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Industry participants explain how the country's custody sphere is growing

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MiFID II: one year on

The second Markets in Financial Instruments Directive (MiFID II) has "largely been successful across most parts of the market and the industry has bent over backwards to implement reforms, despite some early challenges", according to Linda Gibson, director of regulatory change and compliance risk at BNY Mellon Pershing.

Gibson's comment comes as the industry marks MiFID II's one-year anniversary as part of EU legislation, after being implemented on 3 January 2018. She said MiFID II's agenda set out "an ambition to fundamentally reform the EU financial markets for the better".

MiFID II regulates firms that provide any services to clients linked to financial instruments and venues where these instruments are traded.

Both before and after the implementation date, many industry participants raised concerns about the scope of the changes and the uncertainty surrounding the directive.

As Chris Turnbull, co-founder of Electronic Research Interchange, surmised: "With the MiFID II regulation now reaching its first birthday, it is interesting to look back at a year that many thought would bring substantial change for the asset management industry."

He adds: "In hindsight, it may have been naive to expect quick-fire change from an industry that has operated in a certain way for decades. The overwhelming majority of firms were unprepared for the changes last January, and the state of confusion continued throughout the year."

Industry confusion was not helped by the European Securities and Markets Authority (ESMA), who delayed the enforcement of the legal entity identifier (LEI) requirements by six months to July 2018, just one month before the implementation date.

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W: www.assetservicingtimes.com
T: @ASTimes_

Editor: Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6019

Deputy Editor: Barney Dixon
barneydixon@blackknightmedialtd.com
+44 (0)203 750 6026

Reporter: Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

Junior Reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0)203 750 6019

Designer: James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)203 750 6021

Publisher: Justin Lawson
justinlawson@blackknightmedialtd.com
+44 (0)203 750 6028

Associate Publisher: Joe Farrell
joefarrell@assetservicingtimes.com
+44 (0)203 750 6024

Office Manager: Chelsea Bowles
accounts@blackknightmedialtd.com

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BNY Mellon to pay $54 million to settle charges for ADRs

BNY Mellon is set to pay more than $54 million to settle charges of improper handling of "pre-released" American depositary receipts (ADRs), the Securities and Exchange Commission (SEC) has revealed.

ADRs are US securities that represent foreign shares of a foreign company, and require a corresponding number of foreign shares to be held in custody at a depositary bank.

The practice of 'pre-release' allows ADRs to be issued without the deposit of foreign shares, provided brokers receiving them have an agreement with a depositary bank and the broker or its customer owns the number of foreign shares that corresponds to the number of shares the ADR represents.

The SEC's order found that BNY Mellon improperly provided ADRs to brokers in thousands of pre-release transactions when neither the broker nor its customers had the foreign shares needed to support those new ADRs.

SEC said: "Such practices resulted in inflating the total number of a foreign issuer's tradable securities, which resulted in abusive practices like inappropriate short selling and dividend arbitrage that should not have been occurring."

This is the seventh action against a bank or broker and third action against a depositary bank resulting from the SEC's ongoing investigation into abusive ADR pre-release practices.

Without admitting or denying the SEC's findings, BNY Mellon agreed to disgorge more than $29.3 million in allegedly ill-gotten gains, plus pay $4.2 million in prejudgment interest and a $20.5 million penalty for total monetary relief of more than $54 million.

The SEC's order acknowledges BNY Mellon's cooperation in the investigation and remedial acts.

Sanjay Wadhwa, senior associate director of the SEC's New York regional office, said: "Our ongoing industry-wide investigation into Wall Street misconduct marches on."

He added: "BNY Mellon is the seventh bank or broker being held accountable for improper practices that allowed banks and brokerage firms to profit handsomely while market participants were unaware of how the market was being abused."

Continued from page 3

MiFID II requires all legal entities involved in a trade to include their LEIs in European trade reporting.

However, ESMA said that its decision would allow for a "smooth transition" of the LEI requirements. The six months adjustment period was introduced since not all firms succeeded in obtaining LEIs in time for the January deadline.

Similar to the LEI delay, firms had to make other amends to their existing systems and processes based on the varying feedback they received from local regulators, in addition, banks and asset managers had to centralise and check their data thoroughly—many are still in the process of achieving this.

As Juan Diego Martin, COO at Fonetic, affirmed: "One year on from MiFID II and we're still faced with unanswered questions."

"This is particularly the case when it comes to communications monitoring in financial institutions. In fact, some of the rules have still not been implemented by some asset managers and small banks, who are still not monitoring their communications in accordance with the regulations."

Peter Moss, CEO of SmartStream Reference Data Utility, said: "Complying with regulations is an ongoing process. Since the 3 January, ESMA has implemented a range of additional MiFID requirements on a regular basis, this included the double volume cap, the no LEI, no trade rule, the SI mandatory regime for equities and fixed income."

He added: "MiFID II was ambitious in the scope and detail of the definitions that it imposed on the market; other regulators have learned from this approach and are revisiting some of the regulations, for example, such as Dodd-Frank in the US."

A new study conducted by Plato Partnership in December 2018 found research unbundling is already going global—53 percent of buy-side respondents have already implemented a global policy and a

ICBC Asia goes live on SS&C's Geneva World Investor

ICBC (Asia) Trustee, a subsidiary of Industrial and Commercial Bank of China (ICBC Asia), is now live on SS&C's Geneva World Investor as its fund administration solution.

ICBC (Asia) Trustee selected Geneva World Investor for its global portfolio management and accounting solution, comprehensive instrument coverage, full financial general ledger and unlimited fund structures.

According to SS&C, by integrating the fund administration process and eliminating manual steps, Geneva World Investor will significantly reduce the risk of error and improve accounting controls.

Steven Wang, general manager at ICBC (Asia) Trustee, said: "Our decision to choose Geneva World Investor was based on SS&C's proven expertise in the global alternatives market and their track record of success implementing premier solutions."

He added: "The local development, implementation and support team in Hong Kong and Beijing was also a key consideration as it helped make the implementation seamless."

Mats Berggren, vice president Europe, the Middle East and Africa, and the Asia Pacific at SS&C Advent, commented: "We are committed to delivering an outstanding platform to ICBC (Asia) so they have the tools and technology to provide their clients with unmatched value and investment insights. We welcome this as a significant addition to our growing client base in the region."

further 20 percent will do so within the next five years.

"In Europe, the change may be regulatory driven, but across the rest of the world it is being led by end investor demand", Plato Partnership said.

Where the sell side is concerned, Michael Horan, head of Trading and BNY Mellon Pershing commented: "The impact of research unbundling on sell-side research was well-documented in 2018, and the exodus of research analysts from the sell-side will continue into 2019."

He added: "However, the more impactful trend to come out of research unbundling is the unintended consequence of reduced liquidity across small and mid-cap equity markets, because of lower company coverage on these types of stocks."

Turnbull said that overall we are still in the infancy stage of understanding and adapting to the regulation.

He added: "We are very much in the infancy stage at this point. It could take five years for the regulation and implications of MiFID II to finally bed down across the industry, so we have a long way to go."

And as Volker Lainer, vice president of product management at GoldenSource, indicated: "As the candle blows out on MiFID II's inaugural year, it is clear banks, brokers and asset managers can ill afford to sit and ponder what to do next. With new regulatory headaches pending, financial institutions face the daunting prospect of collating and reporting on even more detail."

He added: "With this in mind, it is surely high time for market participants view regulation not as a need to do, but as a long-term opportunity to reduce total cost of ownership."

EFAMA: worldwide investment fund assets increases

Investment fund assets worldwide increased by 2.1 percent to €47 trillion at the end of Q3

Grange Insurance selects Northern Trust for global custody services

Northern Trust has been appointed by Grange Insurance to provide global custody and insurance investment accounting services to its investment operations.

Grange Insurance is one of the 22 clients that Northern Trust has added to its insurance solutions business.

According to Northern Trust, the growth has come from rising demand for outsourcing and success with competitive bidding for large mandates. The new clients will benefit from asset servicing, asset management and capital markets support for insurance general account and pension assets, derivatives portfolios and voluntary employees' beneficiary association.

Grange Insurance's chief investment officer, Chris Montgomery, commented: "As Grange continues to grow as an insurance company, Northern Trust provides a dedicated group of experienced relationship managers and technology designed to address our evolving challenges in risk management and regulatory reporting."

Chris Dvorak, head of insurance solutions at Northern Trust, added: "Insurance companies that are reaching the limits of their technology and operations platform need to partner with service providers with the tools, talent and global strength to support their future growth."

2018, according to The European Fund and Asset Management Association (EFAMA).

The results were included in EFAMA's latest international statistical release, which describes the developments in the worldwide investment fund industry during Q3 2018.

In US dollars, worldwide investment fund assets increased 1.5 percent to stand at $54 trillion at end Q3 2018.

Net inflows into funds worldwide amounted to €169 billion, down from €193 billion in Q2 2018. Net inflows reached €50 billion in Europe, compared to €119 billion in the US and €35 billion in Japan.

Long-term funds (all funds excluding money market funds) recorded net inflows of €215 billion, compared to €162 billion in Q2 2018.

Equity funds recorded net sales of €83 billion, up from €38 billion in Q2 2018. Japan recorded the largest net sales of equity (€36 billion), followed by Europe (€20 billion).

At the end of Q3, assets of equity funds represented 42.7 percent and bond funds represented 19.9 percent of all investment fund assets worldwide. Of the remaining assets, money market funds represented 11.1 percent and the asset share of balanced/mixed funds was 17.2 percent.

Amiral Gestion selects CACEIS

Amiral Gestion has selected CACEIS and its OLIS Performance tool to facilitate the management of its funds' investment strategy.

OLIS Performance, a module of CACEIS's OLIS web portal, offers institutional investors and asset managers performance and risk monitoring data on their financial portfolios.

According to CACEIS, the data collection process with controls operated at each stage is fully integrated and automated all the way to final reporting.

Clients benefit from analysis tools for performance measurement, asset allocation

NAFAA adds Horseshoe and Sudrania

The North American Fund Administration Association (NAFAA) has added Horseshoe and Sudrania to its roster business association for alternative fund administrators.

Since launching in February last year, NAFAA has added nine alternative fund administrators to its association and have several others who have expressed their intention to join this year. The new association addresses the requirements and goals of investors and allocators, generate a useful and progressive dialogue with regulators and enhance and improve both the reputation and understanding of the North American fund administration industry.

NAFAA was set up to act as a voice for the administration industry and aims to support the administration's space, providing a forum where professionals can share and implement ideas for progression.

Chris Meader, founding director of NAFAA, said: "Horseshoe has an extremely experienced team with a firm commitment to controls and standards and Sudrania was formed by a team of fund administration professionals each having more than 15 years of experience in the industry, making both firms ideal participants to assist NAFAA in its quest to enhance the alternative fund administration industry."

He added: "We are delighted to have them join the association and our working groups to help solve industry-wide challenges and establish standards and best practices for fund administrators."

Brian Desmond, head of fund services at Horseshoe, commented: "Horseshoe are delighted to be accepted as members of NAFAA. We see NAFAA as a very important addition to the North American fund administration market."

He added: "Fund administrators are robustly regulated in many offshore jurisdictions so it makes a lot of sense for US-based administrators to also be held to high governance and operational standards. NAFAA is in a great position to drive this initiative and Horseshoe looks forward to working with Chris Meader and the other NAFAA members in 2019 and beyond."

Nilesh Sudrania, founder and CEO of the Sudrania Fund Services, said: "NAFAA is a step in the right direction to gather the fund administration industry at one place to work together and define the standards and work towards the common benefit and improved services to the managed funds industry. Sudrania Fund Services is excited to join the association in its early days and hopes to give back to the industry."

analysis, contribution analysis, the breakdown of performance by asset, and risk analysis, CACEIS revealed.

Benjamin Biard, deputy CEO of Amiral Gestion, stated: "OLIS Performance provides access to a wide range of dynamic reports and indicators that are a reliable and relevant source of information. We are very satisfied with this solution, which we have extended to the majority of our funds."

Joe Saliba, deputy CEO of CACEIS, commented: "We are delighted to strengthen our partnership with Amiral Gestion. With OLIS Performance, our clients have a turnkey solution for the efficient management of their investment processes and risk exposure."

Clearstream expands product offering

Clearstream has revealed that this year will see further enhancements of its product offering and network. The blog post, written by Thilo Derenbach, Clearstream's newly appointed head of TARGET2-Securities (T2S) investor-central securities depository (CSD).

According to Derenbach, approximately 80 percent of the custody and settlement volume of T2S markets is now available through Clearstream's investor-CSD model.

To keep that number growing, Derenbach revealed that Greece will join its investor-CSD solution and will expand its French offering into French Registered Shares. It is also looking to cover smaller, but equally relevant T2S-in markets.

Derenbach added: "Moreover, as promised, we will expand our offering to Eurobonds in H2 2019, which is a commitment that we made to the market a while back and are proud to be able to deliver now."

"What we have already started and continue to strive for is to enhance the connection to trading venue-driven settlement activities. Our goal is full coverage of our client's European custody activities." AST

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Facing the future

Industry participants share their outlook on what trends, challenges and opportunities the market will see this year

Becky Butcher reports

The beginning of last year saw the introduction of the second Markets in Financial Instruments Directive (MiFID II), shortly followed by the General Data Protection Regulation (GDPR) in May. While the industry is not being kept awake at night with MiFID II nightmares, there are still many challenges.

One of the biggest challenges financial services firms will face this year is the UK's departure from the EU—the industry's biggest challenge is undoubtedly the uncertainty around Brexit.

It's not all doom and gloom for 2019, however, as industry participants predict that there will be many opportunities to be had. One of the biggest opportunities is technology. As firms continue to adapt to the new regulatory landscape, there is a big opportunity to replace traditional processes and implement new technologies to optimise workflows.

What will be the biggest trends in the asset servicing world for the year ahead?

Paul Stillabower: This year I believe the industry will see the use of data-driven technology increasingly being the primary way that custodians service their clients. Custodians will be looking at specialist ways to deliver and integrate data into the services they provide for asset managers to enhance the client experience and improve control and efficiency.

Asset managers will no longer be looking to buy just custody and investor services, but the data and analytics service that goes with that.

I would expect custodians to be looking at ways in which they can commercialise the data that they hold. They will do this by perfecting the ways in which they ingest, analyse and examine data to add predictive insights and visualisation tools to help asset managers oversee, govern and grow their business.

David White: We've found that asset servicers are increasingly looking to move away from inbuilt systems which can be costly to maintain and can struggle to keep pace with regulatory developments. Instead, they are more open to engaging with specialist vendors and tend to favour web-based solutions over installed software—a trend we expect to continue well into next year and beyond as clients look to cut costs and keep pace with market best practice.

> *We've found that asset servicers are increasingly looking to move away from inbuilt systems which can be costly to maintain and can struggle to keep pace with regulatory developments*
>
> **David White**
> **Global head of sales, triResolve**

Kevin O'Neill: I think the industry will see an improvement in the end client/investor experience and improvement in productivity through digital transformation.

Client onboarding is typically manual and bureaucratic, including lots of duplication of information request to investors. This makes the onboarding and offboarding experience a challenge when working with investors and funds. As the market becomes increasingly competitive, the need to streamline and reduce the time it takes to onboard new clients has never been more pertinent. This will be the year when the sector is challenged to digitalise the entire customer journey end-to-end. Centralising data to achieve a single-client view and digitising the account opening process will not only improve the client experience for faster onboarding and opportunities for revenue, but huge efficiencies will also be gained from a productivity perspective. This will give asset managers the freedom to re-allocate employees to more value-added tasks within the business. I think we will also see firms using technology and a community-based approach to deal with regulation. Currently, most organisations are trying to deal with existing regulations while also keeping track of future regulations that could impact their business. The cost of dealing with changes in regulation is a big deal and financial institutions are always seeking a better and easier way of managing the constantly evolving landscape.

This year, asset management firms will be looking for automated processes for dealing with regulatory change as well as a strong reference point within a community of peers. By adopting a community approach to regulation, asset managers can share and learn from different ways of dealing with the new regulation. In the past, organisations handled this in a siloed approach. By forming communities, organisations can leverage best practices that are already in place, such as technology, as well as share intelligence, product development initiatives and ultimately be better prepared for upcoming regulatory change.

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>
> **Kevin O'Neill**
> **Global head of buy-side division, Fenergo**

Tony Freeman: The slow but inexorable rise of Target2Securities (T2S) will continue to shape the asset servicing market. Further, I expect that throughout the coming year more global custodians will consolidate their asset servicing with a single provider for all T2S markets in order to ensure operational efficiencies and reduce costs.

Brian Collings: Banks are increasingly looking to provide greater value to their clients, and the richest source of value is data. By mining the information that banks have about their clients, they can create new insights and differentiate their offering. As the finance industry is pushed towards transparency and competing for quantifiable advantages, the data that banks can offer potentially makes a big difference to their own efforts to service their clients. For banks, providing data as a service only works if they are able to aggregate information into a single point, and mask it where necessary, to ensure compliance with data privacy laws.

Demi Derem: I expect to see growth in outsourcing both technology and operations as asset servicing teams get more comfortable with the use of specialist vendors to help counteract the combined pressures of large-scale regulatory compliance and a high expense base, while simultaneously seeking to drive efficiency and optimise service standards. We also anticipate continued growth in securities lending activity and, as a result, expect to see new governance practices emerging and solutions being developed.

Arzish Baaquie: Continued topsy-turvy performance of the emerging markets, doubtlessly throttled by the China-US trade war; the volatility will present some opportunities for emerging market fund managers to pick up high-quality assets at discounted valuations but, overall, the investment managers will be relatively conservative with their outlook in the first two quarters of 2019.

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Where will the big opportunities be?

Collings: In Europe, MiFID II has created a demand for reporting and data around pricing that simply did not exist before. Similar regulatory frameworks are being implemented in other jurisdictions, where end investors and regulators are keen to demonstrate the highest standards of performance and transparency.

Consequently, change is taking place across the US and the Asia Pacific which will create opportunities for banks with the right data infrastructure.

Paul Roberts: We see big opportunities for organisations who can eliminate the current inertia in their infrastructure, enabling them to respond quickly to new business opportunities plus harness scale across their businesses. This will inevitably involve a shift enterprise infrastructure and application platforms in the cloud.

Stillabower: There's been much discussion about fintechs disrupting the asset servicing industry, creating new products and eroding the revenues of the traditional custodians. I can honestly see room for both to co-exist, but instead of creating solutions which are looking for problems, I expect to see asset servicing providers partnering with fintechs to identify the best solutions to specific industry challenges.

> *I expect to see asset servicing providers partnering with fintechs to identify the best solutions to specific industry challenges*
>
> **Paul Stillabower**
> **Global head of product management, RBC I&TS**

Derem: Asset servicers and custodians need to transition away from complex and costly legacy technology infrastructures and become more nimble and cost-efficient. As a result, we expect to see real traction in outsourcing, especially from historically in-house entrenched institutions.

For the first time, European regulation around proxy voting through the chain of intermediaries will be a driver for significant change. While there are certainly challenges to be overcome, there is a real opportunity for those focused on investor communications to use this as a springboard for collaboration to build a better process for all participants in the process.

New rights and obligations, such as the right for issuers to know the identity of their shareholders, will create new product and business opportunities for participants that are strategically placed to benefit.

Freeman: I anticipate that while large institutional investors will continue to avoid investing in cryptocurrencies and digital assets, custodians will begin to build the capability to process trades and holdings in real assets that can be tokenised.

To enable this, however, clarity will be needed with regards to the regulatory environment for tokenisation of assets.

White: Market participants have spent the last few years tailoring their operational processes to meet the demands of new regulation. In the race to be compliant, many firms implemented tactical solutions. By prioritising compliance to continue trading, the solutions devised were often sub-optimal.

As firms continue to adapt to the new regulatory landscape, there is vast opportunity to overhaul their traditional processes and consider the use of new technologies to optimise their workflows.

By working with specialist partners to meet impending regulatory deadlines (such as the uncleared margin rules), those stuck using manual and fragmented processes will be able to reevaluate their approach and ensure their processes are both cost and operationally efficient.

What developments do you think we will see in the technology space?

Derem: In terms of technology innovation, we expect to see continued large-scale IT systems and infrastructure replacement projects—both at an individual financial institution level as well as at a market level. We also expect to see real advances in response to the industry's drive for solutions in artificial intelligence (AI), blockchain, cloud and digital technologies.

Taking blockchain as an example, last year was significant for advances in proxy voting with participants throughout the proxy lifecycle taking part in pilot processes. Looking ahead, there are clear opportunities for firms to capitalise on the enhanced transparency, efficiency and security that this technology can enable.

Regulation as a driver for process change is also placing pressure on existing messaging standards. For example, tighter compliance deadlines in the issuer communications space mean the need for straight-through processing (STP) has never been greater.

Existing message standards such as ISO15022 either need a significant change in order to manage these flows, or newer standards such as ISO20022 will need greater adoption across the industry. So standards discussions will likely intensify.

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Certain vendor solutions for management of corporate actions are starting to become industrialised and are now better able to cope with sourcing data, calculating entitlements and interfacing with elections.

The combination of stronger applications and availability through cloud hosting solutions is another driver causing firms to re-think their internal and legacy third-party platforms.

O'Neill: Digitising the client lifecycle should become top of the agenda for asset managers this year. In reality, the opening of accounts is still a costly, error-prone, labourious and 'dated' experience. Fragmented systems, housing several unconnected repositories of data and documentation, mean that asset managers find themselves repeatedly asking investors to submit and resubmit data and documentation required to support the account opening or new product onboarding process.

Most of this data capture is manual, involving paper-based questionnaires—even for existing clients who may be switching or adding new products. This can become a very tedious, lengthy and exacerbated process for clients, and may result in abandonment altogether.

A recent McKinsey report outlined how one asset manager described how almost 300 people were being copied on emails during the onboarding process due to a lack of accountability. Clients are demanding more and more digital capability and experiences from their financial institutions; however, many are seriously underperforming in making this a reality.

According to McKinsey, asset managers that are leading in digital transformation onboard new clients 62 percent faster and 75 percent less in cost compared to the industry average. This is proof that while achieving digital transformation is a long-term endeavour, those already on the path are reaping the benefits.

Freeman: The blockchain technology that underpins the trading of cryptocurrencies will begin to be adopted by traditional infrastructures. The Swedish central bank is pioneering in this area with its e-krona project to allow the currency to exist in its current form alongside a fully digital tokenised equivalent.

Furthermore, we expect other technology applications to continue to advance. Looking at DTCC specifically, this year we anticipate the go-live of our Trade Information Warehouse which has been re-platformed using distributed permissioned blockchain technology, in order to bring further efficiencies to post-trade processing and transform how the industry processes credit derivatives.

Roberts: This year will be a big year for technology, a year when we will see the realisation and unleashing of potential to deliver new low-cost asset servicing options.

There will be disruptors in the asset servicing space using new technologies, combinations of technologies, and new and disruptive infrastructures to deliver innovative asset servicing offerings.

We believe there is the opportunity for new technology-driven entrants powered by the cloud, AI and other production platforms to cause asset owners and asset managers to re-imagine current operating models and cost structures.

"This year will be a big year for technology, a year when we will see the realisation and unleashing of potential to deliver new low-cost asset servicing options"

Paul Roberts
CEO, Milestone Group

Collings: The application of AI technology—for example using robotic process automation—will enable far greater data sets to be consumed, and that will fuel the growth of new services.

As a result, many banks will achieve a previously unattainable level of understanding of their own operations and those of their clients, which can help them to create even greater efficiencies.

Connectivity and integration are also not to be underestimated. The use of modular technology changes the prospects for installation and growth of systems within financial services, so the limitations of legacy systems can finally be overcome.

White: As technology advances, firms can achieve real transformative change through the automation of tasks that are often manual and fragmented.

Such developments will help market participants overcome operational inefficiency and streamline their processes. By staying up to date with technological advances, market participants can strive to replace more of their manual processes and focus their efforts on higher value activities that help reduce risk.

What regulations will be the biggest challenge for the industry?

Collings: More than specific regulations, the breakup of consensus on rules between the US and Europe and between the UK and Europe poses the greatest potential challenge for compliance teams.

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Fragmentation of rules is hard to manage from an operational point of view. Even the threat of fragmentation will require firms to think about how their current operational and technology architectures are put together.

We're seeing authorities question the rollout of some rules, such as the Fundamental Review of the Trading Book and the Volcker Rule, which could lead to existing projects being changed significantly.

Furthermore, the European Parliament's elections in May might create a very different atmosphere for financial regulators.

White: This year and 2020 are set to bring potentially thousands of firms in scope for the mandatory exchange of initial margin (IM). Meeting the requirements for IM have proved to be time-consuming and laborious to implement so firms need to begin their preparations now.

Through working with phase one, two and three firms, we've found the main pain points are calculating the inputs for International Swaps and Derivatives Association's (ISDAs) Standard Initial Margin Model (SIMM), finding an efficient way to agree and exchange margin calls with counterparties, and pinpointing dispute driving differences as they arise.

Freeman: This year will definitely be the year during which firms across the buy-side and sell-side begin to prepare for the regulatory avalanche that will take place in 2020.

This includes the Securities Financing Transactions Regulation (SFTR), the Settlement Discipline Regime component of the Central Securities Depositories Regulation (CSDR) and phase five of the mandated implementation of initial margin rules for over-the-counter derivatives.

Furthermore, a new European Parliament and Commission will start work in September and set the regulatory agenda for the next few years.

> *This year will definitely be the year during which firms across the buy-side and sell-side begin to prepare for the regulatory avalanche that will take place in 2020*

Tony Freeman
Executive director, industry relations, DTCC

Derem: The updated Shareholder Rights Directive (SRD II) in Europe and the publication of its Implementing Regulation means that intermediaries now have enough clarity to start evaluating their product offerings.

New requirements, including significantly more stringent processing deadlines and new processes such as shareholder identification, must be factored into their asset servicing capabilities and product development plans.

SRD II also leaves a lot of room for member states to choose different directions or standards. This year, custodian banks will either need to collaborate and lobby strongly for consistency or deal with divergent standards and challenging technical requirements for compliance.

CSDR will also be a high and growing priority. Some of the biggest changes under CSDR have primary impacts beyond the CSDs themselves, to institutional market players and custodians.

Chief among these is a newly restyled settlement discipline regime, which targets timely and efficient settlement in two steps—through the introduction of cash penalties, and by implementing a mandatory buy-in procedure.

> *Some of the biggest changes under CSDR have primary impacts beyond the CSDs themselves, to institutional market players and custodians*

Demi Derem
General manager, investor communication solutions international
Broadridge

O'Neill: The reporting pillar of the SFTR requiring financial counterparties and non-financial counterparties to report their securities financing transactions is expected to come into effect as early as Q1 2020 (on a phased approach).

Asset management firms must start to prepare now by allocating resources or risk being left behind.

The planned European Market Infrastructure Regulation (EMIR) regulatory fitness and performance proposals are also going to be of importance.

A draft regulation is currently undergoing negotiation, however, the first amendments could come into force this year.

What other challenges do you expect to see?

Baaquie: In the UK, uncertainty will dominate, primarily due to the nature of Brexit.

Once the dust has settled on Brexit, the new Britain will undergo some teething pains but eventually find its feet, albeit lacking a large talent pool.

> *Once the dust has settled on Brexit, the new Britain will undergo some teething pains but eventually find its feet, albeit lacking a large talent pool*
>
> **Arzish Baaquie**
> **Managing director, Smartkarma UK**

Derem: Driven by asset owner behaviour, fund managers continue to look for opportunities to differentiate themselves, with greater emphasis on stewardship and environmental, social and governance offerings.

This will lead to pressure to continuously improve services in a regulatory environment, which may remain challenging for financial intermediaries.

The trend of doing more for less has and will continue to present threats. Financial intermediaries have managed to survive in buoyant markets; however, as history tells us, at some point the market will turn and when it does, volume-related revenues will start shrinking.

Those that invest in making themselves more efficient now, and reinventing their own individual economic wheel, will find themselves the real winners in the longer term.

Freeman: I expect the financial services industry to continue to grapple with cybersecurity threats in 2019 and for years to come. It is certainly an area that keeps senior management awake at night.

In fact, according to the most recent findings of our annual Systemic Risk Barometer Survey, cyber risk was ranked within the top five risks by 66 percent of respondents. The next market crisis could well originate in this area.

Furthermore, firms will continue to face challenges with regards to several Brexit-associated issues, including uncertainty about the nature of the withdrawal agreement, the impact of Brexit on access to the UK's capital market by EU investors, and access to the continent's capital markets by those based in the UK.

Collings: Margin and cost pressures will not go away and as such efficiency will continue to be the name of the game.

The big challenge will be to turn that data aggregation cost centre into a profit centre, by repurposing data and making it into business intelligence.

> *The big challenge will be to turn that data aggregation cost centre into a profit centre, by repurposing data and making it into business intelligence*
>
> **Brian Collings**
> **CEO, Torstone Technology**

O'Neill: GDPR has led to a worldwide scramble to update national data protection policies as the free flow of data becomes increasingly regulated, impeding trade and commerce in a progressively more digitalised world.

Jurisdictions are generally seeking an adequacy decision or just wish to be considered as having the required safeguards in place.

This uptake in data privacy laws can be seen clearly in the Asia Pacific as India, Thailand, Indonesia and Vietnam have all published draft bills in recent months. These are expected to continue through the legislative stages this year.

In March, Brexit will see GDPR continue to be applicable in the UK but will also start a race to obtain an adequacy decision from the European Commission.

The European Data Protection Board is expected to release new guidance this year on particularly sticky points from GDPR, for example, extraterritoriality.

Regulators globally will be focusing on the regulation of crypto-assets and within Europe, providers engaged in exchange services between virtual currencies and fiat currencies will be brought into scope of the Fifth EU Money Laundering Directive, as they will be classed as obliged entities. AST

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Despite the challenges facing the German banking industry, there are bright spots, notably in serving the local and international needs of Mittelstand clients, and in the ability to provide more efficient and better service to retail and corporate clients through online channels. Germany's best bank, Commerzbank, is focusing on both these opportunities.

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Settle your differences

John Trundle of Euroclear discusses how the firm's new settlement offering will benefit clients and provide them with greater efficiency

Becky Butcher reports

Euroclear UK & Ireland (EUI) has become the first foreign financial market infrastructure to connect to the Federal Reserve's national settlement service, how will this enhance your settlement offering?

Clients are now able to settle transactions in US dollars in central bank money which addresses credit and operational risks between settlement banks and allows for greater efficiencies.

Typically in cross-border settlement with commercial bank money, the intermediaries involved take risks on each other which may be passed on to the clients. In the new service, when a market participant settles against dollars in the system, there is the finality of settlement at the moment the transaction occurs and the ownership of the security moves against the certainty of cash payment. Historically, settlement had been in commercial bank money whereas now it is a claim in central bank money. The settlement bank is now paid in central bank money the same day across accounts at the Federal Reserve Bank of New York.

Previously, firms faced a residual risk. Essentially if a bank in the chain of settlement defaulted, the rest of the banks in that chain would be exposed to that insolvency. However, now with our model, EUI calculates net settlement bank positions and instructs payments directly onto accounts at the Federal Reserve Bank of New York through its National Settlement Service. Users' settlement banks guarantee the cash proceeds and are themselves protected against the risks on other banks in the system.

Settlement banks can now track what is going on intraday and throughout the settlement lifecycle more efficiently and are confident they themselves will be paid. The ability of all settlement banks to make the required payments in the Federal Reserve accounts is underpinned by funds held by the banks at the Bank of England. This provides payment protection and certainty against the risk of intra-day insolvency events between settlement banks.

EUI is the first foreign infrastructure to be given direct access to the Federal Reserve's National Settlement Service in the US which is a great honour. EUI is now able to offer settlement in three currencies, sterling, euro and US Dollars all in central bank money.

How long did it take you to come up with the infrastructure and implement it?

It has taken quite some time to complete this project. We have been working on this for over three and a half years. It was helped along by the Central Securities Depositories Regulation (CSDR), which requires CSDs that don't have a banking licence—which is true of most domestic CSDs—to settle in central bank money.

This requirement reflected the practice of most domestic CSDs of connecting to its local central bank. It raised an issue for us as we were settling in dollars which was not our domestic currency but we were using commercial banks as intermediaries. The legislation meant we either had to get a banking licence; stop providing dollar services or we had to find a new way to settle in central bank money. We chose to be innovative and do something that no other CSD had done before and built this service.

As a former central banker, I knew this would not be easy and would involve many hurdles. But our initial conversations with the Federal Reserve were very positive. We discussed with them the options available and the risk analysis for each as we sought to protect financial stability.

The Federal Reserve's National Settlement Service was tailor-made for our type of activity. It is used for the settlement of mutual obligations like local credit card transactions and is a very efficient service. We decided this was the best mechanism for the new settlement model.

Euroclear's funds assets under custody were 10 percent in H1 last year, what other successes did you achieve in 2018 and do you see the results continuing to increase into this year as well?

Yes in terms of Euroclear Group's results, we had a solid 2018. The value of securities held on behalf of Euroclear clients, increased by 3 percent to over €29 trillion. The number of daily collateralised transactions mobilised by Euroclear's Collateral Highway was up 11 percent to €1.28 billion and fund assets under custody increased by 10 percent. In terms of the UK CSD which I run, we have seen a similar evolution especially in the growth of our assets.

What are your predictions in the settlement space this year, do you think there will be any particular hot topics or trends?

We sometimes describe ourselves as financial plumbing, and the thing about plumbing is that you don't always want to know how it works, you just want it to work every day. Operational resilience is at the core of everything we do and there is a huge amount of effort and resource allocated to this. We, like the rest of the market, are focusing on cybersecurity and are providing a lot of training and awareness for our staff. By the nature of our business, risk awareness is always at the top of our list.

Providing a smooth transition into Brexit will also be a key focus for firms in the UK next year. There is a lot of uncertainty in the wider market about what will happen and we are working on a wide range of scenarios and informing clients. As always, we will seek to minimise their risks and maximise their opportunities to improve efficiency.

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The sun shines on Malta

Malta has been fought over for thousands of years by different nations and empires. Now, in the 21st century, its asset servicing empire is envied

Jenna Lomax reports

Small in geographical stature, but strong in financial circles, Malta holds its own among other back office and asset servicing competitors, whose hubs lie on mainland Europe.

As Ramon Bondin, CEO at Dolfin Asset Services (Malta), explains: "As one of only two Commonwealth countries that are also members of the EU, Malta remains extremely well-placed compared to its competitors."

Bondin adds: "The country has three key advantages: the first is a common language with the UK; the second is a respected legal framework, based on UK law, and the third advantage is a local workforce that is both experienced and highly-educated, yet relatively inexpensive."

Just like other leading hubs for asset servicing, Malta's financial hub, and in particular its financial capital, Valletta, is seeing a rise in the use of distributed ledger technology (DLT) and an enthusiasm for other innovative solutions, including blockchain.

As Anthony Charles, head of trading at Dolfin Asset Services (Malta), comments, in Malta, "there is an appetite for innovative solutions, especially those involving digital ledger technology".

In the future, he predicts Malta will see "the introduction of custody services for crypto assets, subject to the introduction of a robust regulatory framework".

"The infrastructure is very similar to that in use for traditional asset services and the government is keen to promote Malta as a pioneer in the blockchain technology field."

However, Charles states the regulators remain cautious in their adoption of DLT in particular.

As an example, he states: "The 'big bang' implementation of the second Markets in Financial Instruments Directive has taken its toll on most in the sector."

"It will take time to adjust to the new framework, especially with the new reporting requirements."

Custody

Malta has also seen growth in its custody sphere. Dolfin, in particular, now offers a custody depositary in Malta as well as an execution brokerage and asset management service to private clients, financial advisers and institutional investors from both its London headquarters and its newly expanded office in Valletta.

The main beneficiaries are expected to be Malta-based collective investment schemes and trusts that need a local custodian or depositary.

Dolfin will also be able to offer its UK private clients the option of custodying their assets in Malta.

Dolfin's Maltese unit, Dolfin Asset Services, also became a member of the Malta Stock Exchange (MSE) in October of this year. The firm's membership allows Dolfin's traders and clients in Malta direct access to Malta's securities market, both in bonds and equities.

Technology and payments

Volante Technologies, a provider of software for accelerated end-to-end payments processing, has helped Valletta's growing asset servicing offering by signing FIMBank Malta as the first customer for its newly launched cloud-based VolPay-as-a-service offering.

Volante will provide FIMBank with a managed service for processing Single Euro Payments Area payments in the cloud, powered by Volante's VolPay suite of payments products, running on Microsoft Azure.

According to Volante, by leveraging Microsoft's experience in cloud technology, it can now offer the most advanced payments capabilities as a resilient, scalable and highly secure service.

In addition, ACA Compliance Group has completed the acquisition of Cordium. ACA will incorporate Cordium's compliance, cybersecurity and technology products and services into its existing offerings.

The completion of the acquisition will allow ACA to expand its products and services to include tax services, financial and regulatory reporting, Cordium's regulatory hosting platform, and a post-Brexit EU office in Malta.

Brexit

Professional services firm PwC recently said that disruptions to the level of market access in financial services as a result of Brexit will leave "no 'winners'".

PwC's report, released in March 2018, focused on the impact of the loss of mutual market access in financial services across the EU27 and the UK.

It predicted disruptions would be "economically costly" to the UK and remaining EU members, one of which is Malta. The disruptions aforementioned would incorporate "both gains and losses" economically across Europe.

PwC's report further showed that while Frankfurt has emerged as the likely recipient of the largest amount of relocated activity (particularly from US and Japanese banks), a number of other cities have also been predicted to benefit.

However, it would be an exaggeration to claim the small financial hub in Valletta would take over from London's firm position as a global leader of asset servicing, but the city does seem poised and prepared for most eventual outcomes.

As Charles affirms, Dolfin itself is preparing for Brexit. As he says, for now, there are no obvious effects on asset servicing, specifically.

But he asserts it is impossible to know what will happen with Brexit until it happens.

"For now, there is no obvious impact, certainly no direct exposure. That said, we have seen support services, especially those based in the UK, exercising precautionary measures by setting up parallel functions based in EU locations."

"If and when Brexit happens, Malta is clearly well-placed to serve as a bridge between the EU and a post-Brexit Britain." AST

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Comings and goings at BNP Paribas, Apex Group, Citi and more

State Street has appointed Donna Milrod as head of global clients division.

Milrod will lead a newly formed division, which is focused on delivering cross-enterprise solutions and insight to the company's global and most complex clients.

Reporting to Andrew Erickson, head of State Street's global services business, she will be responsible for strengthening clients' interactions with State Street in order to make it more seamless to access expertise insights and solutions that enable their business and core strategic objectives.

In addition, Milrod joins the firm's management committee.

Milrod has 25 years of experience in banking and financial services including positions at Deutsche Bank, where she served as deputy CEO for its North America business.

Most recently, she served as senior adviser to both Broadridge and McKinsey & Company where she provided advice for navigating risk, optimising operating efficiencies and increasing revenue growth.

Her most recent executive role was with the Depository Trust and Clearing Corporation (DTCC) where she served on the management committee and was head of DTCC solutions.

Erickson commented: "Donna Milrod brings important skill sets to State Street with her deep business knowledge, relationship management skills, regulatory and operations background."

"As an advocate for our clients, she will help simplify the way they experience State Street, working with them to bring solutions together in a cohesive way to help solve their challenges."

Milrod added: "The industry is going through enormous change. I am excited to be joining State Street, which is uniquely positioned to help clients navigate through this change."

BNP Paribas Securities Services has appointed Dennis Bon as global head of depositary and fiduciary services.

In this role, Bon will drive growth and development of BNP Paribas Securities Services' depositary and fiduciary activities globally.

Bon will also be responsible for the continued execution of BNP Paribas Securities Services' digital transformation. He is based in Paris and will report to Arnaud Claudon, global head of asset managers. Bon joins BNP Paribas from J.P. Morgan's corporate and investment bank division where he was most recently head of global custody for the Americas.

Commenting on Bon's appointment, Claudon said: "We are delighted to welcome Dennis Bon to his new role".

"His many years of strategic and business management expertise in the securities services industry will be a great asset to our leading depositary business at a time of fast regulatory, operational, and technology change."

Apex Group has appointed Emmanuel Tuffuor as head of private equity business development for the Americas and global head of tax.

In his new role, Tuffuor will support the firm in developing its private equity offering in North America in addition to building out its tax service capabilities globally.

His dual role will see him spearhead the development of its private equity presence across the Americas while also overseeing and driving the evolution of its tax service products globally.

Tuffuor joins from KPMG where he was a partner for 21 years. While at KPMG he drove significant growth as the partner-in-charge of the alternative investment tax practice.

Fred Jacobs, CRO of Apex, said: "Emmanuel Tuffuor's unrivalled tax and advisory experience adds another level of authority to our capabilities and combined with the expertise of the rest of the US team, we now present Apex to the US market at a new level."

Tuffuor commented: "I am thrilled to be joining the Apex team at this time to play a pivotal role in developing the businesses tax services, in addition to helping drive private equity sales across the Americas."

Citi has appointed Bardi Nivas as head of markets and securities services for South Asia, subject to regulatory approvals.

In his new role, Nivas will be responsible for planning and delivering the strategic priorities of Citi's markets and securities services business in India. He will also have oversight responsibilities on Citi's markets businesses in Sri Lanka and Bangladesh.

Additionally, Nivas and his team will be responsible for further capturing and capitalising on opportunities across markets and securities services product lines, improving client offerings, and continuing to strengthen the business's control and regulatory infrastructure.

Nivas will report to Citi India CEO Pramit Jhaveri and head of markets and securities services, Asia Pacific, Stuart Staley.

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Currently, Nivas is head of trading and local markets treasury in India and country treasurer. Under his leadership, local markets and treasury has been amongst the most successful businesses for foreign exchange and local markets operations in the Asia Pacific region.

Broadridge Financial Solutions has appointed Tim Gokey to the firm's board of directors.

Gokey, current president and COO, is also the firm's incoming CEO.

Gokey joined Broadridge in 2010 to lead the company's growth initiatives. In 2012, he was named COO and then president last year.

Broadridge's new board of directors will consist of 10 members, eight of which are independent. Previously announced on 12 September, Gokey will take over the role of CEO from Rich Daly, the current CEO.

Daly is set to take on the role of executive chairman of the board, while Les Brun, the firm's independent chairman of the board, will become the lead independent director.

Commenting on the announcement, Brun said: "We are pleased to welcome Tim Gokey to the Broadridge board of directors".

"He has been a champion of our corporate culture and has a deep understanding of our clients."

"We look forward to Gokey's involvement and engagement with the board as he has been instrumental in creating and executing strategies that have driven significant growth for Broadridge."

Hong Kong Exchanges and Clearing (HKEX) has appointed Cindy Chen as head of post-trade business development, clearing.

Chen will report to joint COO and head of clearing, Calvin Tai.

Chen will lead the post-trade business development team, identifying new business opportunities and working with our broad customer and stakeholder base to develop our clearing services.

The HKEX post-trade business development team, established in mid-2018, is responsible for leading and developing HKEX's offering in the post-trade environment across equities, fixed income and currency markets.

Chen will also oversee HKEX's distributed ledger technology project, a blockchain-powered post-trade allocation and processing platform.

She joins HKEX from Citi Hong Kong, where she was most recently the head of securities services.

Tai said: "We are delighted to welcome Cindy Chen to HKEX. Her considerable expertise, knowledge of Hong Kong and international financial markets and her proven track record in business development will be of immense value to us as we look to further develop our post-trade business."

Badiuddin Akber has been appointed as the CEO of the Central Depository Company of Pakistan Limited (CDC), subsequent to formal approval by the Securities and Exchange Commission of Pakistan (SECP).

CDC is responsible for maintaining book-entry securities and manages a portfolio of businesses including trustee and custodial services and share registrar services.

Akber has 20 years of senior management experience in finance and operations in conglomerates in Pakistan. He has also served as CFO and COO at the National Clearing Company of Pakistan Limited.

Prior to joining CDC, Akber was previously the chief compliance and risk officer and was also the nominated chairman of the Oversight Committee formed by the SECP under the Joint Inspection Regulations 2015.

He has expertise in financial management, clearing and settlement, risk management, operations, product development and project management in the Pakistan capital market.

He has played a key role in the implementation of various significant products, services and reform measures which include straight-through processing of market settlements, and in the introduction of leverage products such as margin financing, margin trading and securities lending and borrowing.

CDC said: "This is the third time in a row that the CEO of CDC has been selected from within its senior management. It is a testament of the company's effective succession planning and also an expression of continued trust by the board of directors of the company on the senior management."

Justin Chapman, global head of market advocacy and innovation, has taken on an additional role at Northern Trust as the product executive for securities services.

This comes after Northern Trust recently made organisational changes within the senior leadership of their asset servicing business.

According to Northern Trust, this is to ensure their people and strategies continue to be aligned with their clients' changing needs.

Based on experience and area of expertise, senior leaders will take on the additional role of product executive, accountable for the strategic direction of their assigned product range. AST