investor services to rank providers based on the quality of service.

The survey is broken down into different service elements, ranging from core processes such as settlements and income collection through to reporting, cash management, transparency of foreign exchange rates and securities lending.

It uses a scale of one to seven, with one being 'unacceptable' and seven being 'excellent (consistently exceeds expectations)'.

The scores are calculated by taking the average received for each provider across all the service elements.

No weighting is applied based on size of the assets held with the provider.

To find out more, visit www.clientalkback.com

Regional Average Score

		2017	2016	2015	2014
1	Europe (1)	6.09	6.26	6.23	6.30
2	North America (2)	5.99	6.10	6.14	5.75
3	Rest of World (3)	5.79	6.06	5.98	6.03
4	UK (4)	5.47	5.64	5.61	5.53
	Average	5.81	5.94	5.92	5.76

UK

		2017	2016	Change (17/16)
1	RBC (2)	5.82	5.89	-0.07
2	Pictet (1)	5.80	6.14	-0.34
3	Northern Trust (3)	5.56	5.74	-0.18
4	J.P. Morgan (6)	5.35	5.46	-0.11
5	BNP Paribas (=4)	5.31	5.62	-0.31
6	BNY Mellon (7)	5.28	5.28	0.00
7	State Street (8)	4.90	5.19	-0.29
	Overall	5.47	5.64	-0.17

Europe

		2017	2016	Change (17/16)
1	Credit Suisse (=1)	6.79	6.82	-0.03
2	Pictet (4)	6.37	6.08	0.29
3	RBC (3)	6.27	6.45	-0.18
4	Northern Trust (5)	5.82	5.93	-0.11
5	BNP Paribas (7)	5.50	5.76	-0.26
6	BNY Mellon (8)	5.41	5.52	-0.11
7	J.P. Morgan (6)	5.30	5.86	-0.56
	Overall	6.09	6.26	-0.17

Australasia

		2017
1	Pictet	6.53
2	RBC	5.72
3	BNP Paribas	5.29
	Overall	5.68

Switzerland

		2017	2016	Change (17/16)
1	Credit Suisse (=1)	6.78	6.82	-0.04
2	Pictet (3)	6.33	6.15	0.18
	Overall	6.59	6.63	-0.04

Nordics

		2017
1	J.P. Morgan (1)	5.95
2	Northern Trust (2)	5.87
	Overall	5.90

North America

		2017	2016	Change (17/16)
1	Pictet (2)	6.52	6.58	-0.06
2	RBC (1)	6.12	6.54	-0.42
3	BNY Mellon (4)	6.01	5.93	0.08
4	J.P. Morgan (5)	5.90	5.82	0.08
5	Northern Trust (3)	5.70	6.07	-0.37
6	State Street (6)	5.29	5.32	-0.03
	Overall	5.99	6.10	-0.11

Far East

		2017	2016	Change (17/16)
1	BNY Mellon (1)	6.05	6.64	-0.59
2	Northern Trust	5.52		
	Overall	5.81	6.07	-0.26

Rest of World

		2017	2016	Change (17/16)
1	Pictet (2)	6.22	6.67	-0.45
2	BNY Mellon (1)	6.05	6.33	-0.28
3	RBC (3)	6.02	6.33	-0.31
4	Northern Trust (6)	5.65	5.90	-0.25
5	BNP Paribas	5.31		
	Overall	5.79	6.06	-0.27

The Debate

Angling for a share

China's stock connect programmes were designed to reel in investors, but foreigners aren't taking the bait as eagerly as anticipated. Experts discuss the angles

Q: The new Shenzhen-Hong Kong Stock Connect saw decidedly lacklustre volumes in its opening days. Is the whole concept doomed to fail?

Douglas Morton
Head of research for Asia
Northern Trust Capital Markets

The question is one of context. Similar to the Shanghai-Hong Kong Stock Connect, volumes have disappointed already low expectations, yet, despite this, the Shanghai stock connect (and its subsequent expansion) catalysed the more than 150 percent rally in China in 2014, one of the largest recent liquidity events globally. The reason was one of implication, not of consequence.

As China opens up its economy and deepens its capital market, in line with Mundell Fleming's 'impossible trinity', introducing for the first time the concept of 'credit insurance', diversification, the appropriate allocation of capital and the proper utilisation of China's vast cash deposits, the potential of more freely-flowing capital takes on a far more powerful context. The stock connects are a fundamental part of this process.

China has reached its economic Lewis turning point, as did South Korea in the 1980s. At that time South Korea too had a fixed exchange rate, a closed capital account, a large non-performing loan issue, wage inflation and slowing GDP growth. South Korea's subsequent financial reforms, much like China's, saw the Kospi, South Korea's composite stock price index, rally by more than 500 percent over the following four years. And the Kospi was included in the MSCI half-way through.

In China, recent announcements from the MSCI suggest future heavy reliance on the stock connect programmes to circumvent investor concerns on capital mobility and, increasingly, a potential June MSCI inclusion. As China continues to open up, Chinese stock connects will likely play a key role in the maturing of its financial markets, which, according to the Bank of England, could eventually add 30 percent to global nominal GDP.

Scott Laprise
Independent China analyst
Smartkarma

There were high expectations for the stock connect programmes with Shanghai and Shenzhen. Many foreign investors believed the programmes would take off right away. Volumes, especially for the recently added Shenzhen-Hong Kong Stock Connect, have disappointed. The government's view, however, is to slowly open markets in a controlled fashion and eliminate any undesirable effects.

China introduced the stock connect programme to give investors on the mainland more choices and to have additional benefit of foreign capital to fund the growing economy. While the Shanghai stock connect allows foreign investors access to big well-known Chinese companies, the Shenzhen stock connect is more of a gamble with smaller, lesser known names often trading at excessive valuations.

Since the programmes launched, foreigners have been buying more into the Chinese market (northbound) than Chinese buying into the Hong Kong market (southbound), so administrators were correct to move slowly as they do not want to create an imbalance.

Many in China still do not know about the H-share market, or that Chinese stocks were available outside mainland China. The A-share market is very popular with retail clients, and despite often volatile and unexplainable valuations, local investors feel it is a safer market due to its familiarity for them.

As the markets open up over time, Chinese investors will look to trade in Hong Kong as the stock connect programmes mature, which is better for all investors. We do expect trading volumes to continue to rise in both directions. While it is hard to say if the programmes have been a great success from the foreign investor's viewpoint, it is a good start to the opening up of the Chinese financial markets.

Just do not expect too much change too fast. We will be interested to see what happens in the long term and how Shanghai, Shenzhen, and Hong Kong will co-exist.

Matthew Chan
Head of institutional trade processing and data services businesses for the Asia Pacific
The Depository Trust & Clearing Corporation

Measuring the success of China's stock connect programmes should not be limited to assessing it purely in terms of volumes traded. To understand stock connect, one must consider China's clear-eyed objectives in introducing the scheme: capital-account liberalisation and RMB internationalisation.

On both fronts, China has made substantial progress.

Despite being the world's largest trading nation, China's economy had been closed for a long time, with high barriers for foreign players seeking to access China's market and its currency, and for Chinese savers seeking to diversify their investments internationally.

Today, the stock connect programmes are one of a number of access regimes designed to complement one another, enabling market liberalisation to occur at a steady and measured pace.

Following Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect enables international investors to access a wider diversity of equities and, now, bond connect is being promoted as a new route for accessing China's significant bond market.

Through these links, China is enabling capital to flow more freely over its borders than ever before.

Indeed, through stock connect, investors have unprecedented direct access to Chinese equities, and with FTSE now including A-shares in its emerging market index and MSCI looking to do something similar, we will likely see an upward trajectory in the number and proportion of Chinese stocks owned by the institutional segment, which will in turn subdue some of the volatility often associated with Chinese equities.

After a period of capital outflows from 2015 to 2016, February saw net inflows into the market, which some commentators attribute to factors including seasonality and improved sentiment towards the RMB, which, after inclusion in the International Monetary Fund's Special Drawing Rights, jumped to become one of the top five payment currencies globally before settling back into sixth place.

The RMB is now unquestionably an international currency.

Lawrence Au
Executive adviser—Asia Pacific
BNP Paribas Securities Services

Definitely not. Yes, there hasn't been much fanfare since the launch of the Shenzhen-Hong Kong Stock Connect programme. But foreign investors generally have been sitting on the fence with China A-shares since the market rout in summer 2015.

If we look at new funds launched under the second renminbi qualified foreign institutional investor scheme, or new quota applications for qualified foreign institutional investors, the picture has been equally as lacklustre.

Foreign investors' sentiment in A-shares is subdued at the moment because of a number of major concerns: RMB depreciation, increased corporate debt risks, uncertainty about the US-China trade relationship, and so on. It will take time for the cloudy sky to clear up.

The inter-market links between China and Hong Kong should be looked at from the strategic perspective of China's RMB-internationalisation programme.

If the Shanghai-Hong Kong Stock Connect scheme was ground-breaking and dubbed as the 'through train', the launch of the Shenzhen-Hong Kong Stock Connect scheme was the next train to make the A-shares much more accessible. The two schemes combined now allow access to more than 85 percent of China's A-shares trading through Hong Kong.

Shanghai is heavily weighted towards large caps and the more traditional industries. By comparison, Shenzhen has attracted many more small- and medium-sized enterprises and has a reputation for growth companies. It offers investors the option to invest in China's 'new economy' sectors, including information technology, industrials, consumer discretionary and healthcare.

In fact, we are seeing more and more foreign investors preferring to use the stock connect schemes, rather than others, for participating in the Chinese markets as the flexibility allows them to capture market opportunities without quotas.

In talking to Chinese institutions, we are hearing positive feedback about the stock connect schemes. The high-yield stocks in Hong Kong are attractive to them as these stocks allow them to keep assets in Hong Kong dollars while earning good dividend yields.

They also learn international practices and institutional investment through the Hong Kong market. It's about China building institutional investment from insurance companies and pension funds, and the structures that are needed for long-term investments. **AST**

The real estate we're in

Real estate as an asset class is suffering from a lack of liquidity, and investors are looking for innovative ways to get around that, says Brendan Bradley of Global Alternatives

The Global Alternatives Prop-X exchange is set to launch in Q2 or Q3 2017. What led up to development of the exchange?

Interest in property derivatives is essentially being driven by a lack of liquidity. If you consider real estate as an asset class, the actual allocation is quite significant from an institutional fund manager's perspective, but there isn't a liquid way of actually accessing the marketplace.

This isn't a new issue, and we have seen property derivatives products in the past. If a fund manager is looking to invest in a physical product, there is typically a long timeframe between starting the process and actually owning the asset, and prices can move in the interim, while the manager is determining what kind of assets they're going to get into.

The idea is that a manager can use these products as a proxy in the interim, gaining exposure through derivatives until such a time as he gets into the physical asset itself. Another angle is to consider the likelihood of the value of commercial property dropping. Managers could use this kind of product to hedge themselves. Those products are still out there. They don't trade a huge amount, but there is interest and that is increasing.

Prop-X will list securities originated by Global Alternatives's Property Crowd platform. Crowdfunding itself, and the idea of crowdfunding in property, effectively shows the market is broken. We have been focusing on bridging loan financing, and in an ideal world, that would be a service provided by the banks. Currently it's not, and I don't see any way around that at the moment.

Given the amount of money banks have taken on board from the government and other sources, and other capital adequacy concerns on top of that, I don't see them having either the risk appetite or the ability to do a lot of the things they used to.

Someone has to pick up the slack. In traditional markets such as cash equities and bonds, high-frequency or algorithmic traders would generally have stepped up. However, property remains an illiquid asset class, simply because the physical asset takes so long to move.

Are there other ways the industry can get around this?

In the long term, maybe. There are things that should come into play to move the industry forward in this regard, whether that's early-stage financial technology firms working on conveyancing—which should only take a day, not six weeks—or putting land registry on a blockchain.

There are a whole ream of things the industry could be doing, but we're starting from a point to building liquidity into the marketplace.

The way to do that is to find new sources of funds that want to allocate assets to real estate and need a different vehicle in order to do that. The vehicle we're seeing now is going back to the syndicated loan market, which saw banks running various different loans to the institutional space. For real estate, we can bring this down to a lower level, allowing either crowd or institutional money to come in. Longer-term, we would see the bigger institutions getting involved, but they will need to see more liquidity first.

Where does the Property Crowd platform come into it?

Property Crowd was a starting point from which to get more people involved in crowdfunding deals, akin to primary issuance. So Prop-X is a natural extension of that, as it offers secondary market liquidity. We are looking at extending the model to institutions that can gradually build it out for larger transactions and larger deals.

That way, instead of just sourcing from a crowd, you're sourcing institutional money and offering the opportunity for institutions to pivot if they need to. Even traditional real estate buyers are looking for tactical asset allocation. If we use the derivatives example, perhaps a firm doesn't want to fully get out of its position in London offices, but wants to be involved in shopping centres in the North East of England for a given period of time. Having the ability to do that on a short-term basis, and to get in and out of a position tactically, could be very valuable.

There was an issue with property funds following the UK's vote to exit the European Union—they had to close their doors because they didn't have the liquidity available to pay out. If they had had something liquid alongside their property funds they may not have been in that position. The ability for tactical asset allocation over a period of time is immense and, given the size of the real estate market, there should be much more flexibility.

Is this something you saw a demand in the market for?

From my personal experience of the derivatives market, to get old-school property guys to move into derivatives can be a long hard slog, but Prop-X is something of a halfway point for them, because at least there is still a physical asset involved. Moving forward, the principle will be there, and we can see what kind of other asset classes we can apply the theory to.

Real estate should be the first, because it's the biggest, but there are other asset classes that may be a bit esoteric to some investors but have a huge amount of money in them and that need liquidity.

The demand is definitely there. **AST**

> *There are asset classes that may be a bit esoteric to some investors but that have a huge amount of money in them and need liquidity*

Brendan Bradley, Chairman, Global Alternatives

Going all out(sourced)

As institutions in the Asia Pacific region grapple with regulatory challenges and inefficiency, many are looking to outsourced solutions for the answer, says SmartStream's Alan Jones

What kinds of themes are you seeing in the Asia Pacific region?

Similar to other regions, the main theme we are seeing in the Asia Pacific (APAC) region is that financial institutions are still grappling with regulations, struggling to get budgets allocated to automation projects and continually working to reduce costs. Replacing legacy solutions is lengthy and expensive, so financial institutions are seeking ways to provide the extra functionality they require by filling the gaps where manual touch points and the lack of automation currently lie. Complementary solutions can be easily implemented in areas such as reconciliations, cash management and corporate actions processing.

Also, as regional regulators such as the Australian Prudential Regulation Authority (APRA), the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Singapore (MAS) begin to warm to the idea of outsourced models, financial institutions are exploring them as a way to reduce infrastructure costs. Often this involves moving traditional in-house applications to a software-as-a-service model.

How can APAC firms benefit from the SmartStream model?

SmartStream clients benefit from many synergies—all our solutions are built on the same platform. Clients that use our Transaction Lifecycle Management (TLM) platform for nostro reconciliations, for example, have the in-house skills to be able to configure that platform to meet other reconciliation requirements such as cash, securities transactions and positions and exchange-traded derivatives, or even other business functions such as corporate actions processing. It becomes easy for clients to extend use of their platform by introducing additional modules or extending configuration, without having to invest in new technical infrastructures or hardware.

There is also the benefit of a single-vendor relationship. Firms operating in multiple markets across APAC must deal with different regulators and rules, which are complicated by the number of validations and internal checks required to confirm compliance of any vendor they form a relationship with. Managing a single-vendor relationship for multiple business functions becomes a compelling prospect when those validations can be reduced or even eliminated.

SmartStream's TLM OnDemand software-as-a-service model is designed to help clients reduce implementation project timescales. We are experienced in transforming manually-intensive tasks into automated exception management processes, allowing clients to quickly move into the user acceptance testing phase of the project. Solutions use packaged configuration based on industry best practice, used in many of our existing clients' production environments. TLM OnDemand offers solutions to clients of all sizes, while reducing their overall total cost of ownership.

Can this lead to improvements in harmonisation in the middle- and back-office?

Harmonisation is an interesting issue. Financial services firms operating in APAC are working towards the harmonisation of business processes and operational procedures, as well as data standards. Market practice working groups are helping drive those forward.

In the corporate actions space, for example, data standards are extremely mature—message standards have reached the point where the entire process can be truly automated. This automation, although hampered by some participants' interpretation of the standards, provided financial services firms with the ability to transform their corporate action processing into a true exception management process. Business rules and workflows can prioritise high-value events to ensure they get the appropriate level of attention to effectively manage the risk associated with them.

This massively reduces the overheads associated with corporate actions processing, enhancing the flow of event details throughout the organisation.

How much of a push is there to outsource data hosting and management in APAC?

SmartStream is talking to a number of the large and medium buy-side firms across the region about providing hosted, packaged data solutions. This isn't limited to smaller organisations—some of the big investment banks are also considering outsourcing their operations.

Any bank that has headquarters in APAC, be that in Australia, Hong Kong, Singapore or elsewhere, will have a system or process in a hosted environment with outsourced data. Wherever they can, they're moving more towards cheaper environments and trying to avoid hosting their own server racks.

That kind of infrastructure is not what those banks are about. There are cheaper ways to deliver the IT infrastructure they need to run their business. This is why there are so many different utilities—a hosting service provider offers the utility of computer power, and that can only strengthen the business. In the APAC market, there are a lot of driving forces towards adopting that model, and there is a strong awareness among regulators that banking organisations and financial institutions are moving in this way. We are seeing an increase in adoption of this strategy throughout APAC and expect the trend to continue.

Are the different regulators focusing on data protection and cyber security?

Yes, and it's not just local regulation. If a financial institution has operations or entities outside the region it also has to cater for aspects such as EU Data Model clauses.

SmartStream clients have to consider the regulatory standpoint on having data hosted outside of the organisation. Most regulators have guidelines wholly dedicated to cloud-based solutions and software-as-a-service models.

Due to its local presence across APAC, SmartStream has the capability to help financial institutions achieve the necessary requirements for local regulators including APRA, HKMA, MAS and more. **AST**

> *Clients have to consider the regulatory standpoint on having data hosted outside of the organisation*

Alan Jones, Business solutions director, SmartStream Technologies

Tensions rising

ALFI's European Asset Management Conference saw bells, whistles and attendees in good spirits, but discussions uncovered an industry under pressure

The Association of the Luxembourg Funds Industry (ALFI) newly-rebranded European Asset Management Conference, previously the ALFI Spring Conference, celebrated its new look with a new presentation format, lunchtime learning sessions and an array of high-profile speakers. Taking centre stage on the first day was Steven Maijoor, chair of the European Securities and Markets Authority (ESMA), who addressed some of the steps the authority is taking ahead of the UK's impending exit from the EU.

Notably, Maijoor said the authority is making a point of preventing "regulatory competition" between EU member states. ESMA has focused on moving towards regulatory convergence over the last few years, he said, making sure that regulations are applied consistently throughout the EU. Now the UK government has triggered Article 50 and started the two-year process of exiting the union, "the issue of supervisory convergence is even more prominent", Maijoor said.

Some of London's financial services market participants will be seeking a new location for some of their activities in the remaining 27 EU countries, and other financial centres are likely to make themselves as attractive, efficient and fast-to-react as possible.However, Maijoor warned: "It is extremely important that these EU 27 do not compete on regulatory or supervisory treatment."

He went on: "What we obviously cannot have is a situation where we embark on regulatory competition, supervisory competition, and where we undermine the robust standards of rule-making, the robust standards of supervision."

Over the coming months, ESMA will work on issues relating to supervisory convergence in the context of Brexit, and expects to "make an important step with this work before summer".

Maijoor stressed that this issue will affect asset management, investor services and trading venues, and noted that ESMA is exploring the instruments it needs to apply "to make sure there is not a new round of regulatory competition" like that seen before the financial crisis. However, in a panel discussion, it emerged that the challenging regulatory environment, in the EU and elsewhere, along with changing demographics, are changing the role of asset managers, bringing environmental, social and governance issues to the fore. One speaker, Xavier Lépine, chairman of the board at asset manager La Française, noted that the role of the asset manager "depends on the type of investors and the type of assets that are managed".

He suggested that pension funds, for example, have a sense of fiduciary duty and responsibility to the next generation, feeling obliged to both protect client money and to take environmental issues into account. Private equity investors, however, expect "superior returns" from an asset class that is difficult to access, and require assistance in managing their investments. Peter Branner, CEO of SEB Investment Management, added that the industry is seeing higher levels of accuracy and transparency. SEB has noted "demand for governance products like microfinance", he said, with a particular push from institutional clients.

In its traditional products, SEB is seeing a "gradual inclusion of governance issues in our investment process", Branner said, and this engagement is increasingly appreciated by institutional fund clients, which are expressing more interest in governance and social behaviour, particularly in emerging markets. Branner added that addressing social and governance issues is "interlinked" with fund performance and achieving the best return for investors.

"It's not only about getting the last dime out of the investment, it's actually also about getting a lot out of it long-term," he said. "Companies that behave well tend to do better."

Another recurring regulatory topic was the pressure of the second Markets in Financial Instruments Directive (MiFID II), with another panel suggesting that data requirements and target market rules could pose a particular challenge for asset managers and distributors.

Martin Parkes, director of government affairs and public policy at Blackrock, noted that the requirements under MiFID II are part of a broader set aimed at better product governance from manufacturers, designed to encourage them to link with distributors with regards to suitability.

One of the big differences between the first and second iterations of the directive is the "idea of continuity", Parkes said. "When you have launched a product, you continue to own it."

Manufacturers must see that a product continues to match "the label you set for it at the start", and while it may be a challenge to support distributors in meeting the 1 January 2018 compliance deadline, the directive also "poses ongoing obligations". He added: "MiFID II doesn't stop in January."

Andreas Stepnitzka, a senior regulatory policy adviser at the European Fund and Asset Management Association, suggested that, in making target market obligations work, the onus is "more on the industry". He said data is going to shape the industry, going forward, and that there must be interaction with regards to standardisation.

The industry is "trying to understand what the standard is", he said, asking: "What is the right amount of information to fulfil the MiFID II requirement?"

Stepnitzka said: "We have to have a discussion with many industry players to come up with one starting point that will be the basis for future developments."

Parkes added that data itself is "never by itself constitutive of information". Asset managers have to be careful when deciding what data they want and in which format, in order to "drive good decision making".

Following implementation of MiFID II, Parkes said he expects to see firms working with key distributors to better understand what happens beyond the intermediary nominee account, and to understand client types that are interested in the funds, and how they might react to change.

This could also be useful to help with liquidity risk management in the future, he said, adding: "More detailed, more granular investor-type information could be very valuable." **AST**

Blockchain Update

Such stuff as DLTs are made on

Blockchain has moved from a technology dream to a reality, and financial institutions should be prepared for it, says David Becker of Broadridge

In the first 50 days of 2017, more than 54,000 news stories were published mentioning blockchain or distributed ledger technology (DLT), amounting to more than 1,000 per day, according to a Google news search of English press. A good amount of this ink was spilled on predictions of how the technology will revolutionise areas of life ranging from automated cars to stock trading and currencies.

Recent research by Broadridge and Bain & Company bears out this optimism. In surveys and interviews with executives from about 100 major global financial institutions, financial regulators and exchanges, including those in the Asia Pacific (APAC) region, more than 80 percent indicated that they expect blockchain to have a "transformative" impact on the banking and asset management industries.

With the promise of revolutionary infrastructure and process changes and eye-popping cost savings—the research estimates $15 billion to $30 billion in total annual cost and capital savings to global financial market ecosystems—one might expect every financial services company to rush to claim its part of the blockchain pie. However, almost 40 percent of the companies consulted said they are maintaining a "wait-and-see" approach to the technology.

Two common reasons were given for this reluctance to move forward on blockchain development and deployment: the potentially enormous cost of the infrastructure upgrades; and uncertainty over the future of blockchain regulations.

While this level of reluctance to engage with blockchain may seem discouraging, we feel that the mix of optimism and uncertainty the research reveals paints a realistic outlook for the future of blockchain implementation in APAC.

To invest or not to invest, that is the question

Many of those interviewed indicated that constant pressure to show near-term results made it difficult to gain top management buy-in for the potentially enormous cost associated with the development and roll out of blockchain technology. As one financial industry executive commented: "Everyone is struggling with business cases and exactly where to apply their efforts."

Other companies see blockchain as a potential threat to their competitive positions, and are thus incentivised to try to preserve the status quo.

Against this backdrop, executives essentially face a game theory-type decision about blockchain implementation. Those who invest and upgrade early could gain an early-mover advantage, but they also risk disrupting their own business models and competitive positions. As another executive explained: "No one wants to be first, but no one wants to be last either."

In our view, whether a company prospers or flounders in the blockchain age will be heavily influenced by the strategic decisions they make today. The research identified four basic options for DLT-related investments. Companies can: become leaders in innovation; attempt to be fast followers; watch, wait and prepare; or opt out altogether.

We see a strong case for top management to carefully define their attitude and approach to the technology along this spectrum and to develop well-planned and considered blockchain innovation programs.

This likely means identifying 'no-regret' blockchain-related investments that will increase efficiencies and deliver cost advantages in the near term while simultaneously laying a foundation for wider, and likely more expensive, infrastructure upgrades once the technology reaches critical mass in the wider market.

Once more unto the breach

Many of the companies that remain on the sidelines—whether waiting and seeing or resisting the technology trend—cite regulatory uncertainty as a key reason for not investing in research and development.

We found reason to be sympathetic with this viewpoint, but after talking to a wide cross section of regulators, blockchain consortia such as Hyperledger and private companies, we believe regulatory implications and uncertainty over standards are no reason to delay planning for and initial investments in the technology.

Indeed, the Money Authority of Singapore and Japan's Financial Services Agency participated in blockchain forums hosted by Broadridge earlier this year in Singapore and Japan, respectively. In both cases, the regulators indicated strong support for the development of blockchain applications in their local markets. Supportive statements by the relevant regulators in Australia, China and Hong Kong lead us to believe that the stance is similar in these markets.

We see an opportunity for financial companies to identify no-regret internal upgrades that will enhance efficiencies and could deliver significant cost savings without regulatory implications. From this perspective, regulatory implications are only likely to become a challenge when it comes to replacing entire market infrastructures with blockchain technology—such as migrating entire trade reconciliation and clearance systems.

Tomorrow, and tomorrow, and tomorrow

In its research, Broadridge and Bain identified several key areas where companies could implement these no-regret investments that have the potential to deliver near-term efficiency gains and cost savings without significant regulatory implications.

Three particularly promising ideas are:

- Implementing a thin layer of blockchain on top of existing financial markets infrastructure. This entails working with financial infrastructure utility service providers that are at the forefront of blockchain developments to identify niche applications of DLT technology to deliver near-term benefits with reasonable upfront investment.
- Enhancing cyber security, which will be essential to implementing a technology as potentially disruptive as blockchain. This will also deliver near-term gains in markets where news headlines on cyber attacks, cyber espionage and cyber terrorism seem as ubiquitous as those on blockchain technology.
- Adopting open application programming interfaces (APIs), which will be critical to the adoption of blockchain when it comes to plugging the technology into current IT infrastructures. Meanwhile, these APIs can serve as a foundation for smart contracts, the tokenisation of assets and efficiency gains via information sharing across markets and asset classes.

So, that leaves us wondering what financial companies should do when the market reaches the stage where blockchain ushers in potentially revolutionary changes such as entirely new, instantaneous and transparent trade reconciliation and settlement systems.

With a clear understanding that there is little standing in the way of financial companies in Asia investing in and rolling out initial foundations of blockchain, there is no reason to doubt the thousands of news reports—and the 80 percent of respondents to our research questions—expecting the technology to initiate a market transformation. **AST**

> *There is little standing in the way of financial companies in Asia investing in and rolling out initial foundations of blockchain*

David Becker, Head of Asia Pacific, Broadridge

Playing catch-up

Asian fintech firms are the the forefront of the fund distribution revolution, but Europe isn't too far behind, says Fundsquare's Olivier Portenseigne

Progress in most industries tends to be incremental, but every so often a new disruptive technology emerges that has the potential to shake up an entire business model. In the funds industry, that technological leap looks set to come from blockchain.

Many fund managers are now familiar with blockchain. Its distributed ledger technology (DLT) threatens to radically change the way that investors access funds, creating opportunities for disintermediation within the fund distribution supply chain, and for significant cost savings.

A number of factors are driving this disruptive technology: regulatory issues, a general mistrust in financial providers, and outdated physical infrastructure and legacy systems. All of this suggests that it is only a matter of time before we see the industry succumb to Blockchain. What is less clear is exactly how the fund industry will emerge from the post-Blockchain era and what role intermediaries will play.

Asia is fundamental to industry transformation for two reasons. Rising levels in private wealth across Asia have placed Asian investors and their demands at the centre of any new fund model—according to the Boston Consulting Group, private wealth in Asia is likely to surpass that in Western Europe in 2019, reaching a projected $55 trillion.

Moreover, financial technology companies in Asia are creating innovative solutions that will radically change the customer journey from financial planning and investment management to fund distribution. Even financial advisors are not immune to the tide of change. They could soon be replaced by so-called robo-advisors, which automate the asset allocation process and allow for a personalised user experience at a much lower cost compared to traditional service providers.

Large Asian financial players and angel investors are taking note and investing heavily in fintech companies operating in a range of financial sectors. According to Bloomberg, fintech funding for start-ups in the region surged to $10.5 billion in the first nine months of 2016, more than double the $4.3 billion seen for the full year in 2015.

Introducing FundsDLT

In Europe, efforts to introduce blockchain technology into the industry are beginning to take shape as well. Fundsquare has partnered with InTech and KPMG to launch FundsDLT, an experimentation of a new decentralised fund order processing engine based on distributed ledger technologies, digital tokens and smart contracts. The aim of FundsDLT was to create a shared economy allowing asset managers, in cooperation with existing actors, to sell funds directly to retail investors.

The operating model allows an investor to go through a smartphone application, accessing fund information and performing know-your-client (KYC) duties, then processing an order by provisioning cash through digitalised token. On the other side, transfer agents will inspect the KYC elements collected and accept the order, while an asset manager can follow up inflows and outflows in the registrar in real time. Once the net asset value (NAV) has been published, the entire settlement process can be executed instantaneously.

FundsDLT is intended to operate through an application programming interface framework that delivers an open standard covering account creation, transaction processing, KYC, payments and entitlements. This is expected to lead to broader changes in Luxembourg's pool of expertise. Intermediaries like transfer agents have great stores of knowledge and are well placed to play an active role in the industry's revolution.

Putting the consumer first

FundsDLT is designed to benefit all aspects of the supply chain. It is expected to reduce the cost and processing time for transactions by streamlining administrative and order-routing tasks. For example, it can currently take up to three days for a transfer agent to execute an order taken from a client. This new fund distribution product will do this a couple of hours after NAV publication and, in the not-too-distant future, with multiple NAVs per day.

The proposed ecosystem created by FundsDLT will also ease anti-money laundering and KYC verification, and verification under the Markets in Financial Instruments Directive (MiFID) regime, by standardising the process and factoring repetitive tasks into a centralised utility. These capabilities draw on smart contracts, often considered to be one of the most secure transaction technologies in existence. As a result, investors, asset managers, custodian banks and transfer agents will be able to share information in a far simpler manner.

More importantly, FundsDLT will work towards providing investors with greater choice. As low interest rates make saving for the future an ever more daunting task, investors will need to take an increasingly active role in managing their pensions. By creating a single ecosystem for funds, investors can get better access to information and choose from a wider selection of funds. A new fund ecosystem like DLT can also reduce barriers to entry and bring so-called 'mass affluent investors' into the market.

Getting investors on board will be crucial if the industry is to take the next leap. Asia will be ground zero of the industry revolution—but Europe is quickly catching up. **AST**

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Comings and goings at Northern Trust, FundRock Ireland and SmartStream

Northern Trust has made a round of top-level appointments in Europe, the Middle East and Africa (EMEA), and globally, following the promotion of Peter Cherecwich to president of corporate and institutional services in January.

In London, Penelope Biggs has been named chief strategy officer for corporate and institutional services, while Toby Glaysher has been named head of global fund services internationally.

Clive Bellows has been promoted to head of global fund services across EMEA, and will also retain his role as Ireland's country head.

Jon Dunham, previously head of sales for the Americas, has been promoted to head of global sales for corporate and institutional services.

Finally, Robert Frazer, who was previously head of UK pensions, has been appointed as head of the Middle East, based in Abu Dhabi.

SmartStream Technologies has appointed Richard Bowler as its new CFO.

Bowler will manage the company's finance team and will be responsible for treasury, administration and financial strategy. He will report to SmartStream CEO Haytham Kaddoura.

He joins from Asset Control, where he was CFO. In his new role, he will report to SmartStream CEO Haytham Kaddoura.

Bowler said: "This is a great opportunity to work with a dedicated team of people, offering a wide array of best-in-class solutions to a strong client base. This is the optimal formula for success."

Kaddoura added: "At SmartStream we are committed to building excellence at all levels of the organisation, including acquiring the right skill set needed to drive our future growth plans."

"Richard Bowler will be an integral part of the management structure."

FundRock has appointed Louise Harris as head of legal and compliance for its Irish branch.

Harris brings expertise in fund law and regulation, including product structuring, trading, corporate governance and regulatory reporting, and brings local legal and regulatory experience to the firm.

Formally a barrister, she moved from private practice into the financial services sector around 10 years ago.

Since then, Harris has held several senior compliance positions at investment firms, including spending eight years at Abbey Capital Limited as as head of legal and compliance and then as general counsel.

According to FundRock, the appointment is part of a long-term strategy to improve its investment management services for Irish-domiciled funds.

Ross Thomson, director of FundRock's Irish branch, said: "FundRock has been servicing Irish funds since 2012 and we continue to invest in our people and our knowledge in this market."

Harris commented: "Funds domiciled in Ireland are required to be managed and governed to the highest of standards. FundRock, with its long heritage in fund governance developed over 80 years, is very well positioned in this regard." **AST**

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