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BNY Mellon: asset servicing faces pricing pressure

BNY Mellon's asset services business faces continued pricing pressure for its traditional custody and administration services, according to the bank's 2018 annual report.

BNY Mellon noted that they have significant scale benefits that they continue to realise and are making investments to provide data management solutions to expand their servicing of exchange-traded funds (ETFs) and alternative asset classes.

According to the report, they are building out their capabilities in higher-growth products, including alternatives and ETFs.

In addition, BNY Mellon is enhancing real-time intraday reporting and providing data analytics to help clients better manage their cash, manage risk and increase distribution.

Meanwhile, for a fee and other revenue, asset servicing for last year saw a 5 percent increase compared to the year prior.

BNY Mellon explained that the increase primarily reflects higher asset servicing fees, investment and other income, issuer servicing fees and investment management and performance fees, partially offset by net securities losses.

In terms of revenue, asset servicing saw mid-single-digit revenue growth. Assets under custody and/or administration decreased by 1 percent as the negative impact of market declines and the stronger US dollar were partially offset by new business.

Compared to 2017, asset servicing revenue of $5.9 billion increased 6 percent, which is reflected by higher net interest revenue and higher foreign exchange, the report found.

Additionally, this was also reflected by higher securities lending volumes, higher equity market values, and the favourable impact of a weaker US dollar, BNY Mellon highlighted.

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Altor selects Aztec Group to service Altor Fund V

Altor has selected Aztec Group to provide administration and depositary services to Altor Fund V.

Aztec Group, who has provided outsourcing support to Altor since they launched their first fund in 2003, will deliver a range of administration, accounting and investor services to Fund V. The group will also act as the fund's depositary.

Fund V is a fund domiciled in Sweden and whose manager is regulated as an Alternative Investment Fund Managers by the Swedish Financial Services Authority.

Meanwhile, Fund V will have a 15-year investment term. Investments will generally be made in private companies with revenues typically in the range of €50 million to €500 million.

Simon King, director and private equity specialist for the Aztec Group, said: "Congratulations to Altor for another extremely successful fundraiser, which underlines the enormous confidence their investor base and the market continues to have in their investment strategy."

"We're delighted to have the opportunity to build on our long-standing partnership with Altor, and look forward to supporting them with this exciting new fund."

Jonatan Lund Kirkhoff, CEO of Altor Fund Manager, cited: "Aztec Group remains an important partner to our operations, having supported us with our operational and administrative requirements since our very first fund. We look forward to continuing this close partnership."

JTC acquires Luxembourg services provider

JTC has acquired Exequtive Partners, a Luxembourg-based specialist provider of corporate and related fiduciary services.

Exequtive Partners' 28 employees, including the five principals, will all join the existing institutional client services team at JTC.

As well as expanding JTC's jurisdictional presence, the acquisition also builds on its corporate services capabilities, complements its funds offering and creates greater opportunities for future growth.

JTC said it was fully committed to Luxembourg and the industry, and recently enhanced its fund platform by being granted a depositary license by Luxembourg's Ministry of Finance.

This, coupled with its ManCo service, significantly strengthens its capabilities in the EU.

Nigel Le Quesne, CEO of JTC, commented: "Exequtive Partners is a specialist business in a key strategic location that has demonstrated outstanding performance since its inception. As such, this acquisition is reflective of our focus on high-quality growth and on strengthening our proposition for institutional clients."

Joost Mees, one of the founders of Exequtive Partners, added: "Given the global consolidation in corporate and funds administration, we are very happy to become an integral part of the JTC family which has been built on the same values that both companies recognise as fundamental to success."

"The expansion of our offering will be of added value to our clients as well as our team who will all have the opportunity of working with an energetic business with a clear shared ownership philosophy at its core."

"Together, we are confident about increasing our footprint in the corporate and alternative investments market in Luxembourg and beyond."

Libra renames as Lukka

The crypto asset technology and data services company, Libra has been renamed as Lukka to accompany the firm's expanded technology and data products.

As Lukka, the company will continue to pioneer the development of technologies that bridge the gap between the emerging crypto asset and traditional financial ecosystems.

The firm has been named after Luca Pacioli, the renaissance-era mathematician widely known as the father of modern accounting, it was revealed.

According to Lukka, they are modernising the way crypto asset financial information is collected, audited and transformed into actionable information.

The new and enhanced data products include Lukka reference data and Lukka pricing.

Jake Benson, Lukka CEO and founder, said: "As the world of cryptocurrencies evolves into crypto assets and tokenisation, our solutions must also expand in their ability to make blockchain-based data work with existing business practices. Under our new name, we will continue to support the proliferation of crypto assets with our market-leading middle and back office platform, 'Lukka Crypto Office' while expanding our efforts into new data products."

DACC partners with four liquidity partners

Digital Asset Custody Company (DACC) has partnered with four liquidity providers including Cumberland, GSR Markets, JST Capital LLC and Trigon X.

DACC customers are now able to access pools of liquidity and prices from some of the over-the-counter (OTC) desks around the globe.

This partnership allows DACC customers to keep their assets secure in cold storage while sourcing liquidity across a wide range of crypto assets from top providers.

Integrations and partnerships between OTC desks and custody solutions are a step toward institutionalisation for the digital asset investment community.

They will provide clients connectivity to these pools of liquidity via integration in the DACC customer portal, offering streamlined access to prices and liquidity.

Doug Schwenk, co-founder and chairman of Digital Asset Custody Company, said: "We are excited to offer a service that allows our customers to connect to OTC trading desks and their pools of liquidity."

"Large peer-to-peer transactions are an important capability for our clients. We're proud to offer this important product innovation to our institutional customers."

Jason Leung, global head of Cumberland, commented: "As a firm that has been active in these markets since the early days, we understand the critical need for secure custodial services to help pave the way for further adoption in the space. We are proud to provide our principal liquidity services to firms like DACC that offer solid solutions for market participants and make the ecosystem more attractive to institutional investors."

MUFG opens subsidiary in Amsterdam

Mitsubishi UFJ Securities Holdings Co, a consolidated subsidiary of MUFG, has opened

Central Bank of Ireland approves EquiLend MTF

The Central Bank of Ireland has approved EquiLend Limited to operate a multilateral trading facility (MTF) in Ireland.

EquiLend's securities finance trading platform, NGT, will allow European Union based clients to continue trading on the platform without interruption post-Brexit.

The Irish MTF will operate alongside EquiLend's existing UK MTF, which is regulated by the Financial Conduct Authority.

Brian Lamb, CEO of EquiLend, said: "EquiLend has been active in the European market since we opened our first office in London in 2003".

"Our approval by the Central Bank of Ireland allows us to continue offering our valued global clients access to EU securities finance markets via our world-class trading platform, NGT."

Laurence Marshall, CEO of EquiLend Limited, commented: "EquiLend is fully committed to the European market, and we will continue to support our EU-based clients with the launch of the EquiLend Limited MTF in Ireland."

its new indirect subsidiary MUFG Securities (Europe) N.V. in Amsterdam, along with its branch in Paris.

MUFG Securities (Europe) N.V. will ensure that MUFG can continue to provide securities services to its clients across Europe after the UK leaves the EU.

In December last year, MUFG Securities (Europe) was granted a licence to operate as an investment firm by the Dutch Authority Markets.

Iberclear adds Portuguese market to cross-border services

Iberclear, BME's Spanish central securities depository, has added the Portuguese market to its cross-border services (CBS).

Iberclear customers will have access to this new market through the connection to the Portuguese central securities depository, Interbolsa.

Portugal joins the other markets already available through this service since last year, including Germany, France, Italy, the Netherlands and Austria.

Spanish financial institutions can now register and settle international securities from these markets through Iberclear, it was revealed.

According to Iberclear, this acts as a single point of access to the European Central Bank's settlement platform, Target2-Securities (T2S).

This brings about a reduction in costs and processes by simplifying the custody value-chain.

Access to T2S is of special relevance in the management of fixed income portfolios because it involves lower settlement risks.

Additionally, it provides greater efficiency by providing more securities financing tools, such as electronic collateral pledge management and auto collateralisation services provided by T2S, it was noted.

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With more than 1,300 professionals exclusively focused on servicing Canadian investors and global investors into Canada, CIBC Mellon can deliver on-the-ground execution, expertise and insights to help clients navigate the Canadian market. Leveraging the technology and scale of BNY Mellon, a global leader in investment servicing, and the local presence of CIBC, one of Canada's leading financial institutions, CIBC Mellon has the experience and the capabilities to help you succeed in Canada.

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Broker-dealer clearing
Securities lending[2]
Brokerage[1]
Investment fund services
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Data analytics[2]

[1] Provided by CIBC
[2] Provided by BNY Mellon

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Clearstream expands Vestima offering

Clearstream has expanded its Vestima offering in Northern Europe by making Finland domiciled investment funds eligible for order routing, settlement, and custody. International customers can use their Vestima setup to directly access Finland-domiciled funds and benefit from the same streamlined handling as for other markets.

According to Clearstream, one of the key drivers for adding Finland is international customer demand to fully cover the Nordic investment fund markets. In addition, Finland is a solid fund market with assets under management, which reached €110 billion at the end of 2018.

Evli Fund Management Company is the first Finnish asset manager to have successfully on-boarded its mutual funds to the Vestima platform and has extended its distribution network.

Kim Pessala, managing director at Evli Fund Management Company, commented: "Evli has distributed selected UCITS funds to Central European investors for some years already, but with the eligibility on Vestima our reach expands into new spheres for Finland domiciled funds".

"International investors will not only gain access to Evli's mutual funds, but they will also benefit from the Nordic investment knowledge of the entire Finnish fund industry."

Bernard Tancré, executive director and head of investment fund services at Clearstream, stated: "We welcome Finland as a new fund market covered by Clearstream and the eligibility of Finland-domiciled funds in Vestima which is a further step in extending our reach in the Nordics."

Meanwhile, CBS comprises settlement and custody services grouped under the areas of corporate actions, proxy voting, and tax reclaim.

Services demanded by an Iberclear participant involving domestic and international securities can be covered.

SGG Group rebrands as IQ-EQ

The global investor services provider, SGG Group, has rebranded its name with IQ-EQ and has a new visual identity and corporate website.

IQ-EQ unites SGG, First Names Group, Augentius, Iyer Practice and Viacert under one single brand.

Mark Pesco, Group CEO, said: "Our new name brings together the rare combination of technical expertise with a deep understanding of the needs of our clients."

"To deliver for our clients depends not just on our ability to provide expert services, but equally on how well we know them and their business."

"We believe in personal relationships developed over time."

"As a brand IQ-EQ perfectly embodies this thinking and reflects who we are and what we bring to the sector. It also represents another hugely successful step on our journey and is something we're all incredibly excited about."

Serge Krancenblum, IQ-EQ's group executive chairman, added: "Once more, IQ-EQ acts as a positive disruptor in our industry. Our new name unifies our brands under a unique and vibrant new identity."

"It bonds our staff under one promise: global technical expertise combined with a deep understanding of the needs of our clients."

"IQ-EQ stands out from the crowd and promises our clients and partners the right balance of intellectual and emotional intelligence working perfectly together."

SkyBridge selects BNY Mellon for fund services

SkyBridge has selected BNY Mellon to provide fund administration services.

SkyBridge Capital has chosen BNY Mellon to be the sole provider of global fund administration services for its Opportunity Zone Real Estate Investment Trust.

SkyBridge Opportunity Zone Real Estate Investment Trust is a private non-traded real estate investment trust with a mandate to invest in residential, commercial, and industrial real estate in US treasury-designated opportunity zones in the US.

It was noted that SkyBridge selected BNY Mellon given its strong performances as SkyBridge's existing custody provider, as well as its experience in real estate administration.

Daniel Barile, a partner, and portfolio manager at SkyBridge Capital, said: "Having worked with BNY Mellon for years on our flagship fund-of-hedge-funds product and given BNY Mellon's experience across asset-types, and expertise at fund structuring, they were the clear choice from day one for SOZ REIT."

Alan Flanagan, global head of alternatives for asset servicing at BNY Mellon, cited: "We are proud to work with SkyBridge across multiple portfolios, and we are excited to expand our collaboration with them into the real estate investment space. This decision recognises our growing offering in real estate administration, as well as our ongoing commitment to servicing our clients and driving industry innovation."

Global Collateral MTU community continues to grow

DTCC-Euroclear Global Collateral and DTCC have revealed that the margin transit utility (MTU) collateral settlement infrastructure community continues to grow.

As part of the growth, Goldman Sachs, J.P. Morgan, Morgan Stanley, Société Générale, UBS and Wells Fargo have all joined the MTU.

DTCC explained that the organisations who have adopted MTU have been driven by their clients' needs to reduce risks related to operational, liquidity and counterparty risks. The new editions join over 30 investment management, administrator and custodian firms, including Brandywine Global Investment Management, Fidelity International, Franklin Templeton, Vanguard and Brown Brothers Harriman, who have adopted the service.

MTU straight-through processing is designed to offer improved efficiency for the transfer of collateral among market participants by centralising communications and settlement instructions within MTU. The service includes connectivity from AcadiaSoft's MarginSphere and ALERT for enriched standing settlement instructions, connectivity to custodians and triparty providers, confirmation of settlement, and standardised reporting.

John Montgomery, senior specialist, global collateral at Vanguard, said: "Calculating margin calls, generating and affirming calls and determining eligible collateral, and then instructing our custodian with real-time settlement updates and end-of-day position reporting, will significantly reduce operational, counterparty and liquidity risks. Leveraging MTU in conjunction with AcadiaSoft's MarginSphere and our collateral management system will greatly increase our overall collateral management efficiency beginning with over-the-counter (OTC) derivatives and then later for TBAs, exchange-traded derivatives and OTC cleared derivatives."

Courtney Gavin, vice president, custody product at Brown Brothers Harriman, stated: "MTU is an integral enabler of straight-through processing across the margin and collateral management process, and we look forward to partnering with additional clients who leverage MTU to reduce operational risk, drive greater efficiency and increase transparency throughout the collateral management process."

Chris Childs, executive chairman and member of the board, Global Collateral, added: "GlobalCollateral continually engages with the industry to explore opportunities to address challenges in the collateral management and processing space. We're pleased to welcome a number of leading dealers to our growing MTU community and look forward to expanding our solutions to continue to meet the evolving needs of the dealer, buy-side and custodian communities."

Northern Trust chosen by Apse Capital Bridge for fund services

Northern Trust is to provide fund administration and banking services to the recently launched Apse Capital Bridge Fund. The closed-ended private equity fund has been established under Guernsey's Private Investment Fund (PIF) regime which offers a route to market for eligible funds.

Apse Capital is a new independent European private equity group focusing on buyout and development capital opportunities in European tech-enabled information and services businesses.

Ashley Long, partner at Apse Capital, said: "Northern Trust has been appointed based on long-standing existing relationships which have been characterised by a commitment to proactively supporting the strategic goals of the private equity funds that the investment team at Apse Capital and its predecessors have advised on."

Dave Sauvarin, country head of the Channel Islands at Northern Trust, commented: "This successful launch illustrates Guernsey's flexible and proportionate regulation allowing fund managers to access markets quickly, enabling them to respond to competitive global opportunities. The PIF is a part of the toolbox of solutions for alternative fund managers looking to domicile funds in Guernsey. Northern Trust is pleased to have worked closely with Apse Capital and its legal advisers to achieve this result." **AST**

Under pressure

As the UK Government grapples to get a Brexit deal sorted, what will be the eventual outcome of the UK's exit from the EU, and how will it affect the financial industry and asset servicing specifically?

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Jenna Lomax reports

The ‘B’ word, Brexit, has presented the UK and EU with a largely unexpected and unprecedented conundrum. It has become a headache of frustration for the man on the street and a minefield of complicated implications for the financial industry, which has had to consider everything from possible changes to regulation and where to register trade repositories post-Brexit.

Nigel Green, the founder and CEO of deVere Group, states: “The actual process of leaving the EU itself is now increasingly irrelevant. Indeed, even if the UK didn’t leave, unprecedented damage to the UK’s financial services industry has already been done.”

But how true is this? It’s fair to say that many never thought Brexit would happen, as reflected by the referendum results released back in June 2016, which indicated a borderline result of 51.9 percent favouring to leave.

So as the UK Prime Minister, Theresa May, ploughs on with her Brexit plan, it’s a question in the forefront of the industry’s minds—what will happen to the UK’s financial services?

Despite friction and negativity, many in the industry have said whatever the outcome of Brexit, London will continue to be a central hub for the financial world.

At this year’s Fund Marketing & Distribution Europe Conference in London, held in February, one panellist affirmed: “London remains on the map. London remains the centre of excellence. There is an innovative and positive outlook for London, despite Brexit.”

Concerning portfolios, James Beaumont, head of advisory and consultants at Natixis Dynamic Solutions, says: “Within the UK, we have not seen investors making big changes to their portfolios ahead of Brexit.”

He adds: "If advisers are happy that they have built well-diversified portfolios then we would encourage them not to make any knee jerk reactions to Brexit".

"There are so many possible outcomes, with so many ramifications, we would be very wary of trying to 'trade Brexit' and also wary of focusing so much on Brexit that you take your eye off other risks and threats that may actually have far greater consequences for a client's portfolio."

Don't stop us now

But despite Brexit, the UK continues to be a competitive environment for asset servicing, according to Daron Pearce, CEO of Europe, the Middle East and Africa (EMEA) Asset Servicing at BNY Mellon.

He says: "While the UK market is a mature one, it remains dynamic as clients demand more effective and efficient processes while reducing the number of providers with whom they work. We continue to develop our capabilities in areas of growth for our clients, such as exchange-traded funds, private equity, real estate and loan funds."

Also at the Fund Marketing & Distribution Europe Conference in London, a panellist discussing Brexit said she saw "no panics from distributors or end investors".

She added: "There's some hesitance to invest but not a lot. It's largely business as usual."

And at the ISITC conference in London earlier this year, a European Central Bank representative affirmed the bank's aim to include and present everyone in collateral and corporate actions discussions after Brexit.

But unfortunately, across the board, the sentiment is not quite the same and there are fears from others that London could lose business.

PwC released a report last year that indicated the city of Frankfurt as the likely recipient of London's relocated activity, particularly from Japanese and US banks, while Amsterdam was predicted to be the main location for trading venues.

PwC's report reflects a more recent survey from Vistra which revealed only 35 percent of 800 industry respondents said they expect the UK to become more open to the industry and other international financial centres after Brexit.

Amidst all these possible movements, the European Securities and Markets Authority (ESMA) has been preparing for a no-deal or hard Brexit. At the beginning of March, the organisation said they would consider transactions concluded on UK trading venues as over-the-counter (OTC) transactions in the event of a no-deal.

Therefore, UK venues would be subject to the post-trade transparency requirements pursuant to Articles 20 and 21 of Markets in Financial Instruments Regulation.

This would be in the case of a no-deal where trading venues established in the UK will no longer be considered EU trading venues.

ESMA noted this in a public statement, which provided opinions on third-country trading venues for the purpose of post-trade transparency and position limits as well as post-trade transparency for OTC transactions.

ESMA has also signed a deal with the Bank of England for the recognition of central counterparties (CCPs) in the event of a no-deal Brexit, which also recognises central securities depositories established in the UK.

Regulation ga ga

Steven Maijoor, chair of ESMA, has indicated a no-deal Brexit may have some significant effects of the second Markets in Financial Instruments Directive (MiFID II).

In his speech at the European Financial Forum 2019 in Dublin, Maijoor said: "I appreciate that some of the MiFID II thresholds may need recalibration in the new EU27 Environment."

Maijoor had also explained that the MiFID II transparency framework is founded on a number of thresholds to be specified at ESMA level, to introduce a transparent regime for trading all types of asset classes on a level playing field in the EU.

He stated: "One specific example is the double volume cap, which limits the share of trading in dark pools and is meant to preserve the quality of the price discovery mechanism in EU markets."

According to Maijoor, a no-deal Brexit will not only result in UK market participants losing their passports for accessing the EU, but there will be no further legal basis for the current extensive and granular daily data reporting from the UK to ESMA's systems under MiFID II.

But while ESMA knuckles down to this various administration and consideration, there's an indication that some European jurisdictions are making their own rules for a post-Brexit world.

A panellist at this year's TSAM London, who is legal head of her company, revealed that most EU countries are taking it upon themselves to create agreements with the UK, or are creating domestic laws in preparation for a no-deal Brexit.

The panellist said countries that have put forward or are drafting domestic laws and/or agreements with the UK in the case of a no-deal Brexit include Sweden, Austria, Malta, Finland, Spain, Belgium and Luxembourg, among others.

She affirmed, of these countries, "all have Brexit decrees, all have, or are, drafting decrees—they are going out on their own for contingency plans".

In addition, Guernsey's financial services regulator has signed a memorandum of understanding (MoU) with the UK's Financial Conduct Authority to ensure market access for Guernsey investment funds into the UK after Brexit.

The MoU will come into effect if EU law no longer applies in the UK, either through a no-deal Brexit or at the end of any transitional arrangements once the UK leaves the EU.

This will mean that Guernsey funds will still be able to be marketed into the UK.

But, as we all know, parliamentary matters are up still up in the air. At the time of writing, John Bercow, speaker of the House of Commons has ruled that Theresa May cannot bring her deal back for a third vote without "substantial" changes. So could a general election or second referendum still be on the cards?

In March, at the Association of the Luxembourg Fund Industry (ALFI) European Asset Management Conference, 57 percent of the audience, who took part in an interactive poll, thought that a second referendum for Brexit is likely.

In the same poll, only 18 percent of the audience thought Brexit will likely go ahead as planned, while a further 10 percent suggested a delay of more than a year was likely.

At the same conference, Denise Voss, chairman of ALFI, discussed the future of Brexit with John Marshall, the British Ambassador to Luxembourg.

One delegate asked Marshall why the UK Government is not in favour of a second referendum and why it is looking unlikely it will take place.

Marshall affirmed: "There is a view shared by many that a second referendum would be a very divisive proposition."

The show must go on

CitiBank says: "Our Brexit plans remained unchanged as we have prepared for a no-deal scenario from day one. It is still unclear what the exact terms of the UK's exit will be but Citi has been planning for a scenario where the UK exits the EU without a definitive agreement or any type of transitional period."

Pearce affirms: "The uncertainty surrounding Brexit is an ongoing consideration for BNY Mellon's clients. As we await clarity on the UK's terms of departure from the EU and the future relationship with the bloc, BNY Mellon continues to plan for a hard Brexit and ensure that we are able to provide continuity of service to our clients."

He adds: "We are keeping our clients fully informed of our preparations, and where appropriate we signpost further publicly-available information related to Brexit preparedness.

For those of our clients who intend to continue marketing and selling funds post-Brexit, we have provided support by assisting with re-domiciling funds or launching new funds in order to guarantee future distribution, whatever the outcome of the Brexit negotiations."

Sarj Panesar, global head of business development at Société Générale Securities Services, indicates: "As a group, we have been making detailed preparations in the case of a 'hard Brexit' and have been proactively communicating with our clients to reassure them that we can service them whatever the outcome may be but also to engage with them to help them with their planning and answer any questions." **AST**

The heart of the operation

Rebecca Xuereb of BOV Fund Services explains why the role of the fund administrator is being transformed from a back-office operation to more of a core function within the funds industry

Becky Butcher reports

What is the current state of the European fund administration industry?

The current state of the fund administration industry has been shaped significantly by the introduction of numerous regulations which the industry has seen since the financial crisis, as well as rapid advances in technology. In terms of regulation, the Alternative Investment Fund Managers Directive (AIFMD), the second Markets in Financial Instruments Directive (MiFID II), the Foreign Account Tax Compliance Act (FACTA) and Common Reporting Standard (CRS) would be among the major regulations that have had an effect on the industry. Alternative investment managers are now increasingly opting for other solutions rather than the traditional alternative investment funds (AIFs) for instance, catered for within some innovative jurisdictions.

In Malta, for instance, the professional investor fund (PIF) regime, as well as the notified AIFs (NAIFs), have continued to grow in popularity with the former being a lighter-touch and less onerous regime for de-minimis alternative fund managers and de minimis self-managed funds, while the latter a fast-track solution for setting up AIFMD complaint AIFs.

In terms of technology, thanks to the continuous and rapid advancements, we are seeing more and more processes becoming increasingly digitalised within fund administration. Furthermore, with the growth and hype surrounding the blockchain and crypto space, we have seen a high demand for PIFs investing in crypto which is catered for by the supplementary rules to the PIFs, as published by the Maltese regulator. Fund administrators are also looking at distributor ledger technologies (DLTs) for shareholder registry services, replacing traditional platforms that cater to this space.

What trends are you currently seeing?

There are a number of trends within fund administration that we are currently seeing such as an increase in outsourcing, emphasis on cost, data protection and a focus on cybersecurity:

Outsourcing

With the ever-increasing demands brought about by regulation, fund administration now plays an even more pivotal role within the funds industry. Whereas previously a number of fund managers would opt to carry out the role in-house, the recent developments in the industry have rendered this challenging.

Many are therefore increasingly opting to outsource such role, thereby allowing fund managers to focus more on their core business and core competencies.

Cost

Investment managers remain under pressure to keep costs as efficient as possible, which can be quite challenging in light of the demands of the regulation. This has also led to an increase of fund managers outsourcing the fund administration to companies such as BOV Fund Services that benefit from both economies of scope and scale on this front and is thus able to pass on these efficiencies to its clients.

Fund administrators, in turn, have turned challenges brought about by regulation as an opportunity to expand their service offering to cover regulatory reporting on behalf of fund managers and the fund themselves, thereby increasing revenue streams that counter pressures on margins for the traditional services provided.

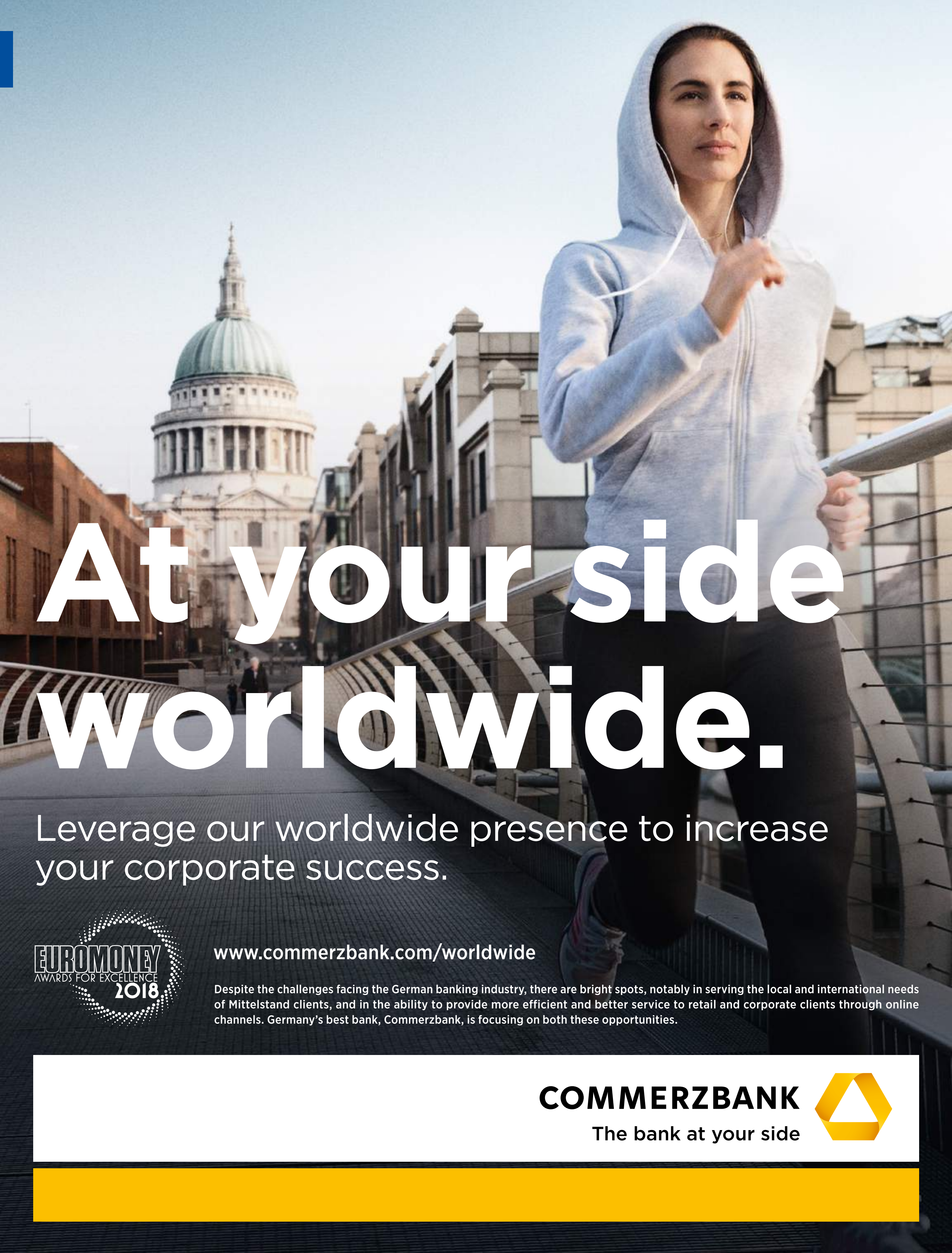
Data protection and cybersecurity

Given the introduction of the General Data Protection Regulation (GDPR) and the sensitive nature of information within the funds industry, the way service providers address this issue and handle such data is of utmost importance. Technological advances and the way data is stored have hence rendered cybersecurity and risk management critical.

How is technology changing the fund administrator role?

As mentioned previously, advancements in technology are leading to more processes becoming digitalised. In my view, technology presents an opportunity and a threat for most industries.

In fund administration, where competition is rather high, it is therefore important to take the decision whether to be a leader in times of change or simply a follower. As pioneers in the local funds industry, BOV Fund Services has always been considered a leader and is investing significantly in digital platforms to ensure high quality, accurate and timely results for its clients.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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.
COMMERZBANK
The bank at your side

Of course, secure maintenance of necessary confidential data and protection from online hackers is also of utmost importance and is another area of great investment for managers and service providers alike.

Both the increased regulation and advancements in technology have led to the role of the fund administrator being transformed from a back-office operation to more of a core function within the funds industry.

What regulations are causing the biggest challenges? And can any of these challenges be turned into opportunities?

Every regulation tends to cause challenges to one degree or another, most notably those requiring a significant change in operation. Fund administration is among the industries that face a long and growing list of rules and pressures from clients to confirm that they are not exposed to undue risks of non-compliance. Many of the regulatory updates come with large demands which require additional, sometimes relatively significant, investment in training, in infrastructure and other resources with little direct bottom-line benefit to the industry. However, there are other potential positive impacts. In fact, with any changes, there are always opportunities.

I think most of the EU jurisdictions are nimble enough, some perhaps more than others, to address such changes in a way that betters their jurisdictional offering as a whole. For instance, with the introduction of the AIFMD back in 2013, Malta retained its home-grown regulation, allowing fund managers falling out-of-scope of the AIFMD to benefit from the lighter and more flexible regime that is the PIF rule book.

There can also be opportunities for becoming more competitive. For example, operating within a secure and robust framework has become of increasing importance to investors especially since the financial crisis. Therefore, regulatory compliance apart from being mandatory can also serve to attract more investment managers, as backed by their investors. Moreover, some regulatory changes require investments in business and computer systems which can indeed serve to enhance the overall efficiency of the company in the long-run.

How is Brexit challenging fund administration in Europe?

Since the outcome of the referendum back in 2016, we have seen many asset managers taking quick decisions and planning for what has become the more likely scenario of a hard Brexit. (At the time of writing, it is still unclear as to where Brexit is going). Many management companies have actually set up operation within EU member states that present themselves as ideal fund management domiciles, as is the case for Malta.

Questions still remain as to what will actually be the outcome and the transition over the coming months, however, the recent memorandum of understanding (MoUs) issued by various jurisdictions, and especially the MoU between the Financial Conduct Authority and the European Securities and Markets Authority have relieved a lot of the pressure.

Nonetheless, there have been jurisdictions such as Malta, Ireland and Luxembourg, which have seen and continue to see quite a bit of traction with funds and management companies being set up in such jurisdictions to ensure smooth continuity of business in a worst-case Brexit scenario.

The effect of this on fund administration is, of course, the capacity requirements and the increased amount of resources and expertise required. If you look at Malta, for example, a number of fund administration companies such as BOV Fund Services have actually expanded on both human and technological resources over the past few years in order to cater for such demand and continue to provide a service to clients.

How will the market change over the next few years?

There are many things to be seen over the coming years. In the short-term, the outcome of Brexit and how that settles over the next few months and years will surely have an impact on the way the rest of the funds industry operates with the UK.

With respect to the more distant future—perhaps one may say that the funds industry has seen a drastic change from a situation of little regulation to a level playing field and a closer state of over-regulation which may be impacting the efficiency and interfering with the core function of asset management.

For this reason, I believe that the fund administration business may continue to witness more consolidation as other larger banks follow in the steps of Citi Bank and Credit Suisse to name a few, in exiting the fund administration business to focus more on their core business. That being said, it will also not be surprising to see more outsourcing and perhaps mergers of some fund administration companies in a bid to address the digital demands of digital transformation and stay ahead of market trends and investor needs. **AST**

Rebecca Xuereb
Manager, business development
BOV Fund Services

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Future perfect

With initial margin compliance looming for phase 4 and 5 firms, Trevor Negus of SmartStream suggests that firms should consider technology that offers long-term protection against future change

September 2016 saw the introduction, following globally coordinated efforts by regulators, of the first phase of Basel Committee on Banking Supervision (BCBS) International Organization of Securities Commissions (IOSCO) initial margin (IM) requirements for non-centrally cleared derivatives.

The opening wave of compliance affected only the largest financial institutions but now far smaller companies are finding themselves caught: phase 4 firms are set to come into scope in September 2019, while the final tranche of organisations (phase 5) is due to comply in September 2020. Phase 5 will have a particularly great impact on the buy-side, with as many as 1000 entities brought within the IM regime.

Compliance with BCBS IOSCO IM standards for non-centrally cleared derivatives creates a number of hurdles for firms: both parties to a deal must exchange IM, with IM being calculated on a daily basis, at a netting set level, and then posted to a segregated account.

Not surprisingly, small organisations falling within Phase 5 are particularly keen to escape the reach of the incoming IM rules. To this end, a group of trade associations have approached global regulators, on behalf of affected firms, petitioning for the Aggregate Average Notional Amount (AANA) threshold at which counterparties must comply to be raised. It is not yet clear what the response of the regulators will be but companies should not assume they will be let off the hook where IM obligations are concerned.

If phase 5 firms are not able to claim exemption, they will have to meet the new IM requirements. But how should they best proceed? Manual processes are unlikely to provide a satisfactory way forward, and so firms will need to look at introducing greater levels of automation. With compliance deadlines looming, some companies may choose to opt for a basic collateral management solution, considering it the quickest and cheapest route to compliance. Yet a mature system could, in the long term, provide a far more cost-effective answer, and one which better equips firms to deal with future change.

The question of future regulatory change is especially worth keeping in mind. To date, regulators have worked in unison on the creation of margin rules for uncleared derivatives. Divisions have arisen, however, in relation to Brexit, that could result in regulators distancing themselves from each other. Typically, basic collateral management systems have been designed to answer the needs of a harmonised regulatory world. In contrast, a sophisticated solution will enable financial institutions to handle the complexities that a diverging regulatory landscape could present. More contentiously, should firms choose to arbitrage the opportunities such a landscape presents, a specialist system will support them most effectively to do so. A system that is proven to cope with the complexity inherent in IM compliance is SmartStream's TLM Collateral Management. The solution allows a high degree of automation, reducing the effort associated with moving collateral between counterparties. It also takes an exception-based approach, enabling financial institutions to better accommodate the growth in margin calls IM rules are likely to stimulate.

SmartStream's TLM Collateral Management system has been installed by a number of tier 1 and 2 financial institutions. Mutualised knowledge from these projects has been incorporated into the design of the solution and firms preparing for IM regulation can take advantage of this shared experience.

Fears over cost and long implementation times may dissuade some financial institutions from considering a sophisticated solution. TLM Collateral Management can, however, be deployed on demand. Firms are able to benefit from its "tier 1 DNA" without the need for either a lengthy installation phase or for heavy investment in infrastructure, meaning that the solution can be adopted easily and cost-effectively. Regular software updates also ensure that maintenance costs are minimised.

One significant advantage offered by TLM Collateral Management is the fact that it does not commingle data. This is an important security consideration, for where a firm's proprietary data is commingled it could—in the event of a breach—become apparent to competitors, leaving a company exposed to potential financial or reputational risks.

Underpinning the quality of TLM Collateral Management is the high level of investment made by SmartStream in its solutions. At present, some 25 percent of SmartStream's revenue is ploughed back into research and development. SmartStream's focus on investing in and developing its technology is also reflected in the partnerships it has created with a number of industry specialists.

One such partnership is a recent agreement with Cassini Systems, which will see the integration of Cassini's analytics platform with TLM Collateral Management to provide the International Swaps and Derivatives Association (ISDA) Standard Initial Margin Model (SIMM) calculation as well as risk sensitivity generation. A similar collaboration with Numerix will provide sensitivity and SIMM calculation. In both cases SIMM results will be retrieved by TLM Collateral Management and then used in IM Margin calculations. Other industry partnerships include an integration, at a tier 1 bank, of TLM Collateral Management and AcadiaSoft's software services, in order to help deliver margin call automation and straight-through processing.

Finally, TLM Collateral Management is just one part of SmartStream's suite of software solutions. Financial institutions are looking to expand automation projects beyond collateral management into other, linked areas, such as cash and liquidity management, in order to pull together different parts of their businesses. SmartStream's range of solutions can assist them to do this, as was evidenced by a recent implementation of TLM Collateral Management at a major UK bank. Following the project, the bank—pleased with the quality and testing of the software, plus the consistent, within budget delivery of the project—is now looking to expand into further TLM solutions.

In conclusion, the pressing need to fulfil IM obligations, coupled with concerns over cost, may lead some institutions to opt for the most basic of collateral management solutions. Yet once the initial rush to comply has passed, other considerations will begin to take over, including questions over cost-effectiveness, efficiency, consolidation, risk, the ability to adjust to future business and regulatory change. Less sophisticated systems could then show their limitations and firms may begin to ask whether small has really turned out to be beautiful, after all.

"Fears over cost and long implementation times may dissuade some financial institutions from considering a sophisticated solution"

Trevor Negus
Product manager
SmartStream

Head in the cloud

Kelly Ashe of Pacific Fund Systems explains why firms need to select the right technology partner to provide the right software and service to support your organisation

As a dedicated fund administration software vendor that services a diverse global client base, we are in the fortunate position to offer clients a multitude of implementation options to choose from when they consider adopting PFS-PAXUS, our 'one-stop-shop' complete fund administration system.

These options include full software as a service (SaaS), hosting services and in-house deployment, and we spend a lot of time discussing the pros and cons of each option to help the client positively identify, which is going to work best for their business, from both a short term and long-term viewpoint.

We have put together the following guide to help assist anyone who is pondering whether to buy or rent a solution and install it in-house versus utilising a fully hosted version and/or adopting a complete SaaS solution.

Businesses starting from scratch may not have servers, server rooms, software or a network administrator. These costs come with an on-premise solution which may mean that a cloud-based solution may be more attractive as there is no investment in hardware or the associated maintenance of that hardware.

However, if a business already has access to a server, server room and the other elements required for an on-premise software package, then the cost comparison becomes more complicated.

What is SaaS?

SaaS allows a company to rent or subscribe to a software product that is then accessed via a browser. In this situation, the business does not purchase the software outright and they do not have to buy the hardware and software needed to run the product, leading to a saving on the initial software cost.

All the user requires is a computer, a solid and reliable internet connection and a browser. SaaS, therefore, eliminates some of the other costs and hassle associated with on-premise software.

SaaS solutions are typically chosen by businesses that:

- Have a reliable and fast internet connection
- Require mobility and need to access the system from anywhere
- Do not wish to invest in hardware and do not want to incur the associated costs of maintenance, backups, disaster recovery measures
- Do not require direct access to the database for integration purposes

What is a hosted solution?

Hosting allows a business to buy or rent the required software product and 'outsource' the server and database, contracting with a specialist company and service provider to provide and maintain the hardware and software components needed to run the product.

This effectively alleviates the burden of having to look after a server yourself and shifts the associated costs and responsibilities to the chosen host and service provider.

Hosted solutions are typically chosen by businesses that:

- No longer wish to own or look after their server(s)
- Need to replace legacy or ageing servers
- Determine that outsourcing their servers will be more cost effective overall
- Prefer a regular monthly expense rather than incurring capital expenditure
- Have a network of users in multiple locations with a poor internet or unreliable connection at the current server location
- Are growing rapidly and need to be able to scale up quickly as the need arises

What are the main advantages of SaaS/hosting?

Lower cost of entry: The initial costs of adopting a system via a SaaS strategy costs far less than the comparative cost of procuring, licensing and deploying the solution in-house.

Lower total cost of ownership: With a subscription-based service, you do not have any capital costs, nor any operating and administration costs allowing for simpler budgeting and predictable monthly costs. There are no hefty maintenance costs when the software needs updating, and you don't have to invest in or maintain any sort of infrastructure as it's all taken care of by your service provider.

Faster time to market: When you choose a product that is offered as a SaaS, the platform has already been prepared, configured and implemented by the solution provider meaning that all the user needs to do is acquire their subscription and then log in—cutting down the time to market quite significantly.

Flexible/scalable pricing: You pay for only what you need and can scale up or down on-demand.

Ease of use: The service and your data are easily accessible, whether you are at home, in the office or travelling. All you need to access the software is a browser and an internet connection.

Highly secure: Security is on the top of the priority list for any SaaS solution provider ensuring that a reliable and secure infrastructure is in place, including everything from backup services to penetration testing.

Replicating this level of security with an in-house solution would be very complex and expensive.

Automatic upgrades: You will not have to download or install any patches and you automatically get all the latest features, software releases, updates and bug fixes, as the service provider will manage all updates and upgrades for you.

In summary, both SaaS and hosting make for a compelling argument—especially if cost is a primary consideration and if you want to get started as fast as possible. However, the most important element of all is to ensure that you select the right technology partner who understands your needs, your business and will be able to provide you with the software and the service to support your organisation today and tomorrow.

Kelly Ashe
Head of sales and marketing
Pacific Fund Systems

Through the ranks

Find out who ranked top in this year's R&M Investor Services Survey

Becky Butcher reports

Every year asset managers and other financial services clients take part in the R&M Investor Services Survey to score their service provider out of seven, rating them on performance in categories such as corporate actions, reporting, settlement and safekeeping, and client service and account management.

This year's survey also included feedback from participants about the level of regulatory support offered by providers, a topic that has been pretty much the theme for this decade.

Commentary from survey participants revealed that the investor services industry is doing well with communicating and supporting clients along their regulatory journey.

Comments suggested firms were providing a "very good service" and giving "continuous updates". Other respondents said that one service provider's support "meets and exceeds our requirements for regulatory support" while another suggested that organised webinars were "informative".

Overall scores

Keeping the top spot on the overall score table in the survey was Swiss asset manager Pictet. Although Pictet scored the highest at 6.24, its score decreased by 0.17 from its 2018 result of 6.41. One respondent revealed that Pictet's service has been "terrific" while another described them as an "excellent operator". One of the comments suggested that the "interaction with humans, not computers" adds a "personal touch" to its service.

RBC Investor & Treasury Services (I&TS) sits in second place with an overall score of 6.23. Participants were impressed with the "excellent services" provided by RBC. Others suggested that although "costs could always be lower", the "quality of service is paramount" and "wouldn't opt for a less expensive product that impacted negatively on that".

Last year there were "too few responses" received for HSBC to appear in the overall table. However this year, HSBC jumped straight into third, with 5.99. Survey participants said: "HSBC has improved noticeably in many areas during 2018 and has shown a commitment/intent to maintain this."

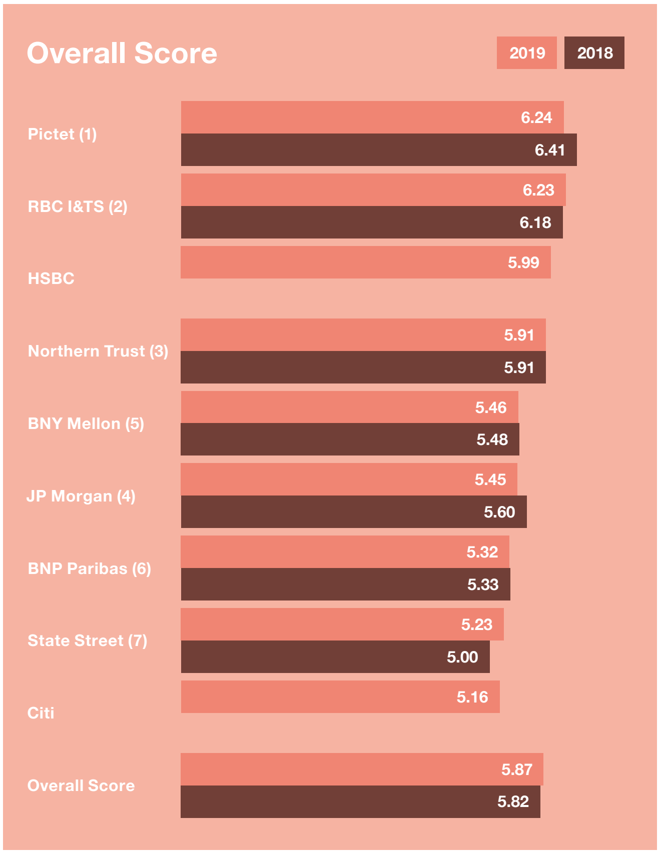
Another client explained that the service received from HSBC has "always been very good as is the relationship we have with them. Any issues raised are listened to and acted upon quickly to resolve the issue".

In fourth place stood Northern Trust, who scored 5.91, the same score as the previous year.

Following Northern Trust was BNY Mellon, dropping 0.02 to an overall score of 5.46 while J.P. Morgan came in sixth scoring 5.45, a decrease of 0.15 from last year.

At the other end of the table was BNP Paribas in seventh. Although it only dropped 0.01 from its score last year, clients were concerned by the lack of a "centralised point of contact for all relationships".

Citi, another newcomer to the table, was placed in ninth receiving an overall score of 5.16. Although the service provider made the table this year, survey participants suggested that there could be "improvement in client service experience with increased familiarity with our accounts". However, others noted that there have been "very few issues with Citi as custodian".



Top 200 asset managers

The survey also looks at how the top 200 global asset managers rank. Taking the top spot was HSBC, who moved from fourth, knocking Northern Trust down a place. Clients suggested that HSBC "consistently provides a high level of service" while another explained that "client service and relationship management has shown improvements [over the last year]".

Experiencing the biggest loss was Northern Trust scoring 5.43, leaving them in second place. Although the firm dropped a place, respondents said that Northern Trust provides them "excellent reporting regarding trade settlements, and has provided extra resources when necessary to ensure high priority settlements".

J.P. Morgan and BNP Paribas also dropped a place to third and fourth, respectively.

At the bottom half of the table, State Street and BNY Mellon came joint fifth. However, both companies experienced an increase in their score from last year.

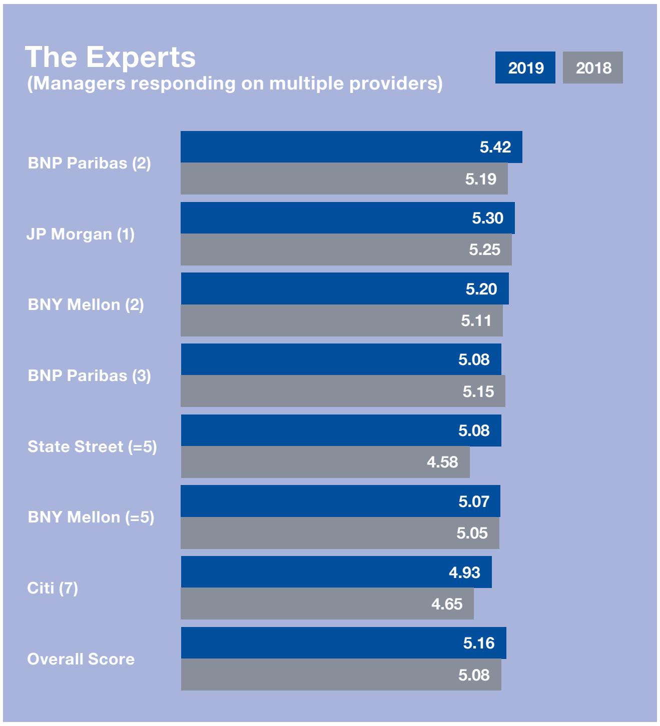
Those surveyed noted that they had "delays in resolving issues" while others said they have "seen an increase in quality and timeliness around reporting".

Although Citi took the last place, it saw the biggest score increase of 0.33. The firm's score jumped from 4.69 last year to 5.02 this year. Comments from respondents noted that although there is an "excellent network, regulatory updates could be communicated better".

The experts

When it comes to 'the experts' results, that is, results from respondents that work with five or more providers, BNP Paribas jumped 0.23 to top place.

One expert explained that BNP Paribas is the only custodian which "process[es] manual proxy votes with us, and they are extremely flexible with deadlines, and demonstrate good ability to tackle complex events".



Meanwhile, experts noted that J.P. Morgan, which came in second place, noted that the "custody service is strong" and "engagement continues to be very good, frequent and progressive in approach".

BNY Mellon moved into third, while Northern Trust dropped a place to fourth. Citi jumped from its seventh spot last year to fifth also scoring 5.08.

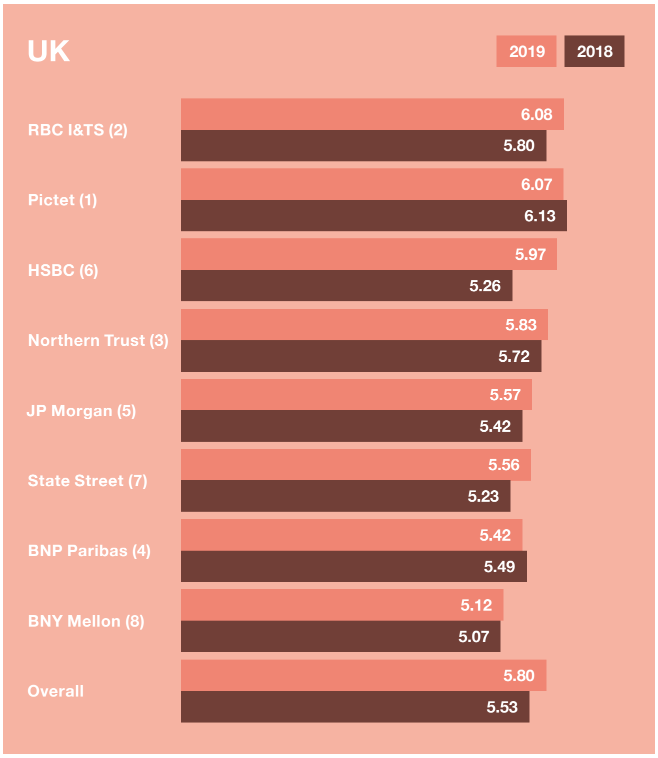
State Street scored lower down the table in sixth. Comments from survey participants suggested that State Street's "services controls have declined in several areas" while another said that there has been a "continual decline in service quality, accuracy, and increase in errors".

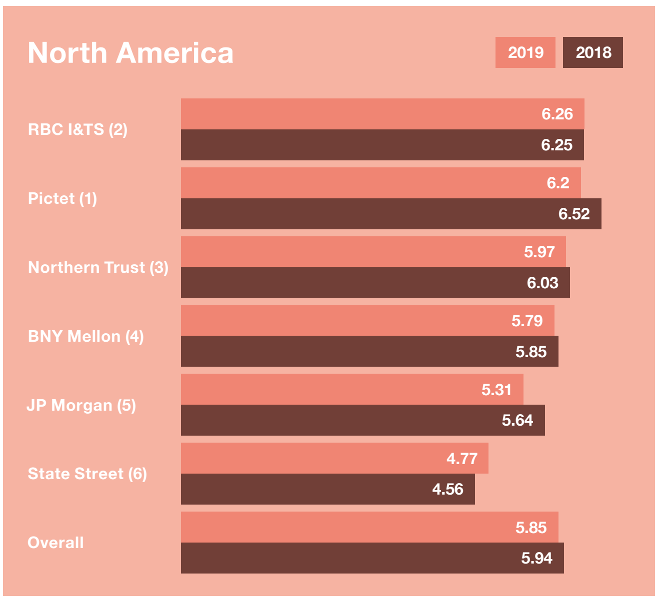
Although HSBC sits in seventh, the bank did see an increase of 0.28 from its 2018 score. However, respondents suggest that its HSBCNet "is very clunky compared to new systems launched over the past three to five years" and "is not the easiest online portal to use".

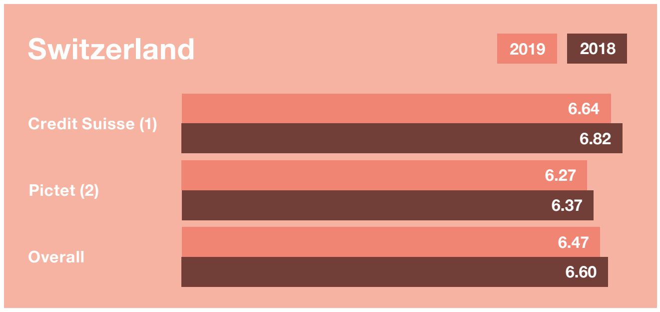
Geographical outlook

Sitting top of the ranks in the UK and North America is RBC. It also ranked second in Mainland Europe and the rest of the world.

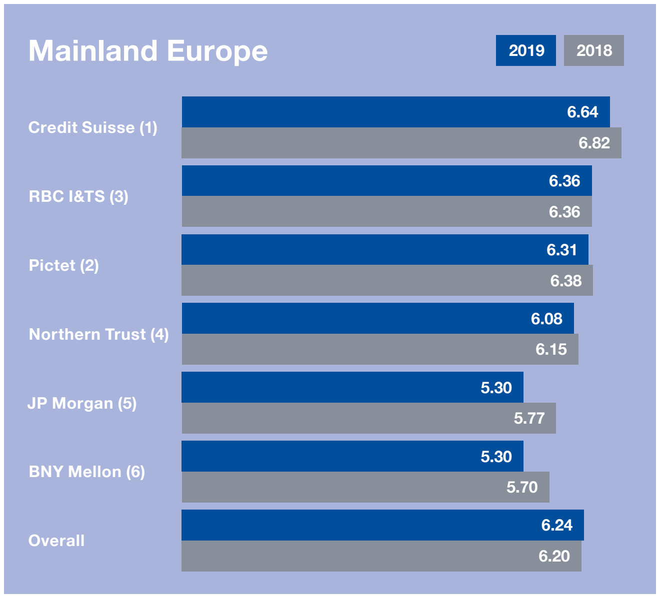
Although RBC knocked Pictet off the top spot for the UK and North America, it held its place at the top for the rest of the world ranking. Pictet ranked second for the UK, Switzerland and North America, while coming in third for Mainland Europe.

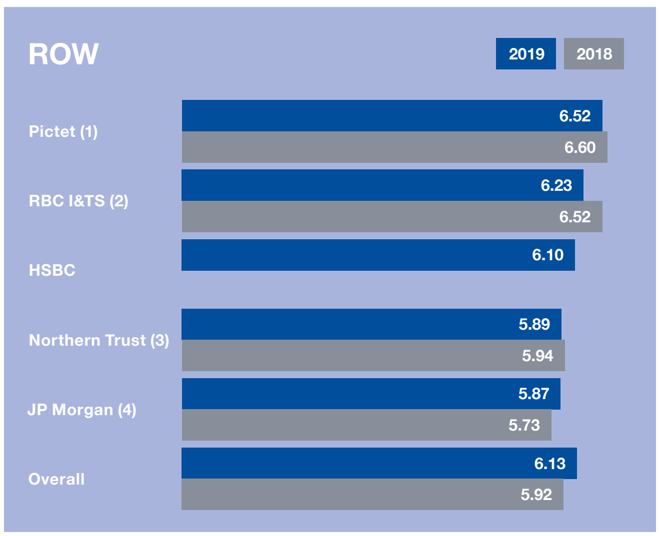






HSBC jumped from the bottom of the table to third in the UK, and was a newcomer to the rest of the world rankings. J.P. Morgan secured a place in the UK, Mainland Europe, North America and the rest of the world while Credit Suisse topped the ranks in Switzerland as well as Mainland Europe.





Guernsey's global reach

Dr Andy Sloan of Guernsey Finance reports on the initial findings of research showing why the island's global distribution capabilities, cost and service levels are sought after in the current climate

Asset managers and intermediaries are increasingly thinking of splitting global and EU distribution if it can lead to improved levels of service.

They are among the interim results of a survey carried out by Guernsey Finance, the promotional body for the financial services industry in the island, at SuperReturn International in Berlin.

More than half of firms surveyed are considering reviewing their distribution and structuring of investment funds in the next 12 months as they sought better service and looked to cut costs. Some three-quarters had reviewed their distribution arrangement in the previous two years.

Market access remains a key priority for them. Managers are starting to recognise Guernsey's credentials in global distribution—proven routes to market for institutional investors to more than 50 jurisdictions, across five continents, including the US and China.

But standards of service are a factor of growing concern. More than half of managers say that they consider service levels to be extremely important, and that may influence a change of jurisdiction.

And the survey also showed that more than half of managers would consider operating parallel structures for global and EU distribution if it led to improved service and reduced costs. Costs are, in part, being driven by technological advances but also the ever-growing EU regulatory burden. More than a third said this issue was a significant concern to them.

Guernsey is ideally placed to offer access to worldwide markets, greater certainty for managers and promoters, and more cost-effective solutions with higher levels of service than many of our competitor jurisdictions.

Guernsey funds are able to reach investors in jurisdictions representing more than 80 percent of the world economy—more than 50 jurisdictions across five continents, including the US and China.

The island can provide asset managers with a single route to investors, and our 'four corners of the globe' distribution model—proven, smarter and faster from Guernsey—needs to be more widely recognised.

And our European distribution is through National Private Placement Regimes (NPPR), which provide a proven, smarter, faster and cheaper route to access European investors.

Many promoters think that they need to have a UCITS or an alternative investment fund (AIF) but, when they analyse who their target market is, and what they require from their fund, a Guernsey vehicle very often turns out to be a better regulatory fit, and offers a cheaper, faster solution.

The European Commission's own figures, from just a year ago, show that 70 percent of all EU funds, are registered for sale in just one member state, and only 37 percent of UCITS and just 3 percent of AIFs are sold in more than three member states. These figures expose the UCITS 'myth', that UCITS is the only real option for fund structures sold in Europe, and prove that the Alternative Investment Fund Managers Directive (AIFMD) passport is not all it is promoted as.

NPPR has been successfully used many times for marketing into Europe and is well understood as a path for managers and promoters for distribution, supported by Guernsey-based service providers. It is an effective alternative, particularly for those with a targeted list of marketing jurisdictions.

Guernsey provides quick, effective NPPR access to more than 70 percent of the nominal GDP across continental Europe. The island is also positioning itself as the stable alternative through Brexit, playing on a 50-year heritage of acting as a conduit for inward investment into the UK and Europe—ideally placed as a jurisdiction to provide certainty to managers, promoters and placing agents.

The full survey will be published at the Guernsey Funds Forum on Thursday 16 May.

"NPPR has been successfully used many times for marketing into Europe and is well understood as a path for managers and promoters for distribution"

Dr Andy Sloan
Deputy chief executive, strategy
Guernsey Finance

Life after Brexit

Dr Angelina Pramova of GAM Private Labelling discusses the future of alternative investment funds post-Brexit

Since 23 June 2016, when the UK decided to leave the EU, the fund industry in the UK found itself in a limbo between a future as a third jurisdiction and a past of benefitting from the EU passporting rules for their funds.

Today, UK-based alternative investment fund managers continue facing two strategic challenges: where to manufacture and how to market their own funds into Europe.

When it comes to the first challenge, the main questions are: what do I do with my UK Alternative Investment Fund Manager (AIFM)? Can I still rely on it to manage funds domiciled in the EU? Even more important: where should I domicile my fund at all?

The main concern here is that an existing UK AIFM may no longer be able to act as the management company for funds domiciled in the EU. It comes therefore as no surprise that one solution is gaining increasing popularity among UK fund managers—to create a fully EU-based infrastructure for their funds by either setting up or appointing a (third-party) AIFM in Luxembourg.

As many UK asset managers prefer to have as much flexibility as possible, we at GAM Private Labelling often see clients interested in exploring two viable options. The first option is to act as an investment advisor to our AIFM in Luxembourg (the latter assuming the responsibility for the portfolio and risk management). The second option is to continue to act as the investment manager of EU-domiciled funds without interruption.

Furthermore, appointing a third-party AIFM has various additional merits: Establishing an own EU AIFM in an unfamiliar jurisdiction can become a complicated, time-consuming and very costly endeavour. GAM Luxembourg S.A., being the largest third-party management company in Luxembourg, provides direct access to strong ground expertise, the local ecosystem of relevant service providers, short and efficient time-to-market and a competitive cost structure. By contrast, creating an own AIFM is linked to a substantial investment in local employees, infrastructure, significant legal costs in attaining regulatory permission and an implementation period, which can easily exceed your initial expectations.

When it comes to the second challenge, the marketability concerns of UK asset managers who want to continue to distribute products in the EU, the European buy side has already given quite strong signals. Institutional investors have expressed and shown a clear preference for EU-domiciled vehicles, backed by a solid infrastructure and regulatory framework. Furthermore, the Alternative Investment Fund Managers Directive (AIFMD) non-EU passports have not been introduced and a number of the EU27 countries do not have any or only very restrictive private placement regimes.

In addition, the growing nervousness around locations such as the Channel Islands, Isle of Man or Gibraltar in the light of Brexit have caused more and more UK fund managers to future-proof their funds with a strong, large AIFM in the EU, whereby Luxembourg with its global network, long track record and overall market position is seen by GAM Private Labelling as one of the top choices.

That being said, the key criteria for the choice of the best fund domicile remain the targeted investors. While some smaller UK asset managers might initially be able to focus on offering their funds only to UK investors, we have seen many asset managers who have outgrown their local investor base, now targeting international investors, many of which are institutional and EU-based.

These clients tend to choose to partner with well-established companies with existing platforms and proven track records in order to ensure that their funds meet the criteria of their target investors, preferably with a strong footprint in both jurisdictions—the UK and Luxembourg. GAM Private Labelling is able to build a bridge between both.

For UK asset managers, GAM Private Labelling provides a future-proof infrastructure for their funds that would allow them to approach an international institutional investor base outside the UK while benefitting from the strategic advantages of a strong partner in the second largest fund domicile worldwide—Luxembourg.

Dr Angelina Pramova
Head of business development
GAM Private Labelling

Vignesh Kamath/shutterstock.com

Opportunities await

Vinay Purohit of StockHolding Securities IFSC discusses the newly introduced IFSC markets in India and the opportunities it offers to investors and intermediaries

An International Financial Services Centre (IFSC) caters to customers outside the jurisdiction of the domestic economy enabling the flow of finance, financial products and services across borders.

Among over 100 global financial centres; London, New York and Singapore rank among the top while emerging IFSCs like Shanghai and Dubai have aspirations to play a global role too.

As per 2015 estimates, in the absence of an IFSC, India was losing about $50 billion annually—and this will grow to $120 billion by 2025. In 2015, the IFSC was set-up for bringing to India, the financial services transactions that are currently carried outside India by financial institutions both international and domestic (through its branches/subsidiaries outside India) while offering the same ecosystem as the offshore location.

This is being carried through regulatory, tax, and business policies to help the offshore activities in IFSC, India to compete more effectively with other international offshore centres.

Today India offers investors an Onshore market (a vibrant and one of the most efficient domestic markets globally with two leading exchanges—National Stock Exchange and Bombay Stock Exchange) which caters to domestic and international investors alike and an offshore market at IFSC, Gift City (with two international exchanges), which caters to foreign investors while offering them infrastructure including taxation and regulations at par with global financial markets.

Enablers at IFSC: taxation and regulatory

The benefits of the Double Tax Avoidance Agreements (tax treaties) between India and the investors home jurisdiction is applicable, for investors at IFSC, the amended section 47 of the Income Tax Act exempts from taxation, gains arising to a non-resident from the transfer of foreign currency bonds, GDRs, rupee-denominated bonds of Indian companies and derivatives (which includes futures and options) where the consideration for the transaction is paid or payable in foreign currency.

Further, no tax liability accrues in nature of income tax, capital gains tax, securities transaction tax, dividend distribution tax or the newly introduced Goods and Service Tax (GST) is applicable.

In line with international practices of having a single regulator at IFSC, a unified regulator—with a representative from Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory Authority of India (IRDA)—for IFSCs has been announced and necessary legislations have been initiated to put it in place soon.

The unified regulator will enable effective and efficient decision making while aiding ease of doing business and enhancing the global competitiveness at IFSC.

To facilitate overseas dispute resolution on Indian shores, the Singapore International Arbitration Centre (SIAC) has opened a representative office at IFSC, Gujarat International Finance Tec-City (Gift City) The SIAC office will provide a neutral and independent dispute resolution platform for entities, thereby enabling them to undertake large international financial transactions from GIFT IFSC.

Progress and recent developments

The IFSC at Gift City, Gandhinagar, Gujarat, India was ranked at 77 among the 100 global financial centres in the year 2018. The ranking is based on various evaluation parameters for measuring the attractiveness of financial centres and helps understand the growth and competitiveness of financial centres.

The Indian capital market regulator SEBI has over the last few months announced two important measures including permit the global players to invest at IFSC, Gift City through the Segregated Nominee Account Structure (SNAS) and enabling framework for more capital market players like alternative investment funds (AIFs) in the IFSC and easing access for AIFs to invest in the offshore markets (including IFSC at Gift City) and the onshore markets in India while enabling the fund and its investors to avail the expertise of the domestic fund managers from India.

About IFSC, Gift City

The IFSC at Gift City has two international stock exchanges including the India International Exchange, a 100 percent subsidiary of the Bombay Stock Exchange and NSE IFSC, a 100 percent subsidiary of National Stock Exchange. Both the exchanges have their own Clearing Corporations.

The IFSC has over 80 SEBI approved broking members (over 40 offering trade execution services), seven clearing members (offering trade clearing, margin and collateral maintenance and related services), over 12 banks, insurance and reinsurance companies and insurer brokers.

The exchanges currently trade derivatives for 22 hours a day with two daily settlements. Also, the exchanges eliminate currency risk for the investor as all trades are quoted and settled in USD currency. Acceptance of eligible foreign securities as collateral for margin purpose will enable the investor to optimise on his investible funds and investment strategies.

Regulators at IFSC

IFSC currently has three regulators, SEBI, RBI and IRDA. Towards evolution of the IFSC, it is proposed setting up of the single unified regulator will contribute to better regulation and supervision of the financial entities with ease of access and offering a world-class legal framework for IFSCs to expeditiously deal with dispute resolution and other issues.

Investors at IFSC, Gift City

The IFSC permits two broad categories of investors:

Foreign portfolio investors (FPI): FPI are investors meeting the eligibility criteria as per the SEBI (Foreign Portfolio Investors) Regulations 2015 and are registered as FPI with SEBI, FPI undertake investments in India across listed equity, debt, derivatives, mutual funds etc as per the regulations. Based on risk profiling of the investor, an FPI is categorised in three categories.

Category I being low risk and includes government and government related entities such as central banks, governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies; Category II will be moderate risk and include regulated and broad-based persons like banks, asset management companies, investment managers/advisors, portfolio managers, or university and pension funds, endowments, and broad-based funds where investment manager is regulated and Category III funds comprising all others FPIs not eligible under Category I and II such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices and are categorised as high risk.

Category I and II FPIs are permitted to invest at IFSC, Gift City, without undergoing any additional documentation and/or prior approval process. These investors shall be required to ensure clear segregation of funds and securities while keeping their custodian informed of all their investments at IFSC.

Eligible foreign investor (EFI): EFI is a foreign investor not registered as FPI with SEBI in India. An EFI would be meeting the eligibility norms applicable for FPIs under the SEBI (FPI) Regulations and a trading member of the recognised stock exchange in IFSC may carry out the due diligence on its own or it may rely upon the due diligence carried out by a bank, which is permitted by RBI to operate in IFSC, during the account opening process of an EFI. EFIs shall abide by all the applicable Indian laws including rules/regulations/circulars/guidelines in IFSC issued by the government of India/RBI/SEBI or any other authority of law, from time to time.

Investment avenues at IFSC

The exchanges offer multiple segments on a single platform which in turn bring operational and cost efficiencies for the investor. The products offered by the two international exchanges at IFSC, Gift City currently include equity index futures and options, Indian equity single stock futures and options, global single stock futures, commodity derivatives for precious metals, base metals and energy and global currency derivatives.

Besides, the India International Exchange facilitates issuers in raising debt funds, which get listed and are settled through the international central securities depositories (CSDs).

Investor registration process at IFSC, Gift City

The registration process is a simple three-step process and involves:

1. Investor registered as FPI submits requisite forms/documents to the trading member, along with a certified copy of SEBI FPI Registration Certificate. In the case of EFI, EFI submits documents with requisite supporting the trading member for know-your-customer (KYC) registration, tax registration and client registration

2. Trading member verifies documents and registers the client with a unique client code. For EFI, the trading member also completes the KYC process

3. FPI EFI remits funds in USD to the trading members bank account and commences trading

An investor may choose to appoint multiple trading members for execution of their trades. However, irrespective of the number of trading members so appointed, all their trades are cleared through a single clearing member at all times. In line with the prevailing offerings at global financial centres, SEBI has under the SNAS permitted a much simpler on-boarding process for investors.

SNAS

The SNAS framework eases entry for overseas investors by facilitating direct registration process through an eligible offshore service provider who applies global KYC and anti-money laundering (AML) norms while on-boarding investors.

The SNAS structure requires the end client to avail of the IFSC access services through an entity in any international jurisdiction who is registered in IFSC as a segregated nominee account provider. A provider maintains all details of his end client and ensures appropriate due diligence of end-clients as per global standards, including KYC and AML compliance and then helps on-board the client at IFSC.

The SNAS structure facilitates the eligible foreign investors placing their orders on the stock exchanges in IFSC to be routed through eligible segregated nominee account providers while complying with applicable client level regulatory requirements.

The end-client needs to submit his legal entity identifier code to the provider. The stock exchange/clearing corporation will assign a unique client code to each of the end clients which will be used for all orders placed by him.

The offshore service provider retains client confidentiality from the market intermediaries at IFSC. However, the provider needs to submit at all times any details that may be asked for by regulator and exchange.

Opportunities and requirements for a SNAP

SEBI has currently permitted the following entities having a minimum net worth of $5 million to become a SNAP: SEBI registered brokers at IFSC; FPI's (Category I & II); and trading/clearing members of International Stock Exchange/CCP that are regulated by a member of the Financial Action Task Force.

An end client can trade through multiple brokers but all his trades will get cleared through only one clearing member. All positions are monitored at the end client levels with the margins being applied at the end client level while the gross margins would be collected from the provider.

The provider collects margins from his end clients.

However, a provider having requisite agreements with his end client can also offer them margin funding facilities.

Even as the SNAS offers client confidentiality in the markets; the stock exchanges, brokers and providers will be required to furnish information relating to the client trades on stock exchanges in the IFSC that are originated by/through providers—including the KYC details of their end-clients as and when required by the regulator.

India onshore vs India offshore (IFSC, Gift City)

The introduction of SNAS in the IFSC while meeting global offering, further eases the on-boarding process for the end client. It also presents business opportunities to all eligible capital market players across the globe who can act as providers.

This augurs well for the steadily increasing investor interest and trade volumes and will go a long way in meeting the Indian Prime Minister's vision of Gift City becoming the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument.

Sr. No	Differentiations	India Onshore	India Offshore(IFSC, Gift City)
1	Access: on-boarding process and related	Short process	A further simplified and short process
2	Bank Account	Mandatory for FPI	Not required
3	Custodian	Mandatory for FPI	Not required
4	Exchange trading timings and holidays	9.00 am to 3.30 pm (Open for 6.30 hours) 15 exchange holidays in 2019 as per exchanges list	4.30 am to 2.30 am (next day) (Open for 22 hours) Four trading holidays in 2019 as per exchanges list
5	Tax applicability in India	Yes	Nil tax for investor (no income tax/ capital gains tax/ securities transaction tax)
6	Market segments	Multiple segments cash, derivatives – equity; commodity; currency, debt	Single-segment with all derivatives available on one platform equity (including Index, single stock Indian and foreign equity); commodity; currency
7	Market currency for trading and settlement	INR	USD
8	Currency risk	Yes	No
9	Limits on position	Yes	Yes
10	Collaterals	Cash, eligible Indian securities	Cash, eligible foreign security
11	Listing and trading in debt - foreign currency bonds	No	Yes
12	All inclusive transaction cost (including intermediaries cost)	High	Less
13	Outward remittance	A process needing one to two working days after trade settlements	A shortened process which can be carried out within hours after trade settlements
14	Segregated nominee account structure	Not permitted	Permitted and available to all eligible investors
15	Settlements	One settlement daily	Two settlements daily

"The introduction of SNAS in the IFSC while meeting global offering, further eases the on-boarding process for the end client"

Vinay Purohit
Managing director and CEO
Stockholding Securities IFSC Limited

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Accelerate business expansion through ‘smart sourcing’

Deloitte’s Francois-Kim Huge discusses the idea of smart sourcing and the benefits it can bring to a business

Beyond outsourcing

Managed services offered by asset servicing providers are increasingly popular in the asset management industry, as they offer the opportunity to outsource various operational, finance and technology infrastructure processes in a context of expanding business models and pressurised profitability. These challenges are also compounded by the fast-paced changes in client expectations, the complex regulations on both local and global levels, the disruption caused by the digital revolution, and the forces of globalisation.

Business process outsourcing (BPO) can represent substantial value to service providers by reducing risk and delivering increasing value to clients whether through lower service costs, increased service quality or extension of service offerings. Reducing costs is certainly one of the essential business case elements of outsourcing and remains a valid business objective but should not be the only motivation for outsourcing. Outsourcing is not new to the world as the first evidence of BPO can be traced back to traditional manufacturing companies, which outsourced large segments of their supply chain to be more cost-effective and efficient. Despite the significant benefits of BPO for the manufacturing industry, the financial service providers, however, still lack the degree of outsourcing leverage applied in other industries:

- BPO has acquired a negative image and is burdened by substantial misconceptions
- Many players have less than positive experiences with BPO or failed in making it a success story for their firm as they did not realise the full value of BPO projects in the past

We believe that when smartly managed, a BPO project does not necessarily have to entail these consequences.

It can be of substantial value to a financial services firm by increasing margins, reducing risks, driving innovation and enhancing value delivered to clients both internal and external.

To break this less than positive image, let us take BPO to the next level by introducing the concept of ‘smart- sourcing’.

In this sense, the essential business question becomes: “Do you still outsource or are you already smart sourcing?”

What exactly is smart sourcing?

Smart sourcing can be understood as outsourcing business processes, taking into consideration that:

- The processes to be outsourced are reviewed and redesigned, ultimately resulting in a more robust, efficient, scalable operating model
- The quality of the services is significantly increased through the application of best practices
- The project entails a review and potentially an upgrade of the service offering, facilitating business expansion
- Vendors are centralised but smartly managed to benefit from additional economies of scale and provide higher processing transparency. This is particularly relevant in a context where the oversight of delegated function becomes a specific point of attention in fund regulation

Regtech or not regtech?

Today there is a very active scene in the fund industry around the so-called regtech (and more globally fintech solutions). These are solutions that carry the promise of efficiently addressing regulatory obligations by leveraging new technology.

There may be some overlap between regtech and smartsourcing solutions: they both rely heavily on technology to deliver superior services (in comparison to traditional setups). However, they may differ in the sense that most regtech generally address a particular issue (for example, a specific solution for due diligence activities) whereas smart sourcing solutions will present a much wider range of services in a centralised setup.

Also, in many cases, a very large part of the added value of a regtech solution consists in technology whereas a smart-sourcing solution will generate its value through a more balanced expert human capital/technology ratio.

This said, many smart sourcing solutions do count regtech solutions as part of their technology stack.

Expectations from smart sourcing in the fund industry

For the fund industry, smart sourcing offers state-of-the-art solutions, often in the form of a full range of managed services in white labelling mode, allowing investment management firms of any size to access a wide range of services thereby allowing them to accelerate their business expansion.

Clients, markets and product data is spread across fund administrators, transfer agents, custodians, depositaries and asset managers' or intermediaries' middle offices. Comprehensive smart-sourcing solutions offer opportunities to mutualise data and create automated and user-friendly interfaces between all parties in the fund life cycle.

These interfaces are the gateway to a full-fledged fund-servicing support managed solution.

The positive side effects of using a centralised data driven operating model for outsourced services are not only the efficiency of the interactions with the "one-stop-shop smart-sourcer" but also the possibility to leverage their data management infrastructure for internal purpose (in a context where fund houses are becoming increasingly aware about their needs to more efficiently manage the fund data).

The use cases for smart sourcing abound—here are a few to illustrate the benefits of smart-sourcing.

Getting scale with market funds on a global basis

A fully-fledged fund distribution support function requires the ability of the managed services platform to provide for each potential target across the global: market intelligence, tax and regulatory watch and hotline support, fund registration support, pan-European tax figures calculation and certification, risk metrics, regulatory reporting, share class hedging, and client reporting.

To offer these services, a smart sourcing solution should provide market and regulatory watch, create intelligent data and information repositories, manage data flows, create scalable processes, or automated data quality controls. Ultimately, they will provide the scale to globally expand your business.

The future of fund factsheets, and fund document production

Smart sourcing solutions can also address more specific activities, such as fund reporting.

For instance, fund factsheets are essential marketing tools to promote fund products. Yet today, many fund factsheets are still produced with rigid content that are not updated as often as one would want. Classic factsheets are designed to be printed and often fail to satisfy the mobile/online expectations of the upcoming generation of global "digital native" clients. By smart-sourcing fund factsheet production, fund houses can differentiate themselves in many ways:

- By being assured that local compliance obligations will be met (and potentially avoid costly fines and public sanctions)
- By creating rapid development and launch processes for products to go-to-market
- By strengthening the data management process
- By having a faster, more cost-effective, flexible and scalable production solution that even large players could not afford to create in-house

Smart sourcing fund factsheet production allows innovation to be captured much faster than if it were insourced. Current systems are indeed most often outdated and undersized, while fund factsheet smart sourcers are now proposing data driven, dynamic solutions that many asset managers have only just started to dream of. For instance, many content elements in the factsheets are also found in other documents—for instance in prospectuses, key investor information documents (KIIDs), websites, European Packaged Retail and Insurance-based Investment Products (PRIIPs) Template (EPT)—and yet the production of this content is today mostly fragmented per document type and performed by different teams, obviously duplicating efforts and creating risks of inconsistencies between such documents. Advanced smart sourcing solutions will allow to bring together the production of fund documents, rationalising the way that content is for "multi-purpose" reporting service.

The cross-border tax challenge

Another obvious smart-sourcing use relates to tax. Indeed, pan-European tax regimes are not yet harmonised. The distribution of Luxembourg-domiciled funds, for example, requires extensive knowledge and regular tax watch on a variety of topics—domestic withholding tax regimes, taxation of interests, taxation of real estate investment trusts, local market practice, access to tax treaties. Knowing that Luxembourg-domiciled investment funds are distributed in over 50 countries in the world makes the tax watch at the local level a key benefit of offering a managed services platform.

In this context, a central smart sourcing setup is surely an efficient solution to manage all tax reporting duties and automate labor-intensive reconciliation and data validation processes.

Risk and regulatory reporting

The same logic applies in other topics whereby fast paced regulatory changes make it difficult to cope in terms of capabilities. This is particularly true in the case of risk and regulatory reporting areas. Smart sourcing platforms offer calculation and reporting capabilities for risk management figures, synthetic risk and reward indicator for pre-contractual documents, transparency reporting, product-related regulatory reporting such as the alternative investment fund manager (AIFM) reporting and fund transactions reporting, and regulatory health-check tools, case management tools, and risk data warehouses.

In such case, the smart sourcing solution presents the opportunity to access a vast amount of expert skills in financial analytics and "hard to find" resources (both in terms of human capital and technology).

KYC/AML/combating financing terrorism

Investment firms face increasing challenges within their know-your-customer (KYC) strategy and operations, which imply the notion to think and act differently. New KYC services offer major opportunities to automate processes and include this activity in the managed services fund-servicing platform. Externalising KYC processes generates savings through mutualisation of technology and expertise, increases quality and risk management, and enables investment management firms to focus on their core business activities. Here the processes include investor on-boarding and initial risk assessment, risk-based due diligence, ongoing monitoring and due diligence, as well as oversight and reporting.

Characteristics of the ideal process to smart source

A critical step on the path to smart-sourcing is understanding what characteristics make a process ideally suited to be outsourced. A good casting of the process to be smart sourced can be achieved by taking note of the following points:

Core process for the smart sourcer, but not for you: the outsourced process must not be one of your core activities but it should be a core activity of the outsourcing service provider, the "smart sourcer", who will have developed best practice formulae and specialised systems that are proven and optimised for the specific process.

Large scale/cyclical: provision of a constant flow of work to the service provider allowing you to benefit from their economies of scale and to measure the vendor's performance in a deadline-constrained framework.

Complexity is not an issue/high value tasks: complex tasks, especially those requiring an extensive range of competencies, can be considered as model smart sourcing candidates for the simple reason that obtaining the necessary in-house expertise would be difficult, costly, and potentially risky to manage.

Commodity services: when considered as a commodity, smart-sourcing allows firms to choose between several outsourcing providers competing not only on the best and most innovative services but also on price. Commodity services also allow for greater cost forecasting and budget predictability as service providers tend to follow the pay-as-you-go model, which greatly reduces fixed costs, thereby giving the client more autonomy and control.

Be ready to change to become faster, stronger, better

In many cases where outsourcing has failed to capture its potential, the client did not see the relationship between themselves and the service provider as a partnership, thus creating innovation deficits. The point here is that firms must agree to transform themselves for the better, and allow service providers to follow their own proven modus operandi, rather than "copy-pasting" the firm's legacy process. The above is a small price to pay in comparison to the potential benefits of smart sourcing:

Volume resilience: the smart sourcing model usually comes with a gain in flexibility in a turbulent environment. It is easier and far more cost-effective to adapt the resourcing capacity when dealing with a smart sourcer, reducing the inefficient allocation of resources and the response time to market movements.

Global reach: especially for firms active in cross-border markets, smart-sourcing solutions would enable firms to gain immediate access to a specialised pool of resources with superior expertise and technical knowledge. Allowing vendors to use their own processing system(s) enables them to leverage their network of expertise in different countries, leading to more accurate specific solutions.

Innovation: as the process being outsourced is part of the smart-sourcer's core activities, they will constantly continue developing and improving their services, providing you with innovative solutions that would most likely not have been on your own development agenda. When smart sourcing, do not 'micro-outsource'. Think about the global picture.

Of course, outsourced processes must not be done independently from the big picture; the overall model must remain coherent and efficient. Indeed, we have observed a number of firms that choose to outsource a multitude of tasks to a large number of specialised vendors in order to quickly benefit from their expertise. In the long run, this strategy creates a challenging environment where the benefits gained are wiped out by the efforts necessary to coordinate all the providers. Often, such setups lead to unforeseen delays and suffer from a lack of consistency in terms of quality.

A more effective arrangement is to select a smart-sourcer that offers a breadth of activities and skills, acting more as an integrated solution for outsourced services. This significantly cuts down on the web of complex relationships to be supervised and synchronised. In addition, the service provider is tasked to coordinate operations internally, leading to a much more cohesive process, which can often mean the difference between success and failure.

Furthermore, the client also receives output that is consistent, and the service vendor is able to take advantage of any synergies that may be present, hence creating value for both parties.

A potential concern related to the centralised vendor model is the risk of increased dependency on one external service provider.

As the saying goes, you shouldn't put all your eggs in one basket and to an extent this is true; there is certainly a need for caution.

However, issues usually only occur due to poor vendor management where there has been a lack of controls being implemented at the beginning of the relationship.

A potential concern related to the centralised vendor model is the risk of increased dependency on one external service provider

Francois-Kim Huge
Partner
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Creating the right risk culture

Lloyd Sebastian of CIBC Mellon explains how governance, outsourcing and cyber risk management is on the rise

For asset servicing providers and their clients across the globe, the ongoing march of technological innovation brings an array of opportunities and risks. Just as new data and processing capabilities bring efficiency, scale and opportunity, so too do they drive complexity and challenge for institutional investors and market participants across the spectrum as they seek to achieve and demonstrate the appropriate risk management that stakeholders demand.

The pressure is on from regulators, boards, trustees, underlying clients and other stakeholders—in the form of new reporting, disclosure and affirmation requirements. Market participants are expected to remain vigilant and work to continuously improve the controls and security measures in place to protect the information under their control, affirm that their vendors and supply chains meet necessary standards, and demonstrate their overall commitment to building and maintaining diligence and resilience across their organisations.

The Canadian example

The Canadian market holds a well-deserved reputation as a safe haven. As such it should come as no surprise that regulators and market stakeholders continue to extend their focus on areas related to diligence, prudence and good governance.

Accordingly, activities in the Canadian market may offer relevant insights and tools for market participants globally seeking to reinforce to their stakeholders their commitment to doing business at the highest standards. Expectations in Canada include rising attention on internal processes, cybersecurity, employee education, vendor management and supply chain oversight processes, and creating the right “risk culture”.

Regulatory focus areas: cyber risk, outsourcing risk

Areas which have come more closely into focus in recent years include mitigating cyber risk (including technological developments across cloud computing, distributed ledger/blockchain activities, and fintechs), strengthening vendor management and supply chain oversight, as well as affirming and strengthening overall resiliency across investment operations. For example, 2019 saw Canadian regulators introduce new requirements for certain domestic federally regulated financial institutions to address technology and cybersecurity incidents in a timely and effective manner.

Canadian regulators have also directed significant focus to the area of outsourcing with regulatory governance requirements, such as National Instrument (NI) 31-103 “Registration Requirements, Exemptions and Ongoing Registrant Obligations,” and Canada’s Office of the Superintendent of Financial Institutions Canada Guideline B-10 requirements, “Outsourcing of Business Activities, Functions and Processes.”

These regulatory efforts have served to bring into focus the theme that while operations can be outsourced, responsibility cannot—firms remain accountable for the activities they have entrusted to their vendors. As such, firms must put in place demonstrable measures designed to provide assurance that outsourced activities (such as those entrusted to a local asset servicing provider) are being conducted at required standards.

Cybersecurity self-assessment

Canadian regulators have also provided market participants with relevant tools to support their efforts to achieve and demonstrate sound and strong controls. While these tools are designed with Canadian market participants in mind, the principles and questions may be relevant for participants in markets around the world. Whether investing into Canada or seeking a high standard against which a firm can measure itself, this checklist may prove useful.

The value of a self-assessment checklist is relevant given that maintaining the confidentiality of specific cybersecurity controls and preparations are one facet of cybersecurity risk management. After all, disclosure of the specific protections in place to protect a firm may enable hostile actors to more easily devise an attack. This necessitates a careful balance between providers and clients: to provide sufficient confidence regarding the protections in place while also maintaining sufficient confidentiality. Self-assessments, policies and other external tools can provide a means by which participants can provide assurance that they are adhering to relevant standards while maintaining that necessary confidentiality.

Governance assurance and client support

Global investors and market participants in Canada also continue to seek efficiencies and stronger controls through operational transformation, which includes outsourcing additional activities and exploring new opportunities to capture and engage with data in collaboration with vendors. At CIBC Mellon, growing client interest in our ability to affirm our strength, governance and preparedness led our firm to design and deploy a client governance programme and client governance guide. This guide is designed to support our clients in demonstrating to their stakeholders the oversight they have over our firm by providing a relevant framework, definitions and tools to assist clients in their oversight over activities entrusted to our organisation.

Financial market participants face increasing pressure from regulators and other stakeholders to ensure the necessary oversight of their suppliers, specifically when those suppliers are considered outsourcers. Firms are ultimately responsible and accountable for all the functions that they outsource to a third party. Any time your organisation outsources a function to a third-party supplier, it accepts an outsourcing risk as it entrusts control of that function to a provider. As such, firms must put steps in place to affirm that the service provider adheres to the same level of business discipline and internal controls.

For firms who partner with an outsourcing provider either for technology purposes such as managing data or administering payments, firms should expect to apply a very high standard of review and diligence. However, given that the details of certain types of controls (particularly those around cybersecurity) must be kept confidential, firms must carefully consider what will suffice in terms of delivering the necessary confidence and assurance. Ultimately, firms cannot outsource their responsibility for information risk and must be thoughtful in how they deliver on that responsibility in collaboration with their providers.

Evolving risk pillars

Regardless of your role across the investment landscape, a broad familiarity with risk management practices and recent trends may assist you in understanding and preparing for potential outcomes—as well as support you in engaging with stakeholders seeking a conversation about the steps your organisation has taken to deliver confidence to stakeholders.

The process of identifying and measuring risk factors takes place across institutions globally. In Canada, for example, the Office of the Superintendent of Financial Institutions enforced the implementation of Operational Risk Management Guidelines for federally regulated financial institutions; this regulation provides fundamentals of risk management and regulatory oversight, establishing principles for organisations' management of the different types of risk. Most organisations are familiar with such well-established pillars as credit risk and market risk, which are generally considered to be mature pillars in the investment space. Directing focus to the broader category that is operational risk, the material risks typically captured under this pillar include transaction processing, talent, technology, business continuity, outsourcing, legal, and regulatory risk. Based on an organisation's risk management structure, the firm place certain well-established risk management pillars such as reputational risk and strategic risk outside of operational risk due to the large inventory of principles captured under the operational risk pillar.

In Canada and globally, regulators and market participants alike have placed significant focus on a more recently emerging pillar—information risk—as it encompasses information security, cyber risk, and technology risk. Due to its prevalence—from recent regulatory changes to the regular emergence of global media coverage related to hacks, breaches and other cyber attacks—industry professionals across the spectrum should be aware of information and cybersecurity issues. Across cyber and operational risks, the core theme of resiliency continues to gain ground: fortifying operations against challenging situations, disruptions, attacks and other expected and unexpected challenges.

Information risk, cybersecurity

At CIBC Mellon, we understand that our clients face increasing pressure from institutional investors, regulators and stakeholders to provide assurance that processes are in place to mitigate the effects of unexpected disruptions and threats on critical services such as breaches due to technology-related events. Information security is generally thought of as the risk of managing the confidentiality, integrity and availability of information assets.

The goal is to prevent disclosure of data, unauthorised or accidental modification of data or loss of information assets.

The Business Continuity Institute (BCI) is a leading international organisation for business continuity professionals worldwide. The Institute issues an annual Horizon Scan Report designed to track risks and threats to organisations. In the most recent Horizon Scan, the Institute tracked the top trends according to 657 organisations in 76 countries. Sitting at the top of the list in 2016, 2017 and 2018 amongst survey respondents are cyber-attacks and data breaches. Organisations remain concerned about the potential for damage via attacks and breaches. These risks were cited by more than half of the respondents to the BCI survey.

In the event of a cyber-attack, there are significant risks to consider that extend beyond technology risks such as:

1. Transaction processing risk from the inability to process if a firm cannot access systems to enter transactions.

2. Business continuity risk: can an organisation continue operations following a cyber event? How quickly can it return to a regular operation?

3. Legal risk: a firm could be at risk of being negligent in protecting its data, which could result in potential litigation from underlying clients, vendors or other stakeholders.

4. Regulatory and compliance risk from potential violations or non-conformance with regulations related to information security.

5. Reputation risk could impact an organisation's ability to establish new relationships or services, or to continue servicing existing clients. There could be a significant focus on a cyber event that impacted a financial institution or institutional investor is given the volume of personal information that an organisation might maintain. Reputation is further impacted in the event that a scenario is not managed effectively—a firm's response is critical to minimise reputational damage.

Considering an information security perspective, there are multiple ways vendors can provide assurance that data under their control is sufficiently protected and that an organisation has the necessary resilience. In engaging with vendors, consider seeking assurance of such factors as multiple redundant data centres, affirming that a detailed business continuity/disaster recovery plan is in place, and setting high standards for information security.

In considering vendors, firms may wish to assess whether a vendor adheres to established third-party standards such as the ISO 22301:2012 Societal security— business continuity management systems standard.

From internal processes and employee education, through vendor management, businesses are expected to remain vigilant and work to continuously improve the controls and security measures in place to protect the information under their control—and in turn, support their clients by providing necessary assurances on this front.

Financial market participants globally continue to hone their focus on risk management, governance and risk assurance. The Canadian market example may offer insights and tools for global participants as they seek to deliver assurance—in particular when the focus moves to protect data managed both internally and externally by vendors.

Fostering a sustainable risk culture and demonstrating powerful resiliency is a staple of success in the evolving technological landscape. With new innovations springing up on an ongoing basis, new and evolving risks will need to be (re)considered by financial market participants of all sizes and functions.

Regardless, by taking the steps to consider risk from many lenses, by learning from relevant examples, leveraging available tools and resources, and most of all by engaging thoughtfully with vendors and clients, firms can set themselves up to continue to bolster stakeholders' confidence and in turn continue to drive success.

Fostering a sustainable risk culture and demonstrating powerful resiliency is a staple of success in the evolving technological landscape

Lloyd Sebastian
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CIBC Mellon

The new governance benchmark

Olivier Carré of PwC discusses the governance benchmark for Luxembourg investment fund managers introduced in August last year

In August 2018, the Commission de Surveillance du Secteur Financier (CSSF) published Circular CSSF 18/698.

The new circular referred to as the 'governance' or 'substance' Circular, sets the tone for the governance standards to be complied with by Luxembourg-based investment fund managers (IFM) and their delegates, as far as delegated duties are concerned.

Why a new CSSF Circular?

The new guidance essentially replaces a circular dating back to 2012 (CSSF 12/546) and includes the most recent European baseline requirements (EU Directives and European Securities and Markets Authority (ESMA) guidance). It also reflects the administrative practice of the CSSF over the past few years.

Consequently, the circular's benefits clearly outweigh the disadvantages and the new guidance provides a clear and comprehensive framework for IFMs:

- Level-playing-field governance standards for all parties in Luxembourg
- Substance standards at the level of the IFM
- Fine-tuned rules governing delegation and oversight

Level-playing-field governance and substance standards

The CSSF has updated its distinct rules for the conduct of business and governance of an IFM. The IFM's governance bodies, the board of directors or supervisory body meetings, are to be organised in a coordinated manner (standing agenda, decision documentation, policies acknowledgement) on a quarterly basis. The management body meetings are likewise coordinated on a monthly basis.

Also, the CSSF has formalised its substance standards with regard to the IFM's board of directors, management body and central administration.

<table>
<tr><td colspan="6">Third parties</td></tr>
<tr><td colspan="2">Portfolio Manager/Investment Manager</td><td colspan="2">Administration Agent/Registrar Agent</td><td colspan="2">Depositary Bank</td></tr>
<tr><td colspan="6">IFM</td></tr>
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• Permanent Risk Management
• Permanent Compliance
• Internal Audit</td><td>Portfolio Management & Advisory</td><td colspan="2">Central Administration/ Administration of UCIs</td><td>Fight against Money Laundering and Terrorist Financing</td></tr>
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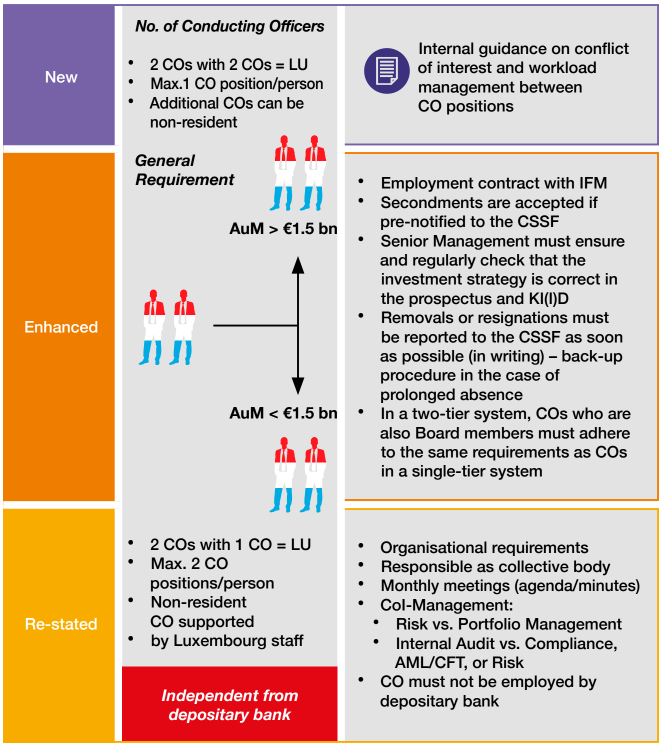
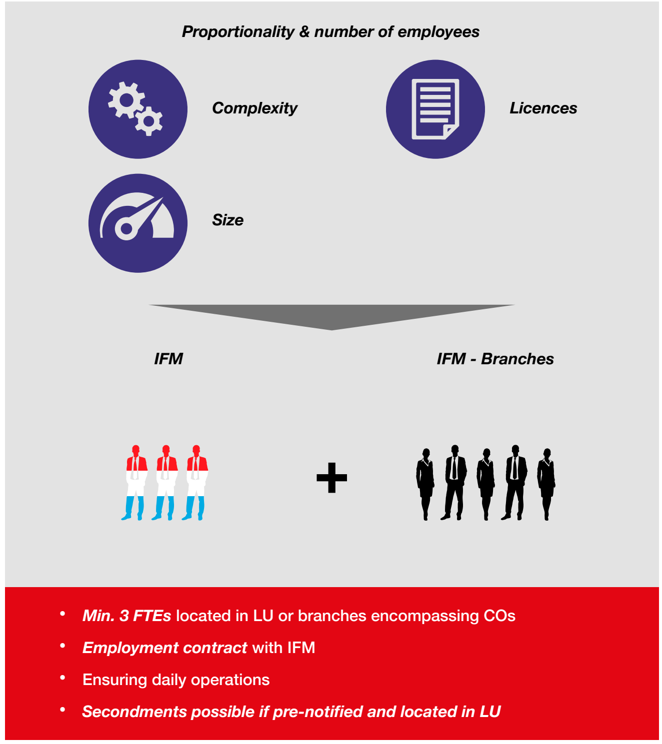




As such, the governance structure of an IFM has not changed substantially, but the documentation standards, composition and minimum substance have increased. The circular sets a relevant substance standard in the EU and is in line with the expectations set out by the EU Commission and ESMA.

Rules for delegation and oversight

Of particular importance are the rules on delegation and oversight of delegates.

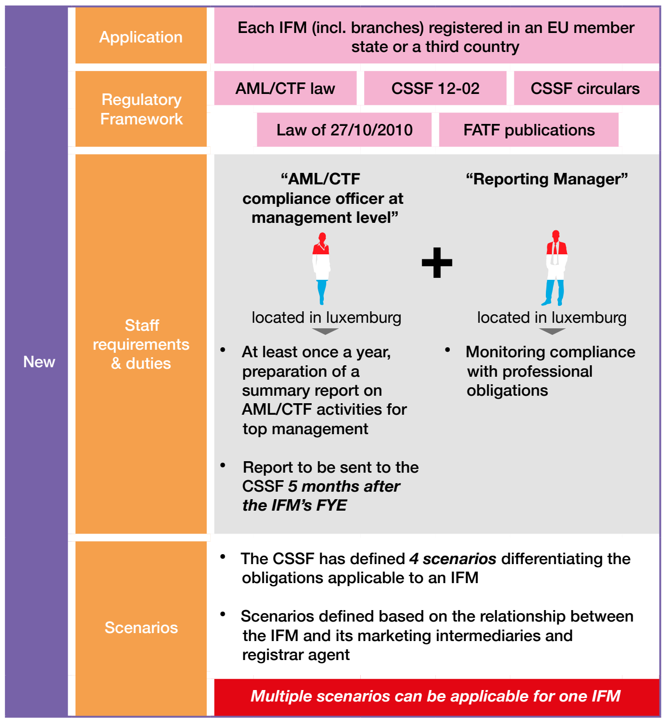
The main changes are the following:

- **Re-statement of the three levels of delegation oversight:** initial due diligence, periodic due diligence and ongoing oversight (key performance indicators (KPIs) and quality meetings)

- **Broadening of scope of delegation oversight:** not only the core functions (portfolio management, risk management and, for UCITS, distribution) as defined by the UCITS and AIFMD Laws are subject to delegation oversight, but also other delegated tasks such as IT, compliance, internal audit, finance, valuation and risk support are subject to at least the initial and periodic due diligence controls. Ongoing monitoring is not required from a regulatory perspective and can be organised on an as-needed basis

- **Inclusion of anti-money laundering (AML) requirements:** in Chapter 5.4, the CSSF has defined distinct scenarios implying AML-related controls for IFMs

- **Specific requirements for investment advisors:** encompassing the duty for selecting and scrutinising the investment advisor recommendations by the IFM



- **More specific guidance as to the oversight of distribution:** networks and intermediaries in investment fund share transactions

The combination of harmonised and clear regulatory guidelines and the acknowledgement of business reality provides, according to us, a balanced and sound approach as a leading Investment Fund Regulator in the EU and the World

What does this mean for fund distribution?

Distribution is subject to oversight and control requirements, both from the perspective of AML as well as for the purposes of broader distribution controls.

The CSSF guidance introduces the concept of 'intermediary', as a counterpart (private or corporate) to the IFM (or its transfer agent) for the subscription/redemption of fund shares.

For direct intermediaries, not subject to any other duties imposed by contract or subscription agreement (for example, execution platforms or collecting agents), only the AML framework applies and provides written requirements to ensure that AML-specific duties are performed by the intermediary in accordance with Luxembourg standards.

For distribution agents to which specific distribution-related duties have been delegated by contractual agreement, the product-related controls apply in addition to the AML-specific ones.

As such, direct intermediaries can be subject to: AML-specific due diligence and oversight; or due diligence pertaining to the delegated distribution tasks/duties (for example, quality of shareholders, complaints, minimum subscription amounts, distribution countries); or both, if the direct intermediary is a delegated distribution agent via a distribution agreement.

The distribution oversight is composed of several control layers:

Distribution procedure

- Implementation of 2010 and 2013 requirements on initial due diligence and ongoing monitoring

Due diligence and ongoing monitoring

- Due diligence
- Performed on the basis of the 4 AML scenarios
- Includes MiFID II requirements (target market, inducements)

Ongoing monitoring

- distribution incidents
- distribution countries
- MiFID II requirements
- complaints
- subscriptions and redemptions

CSSF reporting

- Annual inventory of ***direct distribution intermediaries*** (5 months after end of FY)

All indirect intermediaries or distribution agents are subject to a 'mutatis mutandis' principle, for example, if the distribution oversight does not require a full look-through on all sub-delegated distribution agents, as long as the IFM has obtained comfort with regard to the first level communicating its delegation and due diligence procedures (existence and efficiency) to sub-delegates. However, this main principle again changes if the first level (for example, direct distribution intermediary) is considered high-risk from an AML perspective. In such case, an enhanced AML due diligence process applies, which triggers a look-through on UBOs and sub-delegates/clients.

Consequently, the distribution network management is to be enhanced in light of the new CSSF guidance in order to comply with AML requirements (for example, AML written agreement and, in case of high risk, enhanced due diligence) as well as in terms of broader distribution control requirements, such as the distribution agreement for the second Markets in Financial Instruments Directive target market information, quality of investors, prospectus rules and selection of sub-delegates.

Olivier Carré
Clients and market FS leader
PwC Luxembourg

The investment industry's data challenge

Metrosoft's Janusz Lorenc says improved use of data can bring major efficiency gains to the fund industry, as long as asset managers and service providers concentrate on rethinking their processes rather than seeking to automate its existing models

What progress has been made toward enabling access to data?

Most of the information that exists today is in the form of data, and it is becoming steadily more accessible. The EU, national governments, regulators and other organisations are rapidly making increasing volumes of data available, in many cases at no cost. A wide range of initiatives are underway, often backed by legislation, to encourage and sometimes require organisations to record and update their data. But the frustrating thing is that in today's fund industry, know-your-customer (KYC) initiatives are mostly aimed at improving existing processes of data collection and analysis of paper documents. By contrast, the EU's series of anti-money laundering (AML) directives clearly allows the use of data as the source of information. A system that extracts information from reliable data sources in real time makes possible effective AML risk assessment and oversight. This would leave transfer agents to focus on their core business rather than having to devote a lot of resources to maintain and operate ineffective legacy processes.

Why is the fund industry largely failing to see these benefits yet?

Technology has progressed to the point of supporting direct use of data, which would be much more efficient for the investment industry, but the obstacle to accessing these benefits is human—instead of looking forward, organisations are focusing on solutions that address immediate problems in their current models. Rather than trying to automate existing processes, these need to be transformed to support the use of data natively. This change is inevitable, but it's not here yet, because people focus on what's existing and known, and they are averse to taking what they see as a risk in breaking long-engrained habits. To take just one example, clients request the ability to export data in Excel format to enable it to be imported into another system—instead of transferring the data directly with a click. It's ironic that the instinct is to value a certified paper document more than the data from which that paper copy is generated in the first place.

How can these entrenched habits be changed?

The data and the technology are already here, but the focus has to be on incremental change rather than an abrupt shift, in order to build support among industry members and to gradually overcome the psychological barriers to adopting a new way of thinking. Part of the answer lies in the organisation. One key element we have found is putting young people together in teams alongside veterans, on an equal footing. The combination of high energy and seemingly crazy ideas, alongside the restraining factors of experience and a mildly conservative mindset, has consistently delivered results for us.

The data-driven future is coming, but the sooner it does, the quicker the fund industry can benefit from its efficiency gains.

The data and the technology are already here, but the focus has to be on incremental change rather than an abrupt shift

Janusz Lorenc
CEO
Metrosoft

Comings and goings at Maitland, HSBC, MUFG and more

Maitland has appointed David Hathorn as deputy chairman of the board as part of its ongoing succession planning.

Hathorn has been a non-executive director of Maitland International Holdings and chairman of its audit and risk committee since May 2017. Prior to his appointment to the Maitland board, Hathorn was CEO of Mondi for 17 years until May 2017.

Michael Solomon, chairman of Maitland, said: “We are delighted that David Hathorn has agreed to take on the deputy chair role at Maitland.”

He added: “Hathorn has already made a significant impact since joining the board and I have no doubt that in his new role, and with his extensive expertise and skills, he will continue to contribute significantly to the well-being and growth of Maitland.”

Ultimus Fund Solutions and Gemini have appointed Ian Martin as chief administrative officer.

Martin will oversee the integration of workstreams for Ultimus and Gemini as both firms use the same core technology platforms.

The workstreams focus on corporate services and ensure that client service teams are adhering to best practices.

Martin has more than 25 years experience in mutual fund processing, shareholder servicing, efficiency and quality control.

Previously, Martin led the transfer agent department at Global Fund Services where he was responsible for daily operations, technology, vendor management, and contract negotiation.

Gary Tenkman CEO of Ultimus, commented: “We are pleased to have a seasoned industry leader overseeing the integration of Ultimus and Gemini, making sure we leverage the best processes from both firms and advance our commitment to quality and client service levels.”

Commenting on his new role, Martin said: “It is exciting to work with the team at Ultimus given they have differentiated themselves in the industry by putting clients first.”

He added: “The integration team will be instrumental in helping the newly combined companies scale through sustainable operational processes while delivering and improving on the service levels we have with our clients, which is exciting for me professionally.”

HSBC Securities Services (HSS) has appointed Giovanni Fenocchi as global head of issuer services.

Based in London, Fenocchi will begin his new role in Q2, reporting to Richard Godfrey and Allegra Berman, global co-heads of HSS. He will also be a member of the HSS global executive committee.

Fenocchi has more than 20 years experience with HSBC, spanning client coverage, operations and risk. Currently, he serves as global COO for the financial institutions and public sector group within global banking at HSS. Prior to this, he was COO of the public sector, global banking.

Fenocchi will replace Ian Pryor, who has been acting global head of issuer services since November 2018.

Pryor will return to his role as global business manager for issuer services, reporting to Fenocchi.

Commenting on the appointments, Godfrey and Berman, said: “We would like to take this opportunity to thank Ian Pryor for leading this client sector so effectively while we completed the comprehensive recruitment process. Please join us in welcoming Giovanni Fenocchi to HSS and wishing him every success in his new role.”

MUFG Investor Services, the global asset servicing arm of Mitsubishi UFJ Financial Group, has appointed Andrew Stewart as executive director of private equity and real asset sales for Europe, Middle East and Africa (EMEA).

Stewart started on 4 March and reports to Oliver Scully, head of EMEA sales. In his new role, he is responsible for driving the sales and growth of MUFG Investor Services’ asset servicing solutions to investors and managers across the private equity and real asset sectors in EMEA.

He also promotes the uptake and usage of MUFG Investor Services’ suite of products including fund administration, outsourcing, custody, depositary, trustee, fund of fund financing, alongside other banking and treasury solutions.

Stewart has almost 30 years of experience in the financial services industry across Europe, North America and Asia. Prior to MUFG Investor Services, Stewart served at Citco as executive vice president, responsible for sales to private equity and real estate funds and investors in Europe. Stewart’s appointment follows other recent senior private equity and real asset hires at MUFG Investor Services,

including the appointment of Bruno Bagnols as managing director and head of private equity and real assets of Mitsubishi UFJ Investor Services and Banking Luxembourg S.A. earlier this month.

Scully commented: “We are excited that Andrew Stewart has joined the firm given his experience in the private equity and real asset sectors. He understands the pressure points that investors and managers face and can advise them on the best solutions and products to meet their operational needs, help them remain competitive and deliver significant results to their clients.”

Commenting on his new role, Stewart said: “I have long admired MUFG Investor Services’ strong commitment to supporting organisations within the alternative investment sectors. I am looking forward to working with the team to generate sustainable and profitable growth throughout the business while continuing to offer clients a best-in-class suite of products and services.”

Framework, a global solutions vendor for private equity, has appointed J-P Durandeau as head of product.

Durandeau will be responsible for product development and delivering the best service to Framework’s clients.

Durandeau’s appointment is the latest of several senior hires at the firm in recent months which, according to Framework, is part of its ongoing commitment to meet the demand for improved investment data and service management in the private equity real estate (PERE) sector. He has more than 20 years of experience in implementing and developing financial software services. Prior to serving at Framework, Durandeau has held senior roles at eFront and Charles River, working in multiple overseas locations in Europe and Asia.

Alan Naughton, CEO at Framework, said: “We are excited to have J-P Durandeau join the Framework team. He brings leading-edge industry knowledge needed to help us grow our business and develop further products for the global PERE industry. There is a significant opportunity for Framework and our clients to adapt to changes in the sector driven by regulation and the quest for operational efficiency, by improving data management to enhance reporting and decision making.”

Bertil Rouveure, executive chairman at Framework, commented: “Durandeau’s appointment underscores our continued intent to invest in the relevant expertise and experience to align our product road map with the needs of our clients.”

Commenting on his new role, Durandeau said: “I am delighted to join Framework to continue delivering compelling relevant products for PERE investment data management, enhance its services, and in turn help our clients to scale their businesses.”

Ultimus Fund Solutions (Ultimus) has appointed Gary Harris as executive vice president, director of sales, effective immediately.

Harris will be responsible for developing Ultimus’ sales strategy and ensuring the execution of that strategy across the various market segments for the entire suite of Ultimus solutions.

Most recently, Harris served as senior vice president, national sales manager at SS&C. He has also held senior sales management positions at DST and SEI.

Harris has knowledge of developing and executing strategic business plans and managing sales teams in the investment management and financial services industry.

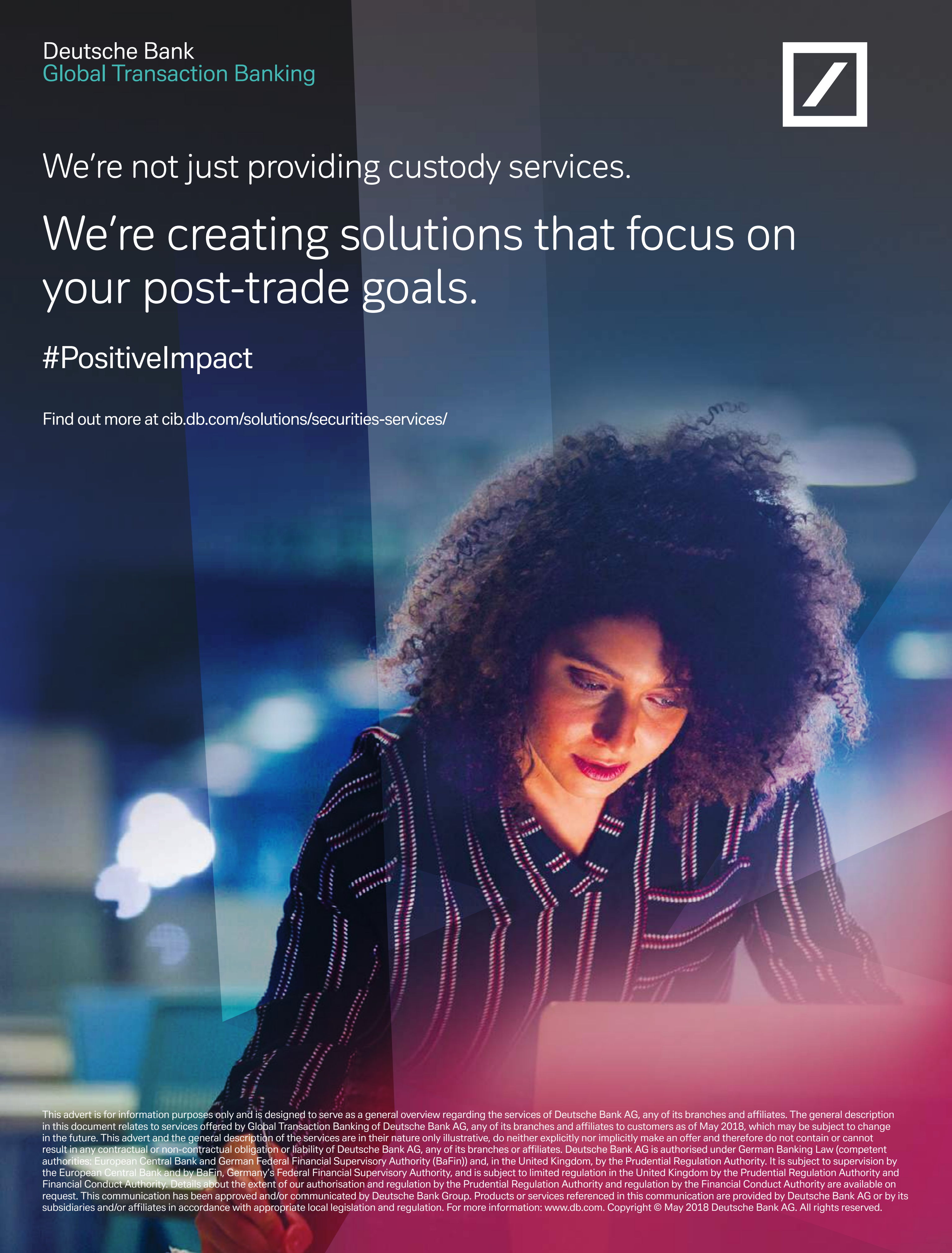
Gary Tenkman, CEO of Ultimus, commented: “We are very excited to have Gary Harris join our growing team at Ultimus. He has deep knowledge of our market segments, the financial products that we service, industry business partners and the ability to transform that knowledge into actionable results. Having Harris on our team will allow us to capitalise on our strong market position and service reputation.”

Commenting on his new role, Harris said: “I am very excited to join Ultimus and head up its business development efforts. The team at Ultimus has done a terrific job of establishing itself as a leader in this industry through its delivery of high-value services and a client-centric model. Ultimus is uniquely positioned to capitalise on the market opportunity and I look forward to leveraging my experience and knowledge to deliver high-quality growth for the firm.” **AST**

Digital Asset has appointed Yuval Rooz as its new CEO, replacing Blythe Masters who stepped down from the role for personal reasons at the end of last year.

Masters has served at Digital Asset since 2015 and remains involved in the company as a board member, strategic adviser and shareholder. Digital Asset’s executive chairman, AG Gangadhar, was appointed acting CEO in December and will continue to advise the company’s leadership team as executive chairman.

Commenting on his new role, Rooz said: “It is an honour to be appointed CEO at this exciting and pivotal time for the industry and our company. I’m proud of our outstanding team and the progress we’ve made recently, especially with DAML, which will have a profound effect on how people exchange information and transfer value.”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