

## The changing face of a transfer agent

*Industry participants from RBC I&TS, UMB Fund Services, Fenergo, HSBC and Thomas Murray discuss the changing role of the transfer agent*

### Proxy Voting

Proxy voting has been a largely manual process for some time but has COVID-19 shone a light on new ways of doing it?

### Superannuation Funds

While Australia's superannuation industry is continuing to grow, technology and automation will be key for further development

### Liquidity Focus

Liquidity has been a main challenge over the years, but how has the financial crisis helped to prepare firms for the pandemic?

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## EU strikes deal on clearing houses recovery and resolution plans

The Presidency of the Council and the European Parliament have reached a deal on a common set of rules for central counterparties (CCPs) and their authorities to prepare for and deal with financial difficulties.

The proposed rules aim at providing national authorities with resources to manage crises and to handle situations involving failures of key financial market infrastructures.

The European Council said they build on the same principles as the recovery and resolution framework applying to banks.

The main objectives of the reform include reducing the probability of CCP failure by introducing effective incentives for proper risk management and, in case a financial difficulty would effectively arise, to preserve CCPs' critical functions, to maintain financial stability, and to prevent taxpayers from bearing the costs associated with their restructuring or resolution.

According to the European Council, the new rules take into account the global and systemic nature of CCPs.

The council explained that the rules provide for close coordination between national authorities in the framework in order to ensure that resolution actions are applied in a coherent manner taking into consideration the impact on affected stakeholders and financial stability.

The new framework is set to take effect 18 months after the date of entry into force of the regulation.

The current COVID-19 pandemic was also taken into consideration, with the co-legislators agreeing to give one additional year for trading venues and CCPs offering trading and clearing of exchange-traded derivatives to start applying open access rules in the Markets in Financial Instruments Regulation.

The open access regime will only start applying as of 4 July 2021.

The council stated that the recovery and solution will be based on a three-step approach:

First, the prevention and preparation whereby CCPs and resolution authorities will be required

to draw up recovery and resolution plans on how to handle any form of financial distress which would exceed CCPs existing resources. It noted that if resolution authorities identify obstacles to resolvability in the course of the planning process, they can require a CCP to take appropriate measures.

Secondly, CCPs can take recovery measures, according to certain viability indicators and based on the prepared recovery plan. The European Council stated that these include cash calls to non-defaulting clearing members, the reduction in value of the collateral provided daily to the CCP and the use of the CCP's own resources. Additionally, supervisory authorities will have the possibility to intervene at an early stage, i.e. before the problems become critical and the financial situation deteriorates irreparably.

Lastly, in the unlikely case of a CCP failure, national authorities will have the possibility to resort to resolution tools. According to the council, these include the termination of the CCP's

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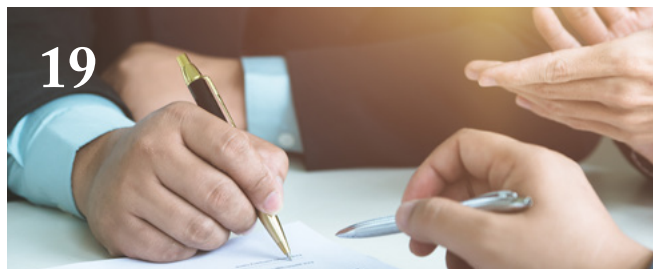
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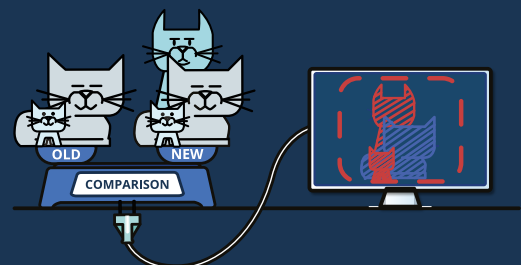
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Liquidity has been a challenge over the years, but how has the financial crisis helped to prepare the industry for the pandemic?



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## HSBC launches UK transfer agency business

HSBC Securities Services has launched a UK transfer agency (TA) business, servicing both retail and institutional investors.

The UK TA business will be supported by a new Edinburgh-based operation managing back-office processing and contact centre functions.

HSBC said that its UK TA business leverages existing capabilities across its retail banking and securities services businesses.

Additionally, it adds the UK market to the 12 countries already supported on its global TA platform.

The integration of banking, general ledger and management accounting systems within the TA platform has created significant automation, according to HSBC. Meanwhile, the introduction of application programming interface has enabled rapid access to data for asset managers and their clients, HSBC noted.

contracts, variation margin gains haircutting, the write-down of CCP capital, a cash-call to clearing members, the sale of the CCP or parts of its business or the creation of a bridge CCP. In certain limited cases, extraordinary public support may be provided as a last resort. The purpose of resolution actions is to minimise the extent to which the cost of a CCP's failure is borne by taxpayers, while ensuring that shareholders bear an appropriate part of the losses and that taxpayer funds are recouped to the extent possible.

Commenting on the deal, Zdravko Maric, deputy prime minister and minister of finance of Croatia, said: "The current context, characterised by important volatility and uncertainty, reminds us of the vital function clearing houses play to make our financial markets safer. By putting EU rules in place to deal with their potential failure, we are adding an essential piece of legislation to secure confidence in our financial system."

The European Association of CCP Clearing Houses (EACH) also welcomed the political agreement reached by the council of the EU and the European Parliament.

In a statement, EACH said: "An EU framework for CCP recovery and resolution plays an important role in ensuring an ex-ante definition of an efficient cooperation and coordination between authorities to address situations that would highly likely be cross-border per nature."

It noted that it is "particularly pleased that the political agreement achieves a balanced incentive structure that ensures the robustness of the clearing ecosystem, thus limiting the potential impact on taxpayers".





## Tim Wood and Rod Cooper launch new asset servicing consultancy practice

Asset servicing industry experts Tim Wood and Rod Cooper have launched Cooper Wood & Associates, an independent consultancy specialising in asset servicing.

According to Cooper & Wood Associates, the overarching goal when advising clients is to meet and exceed their financial targets.

Cooper & Wood will consult on operational and supplier efficiencies, revenue protection, and new business growth. Both Wood and Cooper have a combined experience of over 50 years and have spent this period working at the epicentre of asset servicing, both as suppliers and clients.

Previously, Wood worked as managing director, head of UK at HSBC Securities Services, between March 2017 and May 2019. Wood also spent just under 15 years at RBC Investor & Treasury Services serving in various roles including managing director, business management; head, global network management; and head, client solutions and operational performance.

Meanwhile, Cooper most recently worked as head of European business development at Thesis Unit Trust management from February 2019 to December 2019. He has also held roles at Societe Generale Securities Services, Brown Brothers Harriman, BNP Paribas, J.P. Morgan, Citi and BNY Mellon.

“The text provides a clear and certain path for authorities and stakeholders in the unlikely scenario of CCP Recovery and Resolution.”

EACH stated that it looks forward to the finalisation of the technical work and to contributing to the Level 2 work of EU Authorities.

Following finalisation of technical work, the European Council said the text will be submitted to EU ambassadors for endorsement with a view to reaching an agreement in the form of a (pre-negotiated) council position at first reading. It will then undergo a legal linguistic revision.

Parliament and Council will be invited to adopt the proposed regulation pursuant to Article 294(7) TFEU.

## UnaVista and SteelEye partner after CME announcement

UnaVista has partnered with SteelEye to provide reporting services to financial institutions as they migrate from CME's European trade repository (TR) and NEX Abide regulatory reporting services, which are set to close in November 2020.

As a compliance technology and data analytics company, SteelEye has already co-operated with UnaVista as a technical router for the regulatory reporting platform's approved reporting mechanism for Markets in Financial Instruments Regulation (MiFIR).

The partnership will see SteelEye integrate with UnaVista's European TR for European Market Infrastructure Regulation (EMIR) reporting, as well as develop a data converter that can be used for both reporting





## European Depository Bank selects Thomas Murray for data services

Thomas Murray has been chosen by European Depository Bank (EDB), a subsidiary of Apex, to administer data and monitoring services to compliance practices. Based in Luxembourg, EDB provides custody, depository, digital banking, and onboarding services, which will be enhanced by Thomas Murray's independent analysis and operational risk data, allowing for market and counterparty monitoring.

In addition to the services provided, EDB will take Thomas Murray's central securities depository and market asset safety risks assessments, and will participate in the transfer agency monitoring programme.

Simon Thomas, executive chairman of Thomas Murray, commented: "The Apex Group is one

of the largest financial services providers in Luxembourg, and its subsidiary EDB is at the core of its unique capabilities as an independent business delivering a single-source solution. I am pleased EDB has chosen Thomas Murray to support its global compliance efforts and am confident that the bank will find extraordinary value in our data and analysis."

Rüdiger Tepke, managing director of EDB, said: "We are pleased to announce a new partnership with Thomas Murray. Their extensive expertise in relation to market insights, in addition to leveraging leading technology, enables us to access critical information and insights while monitoring the respective markets, enhancing an important element of our due diligence process."

requirements, to facilitate migration from CME.

The solution created under the partnership will receive order and trade data to automatically compose daily EMIR and MiFIR transaction reports.

Matt Smith, CEO of SteelEye, commented: "This integration builds on the existing partnership between SteelEye and UnaVista and ensures that financial firms continue to have access to high-quality and cost-efficient regulatory reporting services."

"EMIR reporting has always been an area associated with complexity and cost issues, which this partnership addresses head-on. By integrating with UnaVista's TR, we are able to provide market participants with an effective, intelligent, yet cost-effective EMIR reporting service."

Mark Husler, CEO of UnaVista, added: "Hundreds of firms face the challenge of migrating their reporting processes away from CME, and need to do so quickly. Together with SteelEye, we offer a fast and efficient response to this demand and provide a wealth of other benefits to joint clients."

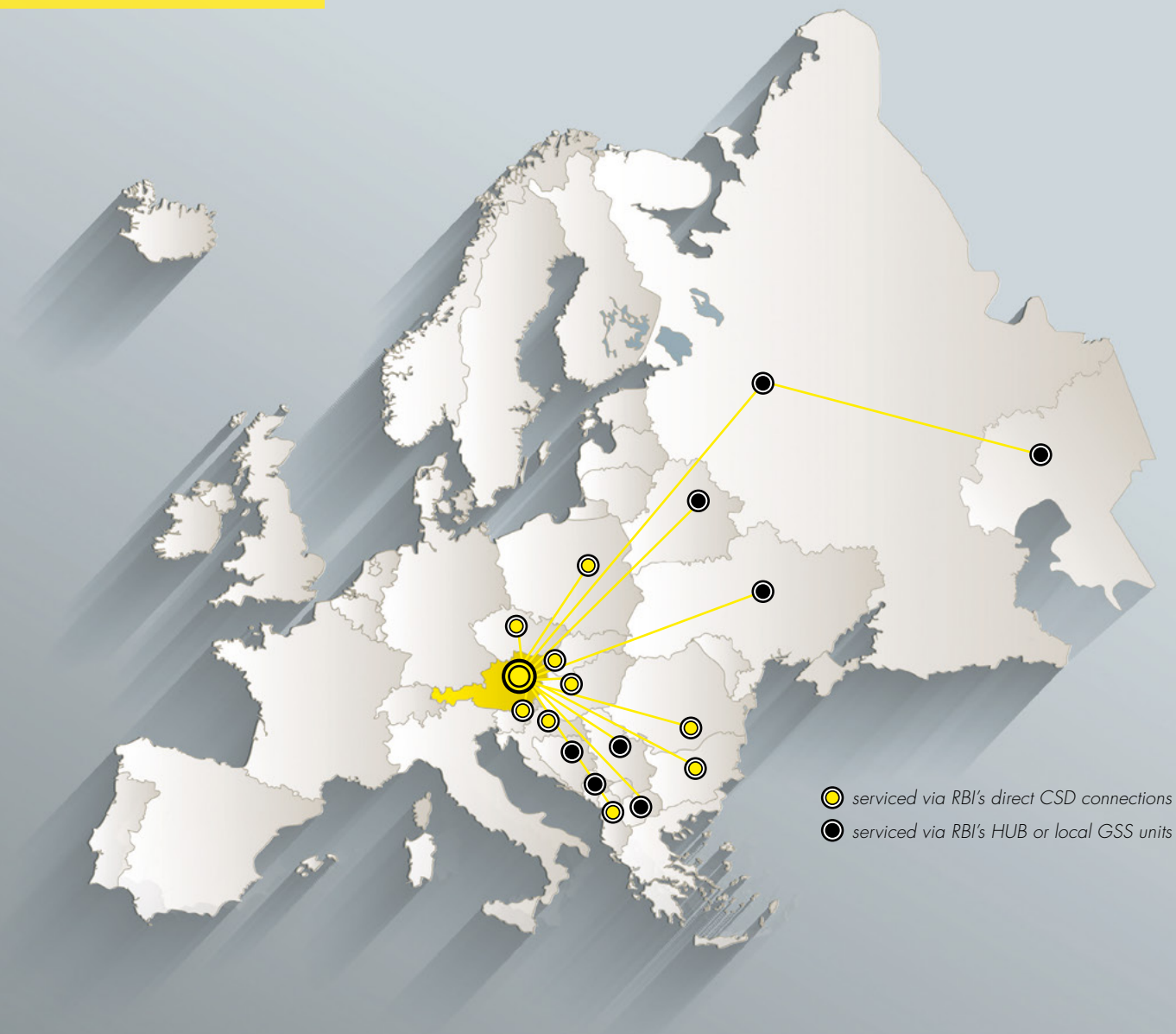
## Euroclear ESES selects Taskize for client servicing

Euroclear France, Euroclear Belgium, and Euroclear Netherlands (ESES) have gone live with the Taskize communication channel for client servicing.

This is an expansion on the deal with Euroclear UK& Ireland and Euroclear Bank that have both used Taskize's client servicing platform for the past three years.

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## European Council agrees to postpone certain tax rules in light of COVID-19 disruption

The European Council has said it will have more time to comply with rules on cross-border information reporting and exchanges, in order to address the disruption caused by the COVID-19 pandemic. The amendment to the directive on administrative cooperation in the area of taxation (DAC) will allow member states an option to defer the time limits by up to six months for the filing and exchange of certain information. This information includes automatic exchanges of information on financial accounts of which the beneficiaries are tax residents in another member state and reportable cross-border tax planning arrangements.

The European Council explained that severe disruption caused by the COVID-19 pandemic and lockdown measures to the activities of many financial institutions, tax advisers and tax authorities have disrupted timely compliance with their reporting obligations.

Depending on the evolution of the pandemic, the European Council noted that the amended directive also provides the possibility, under strict conditions, for the council to extend the deferral period once, for a maximum of three further months.

As part of the new service, participants will be able to report buy-in trades directly to Euroclear utilising Taskize's Central Securities Depositories Regulation (CSDR) buy-in solution.

Additionally, the platform provides a broad view of clients' enquiries and status, as well as counterparty query resolution and complete audit trails.

Currently used by over 230 financial institutions in 50 countries, Taskize is designed to improve security and simplify access, which allows ESES to efficiently prioritise, resolve, and manage client enquiries.

Brigitte Daurelle, CEO of ESES, commented: "We are very excited about the opportunities and benefits Taskize will bring to the way we service our clients. Taskize will provide a fully digital solution to save valuable time and ensure continuous support while enhancing the overall customer experience."

John O'Hara, CEO of Taskize, added: "We are delighted that ESES has selected Taskize for client servicing, marking an extension of our well-established relationship with Euroclear.

This will not only allow ESES to deliver enhanced client service, but will enable it to provide a comprehensive CSDR buy-in reporting solution for its clients."

## SWIFT reveals Sibos digital plans for this year's event

SWIFT has revealed plans to bring Sibos to a broader audience, showcasing a digital programme, not just for Sibos week but extending into 2021 including a new monthly series.



## Koine partners with Panxora on cryptocurrency management

Koine, the post-trade custody and settlement platform for institutions, has partnered with Panxora to provide mutual clients with cryptocurrency treasury management services.

Independent service provider Panxora will help reduce risks among Koine's institutional client base and their digital asset portfolios.

The service offered by Panxora functions as a classic segregated managed account, while working with liquid cryptocurrency exchanges alongside Koine's post-trade settlement solution in order to reduce credit and counterparty exposure.

Hugh Hughes, CEO and chairman at Koine, commented: "From Koine's inception, our

main focus was the protection of digital assets, which is why we're working with independent services like Panxora to support institutions in managing their funds in the most secure way possible. We will continue to work with various third parties, including tax reporting, margin and lending, to ensure all our clients' needs are accounted for."

Gavin Smith, CEO at Panxora, added: "As the cryptocurrency markets mature, governance will become a key differentiator for companies operating in this space. Working with Koine allows Panxora to offer our clients an integrated solution that actively manages their market risk in a very volatile asset class while protecting their assets from counterparty risk that would usually be a key concern in this sector."

This year's Sibos, which will still take place on the original dates of 5 to 8 October 2020, will be a free, thought leadership focused event.

The programme will feature insights from the industry experts, who will debate the theme 'Driving the evolution of smart finance'.

Each day will look into the interconnected sub-themes including: "delivering digital value", "responsible innovation", "banking for humanity", and "the future of finance".

Meanwhile, a host of Sibos conference sessions will return such as big issue debates, views from the top, Sibos spotlight and innotribe. Additionally, Sibos will bring back community initiatives, including the STAR Scholarship, collaborative innovation events such as the Sibos Hackathon and select digital networking events.

Sibos is also set to continue the conversation with a programme of monthly digital sessions and content, exclusive to registered Sibos delegates, running through to Sibos 2021 Singapore.

Chantal Van Es, head of Sibos, said: "It was a tough decision to move our event online, but we knew from conversations with customers and partners it was the right one to take."

"The change in format gives us the opportunity to bring Sibos to a broader audience, showcasing an exciting digital programme, not just for Sibos week but stretching into 2021 with a new monthly series," Van Es explained.

Van Es added: "This year is an extraordinary challenge for everyone, but we hope to meet your expectations with creativity, flexibility and dedication.





## Credit risk named top concern in Wolters Kluwer's Basel IV survey

Almost half of bankers suggested that credit risk will be the most significant challenge of the Basel IV reforms, according to a new report by Wolters Kluwer's finance, risk, and reporting (FFR) business.

The Basel IV Readiness Survey also highlighted the importance of using generated data to improve the efficiency and profitability of banking institutions.

Furthermore, around 90 percent of survey participants emphasised the need to integrate specific regulatory practice into business projections such as capital planning and budgeting.

Basel IV, a result of the Basel III finalisation reforms, is constructed around the two broad concepts of proportionality and interdependency, concerning which large institutions must tackle more demanding requirements and the influence of different types of risk against each other, respectively.

Over 75 percent of bankers in the survey cited that data management solutions should incorporate consolidation tests to verify whether simpler calculation methods are allowed under the proportionality doctrine.

According to 60 percent of survey participants, Basel IV compliance is anticipated to be a daily occurrence, with the majority of the remainder expecting a monthly obligation.

Inga Rottmann, vice president of marketing for Wolters Kluwer FRR, commented: "Credit risk indeed may be the most difficult matter to tackle in complying with the new framework, as the bankers surmise."

"Factors related to credit are key to a bank's risk management efforts, profitability and overall health, a truth reflected in Basel IV's more stringent and detailed requirements, down to individual deal level."

She added: "The broad agreement on consolidation of financial accounts and the insistence that compliance data be used to inform business decisions and strategic planning reveal a strong appreciation for the need to integrate data management and operational capabilities."

Wolters Kluwer FFR is helping its clients prepare for Basel IV by administering OneSumX, a centralised, integrated regulatory compliance and reporting platform to ensure consistency and address interdependencies.

While the Sibos experience will be very different this year, we are driven to retain the Sibos 'magic' and provide a hub for our community to exchange ideas and collaborate."

Registration for Sibos 2020 will open from August, when the full Sibos week programme with details of speakers and sessions will be unveiled.

Sibos started out as a banking operations seminar in 1978, but has since grown into the premier business forum for the global financial community to debate and collaborate in the areas of payments, securities, cash management and trade.

## Sudrania launches cryptocurrency fund admin platform

Sudrania Fund Services has launched Seamless Crypto, a new cryptocurrency fund administration solution.

The application includes multi-currency investment accounting and reporting, designed specifically for the operational needs of digital assets, as well as high frequency, indexing, and arbitrage strategies.

Seamless Crypto is intended for investment managers looking to outsource their fund administration and back-office operations through a cloud-based solution.

The platform incorporates several functionalities required to manage cryptocurrency funds, such as application programming interface (API) integrations, daily net asset value calculations, SOC2-audited secure online portal, comprehensive tax solutions,

and a one-stop solution for crypto spot and derivative trades.

Manish Agrawal, co-founder and managing director of product at Sudrania, commented:

“We are thrilled that our extensive experience with cryptocurrency funds, coupled with our full suite of portfolio, fund, and investor accounting services, helps funds, managers, and market makers’ operations run smoothly. It is gratifying that cryptocurrency funds rely on us to deliver clean and reconciled data as they navigate their exchanges and third parties.”

The platform has already been implemented and attested by the Bayesian Group, an association of software and trading algorithms creators.

Eric Bernhard, director and vice president of marketing at the Bayesian Group, added: “We see the Sudrania team as an extension of our firm and are pleased to leverage their deep industry knowledge in both fund administration and technology, which allows us to focus on generating alpha for our investors.”

## BNY Mellon reveals new data and analytics solutions

BNY Mellon has launched three new data and analytics solutions aimed at improving investment management.

The offerings are designed to enhance data management, improve the success of US-listed fund launches, and support the customisation of investment portfolios to cover environmental, social, and governance (ESG) factors.

The new solutions will be built on Microsoft Azure as part of BNY Mellon’s partnership with Microsoft over digital strategy to provide data, technology, and content solutions.

Data Vault is a cloud-based data and analytics platform that will facilitate efficient data onboarding as part of a machine learning (ML) approach to data quality.

Distribution Analytics also implements ML to allow asset managers to consolidate predictive market demand drivers and sales momentum for both mutual and exchange-traded funds.

ESG Data Analytics utilises artificial intelligence to customise investment portfolios to include distinctive ESG preferences.

Roman Regelman, senior executive vice president and head of asset servicing and digital at BNY Mellon, commented: “Our clients want and need more flexibility in their cloud-based data solutions so they can remain agile to evolving market, client and regulatory changes. Data Vault, Distribution Analytics and ESG Data Analytics were developed to help investment managers better manage and unlock value from their data.”

“Further, our expanded relationship with Microsoft underscores our open culture of partnering with leading technology providers to collaborate on data solutions that address client investment needs.”

Judson Althoff, executive vice president of Microsoft’s Worldwide Commercial Business, added: “We are pleased to collaborate with BNY Mellon on innovative cloud-based solutions built on Microsoft Azure to help their clients create alpha-generating opportunities and manage assets.”



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# A post-brexit world

The UK will see a number of changes being made to its regulatory framework in the financial services space, including the Central Securities Depositories Regulation (CSDR), following an announcement on 23 June by HM Treasury's chancellor of the exchequer Rishi Sunak.

In his statement, Sunak confirmed several major updates to the UK's Brexit plans for adopting EU rules frameworks in a written statement that will radically impact the country's securities services market participants.

Sunak stated: "There is now a range of important regulatory reforms in the process of being implemented at the international and European level that the UK needs to address before the end of the transition period on 31 December 2020."

The chancellor of the exchequer explained that the EU is in the process of implementing a range of provisions on capital markets, with some aspects applying before and after the end of the transition period. It was noted that HM Treasury has considered how to take forward this legislation in the way that is to the benefit of the UK sector while maintaining high regulatory standards.

According to Sunak, the government will consider the future approach to the UK's settlement discipline framework, given the importance of ensuring that regulation facilitates the settlement of market transactions in a timely manner while sustaining market liquidity and efficiency.

As such, the UK will not be implementing the EU's new settlement discipline regime, set out in CSDR, which is due to apply in February 2021.

UK firms should instead continue to apply the existing industry-led framework. Any future legislative changes will be developed through dialogue with the financial services industry, and sufficient time will be provided to prepare for the implementation of any new future regime, Sunak explained.

Neil Vernon, CTO at Gresham Technologies, suggests the UK's exclusion of CSDR's settlement discipline regime as part of its adoption of EU regulations post Brexit, will "undoubtedly create new challenges for firms in the UK".

Vernon explains that firms impacted by CSDR are likely to be settling in both EU and UK regulatory regimes and "any divergence will add a degree of complexity to the settlement process and so from a business process perspective".

Commenting on the announcement, Daniel Carpenter, head of regulation at Meritsoft, says: "As the majority of capital markets firms operate globally, having footholds or transactions flowing through the EU, UK, US and Asia Pacific regions, and will, therefore, be pulled into CSDR."

He adds: "Specifically, there will be many UK-based investment managers who will be settling transactions across the EU and will need to make sure that they are compliant with this regulation."

Carpenter explains that the regulation highlights that reducing the number of trade fails is best practice and commercially beneficial and as a result, he suggested "improving processes will no doubt be looked at favourably by UK firms, even following [the] statement".

CSDR aims to improve settlement rates by imposing cash penalties for fails along with a mandatory buy-in requirement.

The settlement discipline regime was originally due to come into effect in September but "technical impossibilities" around the implementation of IT solutions of industry stakeholders, and the fact that an essential ISO update due from SWIFT would not be in place until its annual November update, scuppered this timeline.

Carpenter says: "The cost of a failing-trade under CSDR is significantly higher than the cost of a failing-trade under a non-CSDR regime."

"Businesses will need to ensure that appropriate resources are allocated to these higher cost breaks than lower cost breaks. Indeed, the unintended consequences of this change, given that organisations are unlikely to allocate more resources, is that the UK failing trades are likely to fail more frequently than they currently do leading to potential increased market inefficiencies in the UK."

Paul Baybutt, senior product manager at HSBC Securities Services, also weighs in on the announcement, stating that it was "not altogether surprising given the uncertainty that currently exists with how the settlement discipline regime should be implemented".

Baybutt suggests the settlement process should not be affected too much by the UK's decision.

He highlights: "The idea of a split model will introduce a small but not insignificant challenge; however, buy-ins and penalties already exist in



other markets so we have the experience to manage these different requirements.”

However, he notes that how the relationship between the UK CSD and those CSDs in Europe pans out has yet to be seen.

“On the one hand, if for example there ends up being no mandatory buy-ins in the UK, that could attract liquidity. On the other hand, the removal of barriers to competition will no longer be available to the UK”, he adds.

Although Sunak’s statement will create challenges for some firms, Baybutt outlines that it will only be securities settled in CREST which are affected by this announcement.

Baybutt highlights: “It does not fundamentally change the fact that UK firms must still be compliant with the European settlement discipline regime.”

However, he suggests that opportunities could arise for firms to move European assets into CREST under the investor CSD model.

“If that happens, it will be interesting to see how both the EU and HM Treasury respond, and how the EU CSDs and the European Central Securities Depositories Association (ECSDA) will approach it.

ECSDA has already asked for a postponement to the implementation of Settlement Discipline Regime and settlement penalties in particular,” he explains.

Also discussing the opportunities, Vernon says that the mandatory buy-in aspect of CSDR is predicted to reduce market liquidity and consequently increase cost, however, he notes: “this also potentially creates an opportunity for more aggressive pricing of instruments

settled in the UK versus equivalent EU settled instruments”.

Vernon adds: “Consequently, a net inflow of trading activity into the UK could follow from this announcement and this could create an opportunity for UK centric houses.”

Looking ahead, Sunak affirmed that the UK remains committed to regulation that supports and enhances the functioning of UK capital markets. The settlement discipline regime was designed to ensure protection for investors from settlement risk.

Baybutt states: “HM Treasury and the Financial Conduct Authority, together with the industry, and in particular, the trade associations such as Association for Financial Markets in Europe, International Capital Market Association and IA, are likely to determine how settlement discipline measures can be implemented. Solving the liquidity issue is key, as is still retaining the need for efficient financial markets, yet reducing settlement risk.”

Additionally, the UK will not be taking action to incorporate into UK law the reporting obligation of the EU’s Securities Financing Transactions Regulation (SFTR) for non-financial counterparties, which is due to apply in the EU from January 2021.

Elsewhere, Sunak affirmed that HM Treasury is planning to set out further detail on upcoming legislation including the term packaged retail investment and insurance-based products (PRIIPs).

Sunak said: “Legislation to improve the functioning of the PRIIPs regime in the UK and address potential risks of consumer harm in response to industry and regulator feedback. HM Treasury will publish a policy statement July 2020.”

HM Treasury will also look to apply further detail on the legislation to complete the implementation of the European Market Infrastructure Regulation (EMIR) REFIT to improve trade repository data and ensure that smaller firms are able to access clearing on fair and reasonable terms.

In terms of updating prudential requirements, Sunak highlighted that the government remains committed to “maintaining prudential soundness and other important regulatory outcomes such as consumer protection and proportionality”.

“However, rules designed as a compromise for 28 countries cannot be expected in every respect to be the right approach for a large and complex international financial sector such as the UK. Now that the UK has left the EU, the EU is naturally already making decisions on amending its current rules without regard for the UK’s interests. We will therefore also tailor our approach to implementation to ensure that it better suits the UK market outside the EU,” Sunak cited.

Meanwhile, for managing upcoming risks, Sunak drew attention to HM Treasury’s written ministerial statement relating to the London Interbank Offered Rate (LIBOR) transition.

The statement sets out the government’s approach to legislative steps that could help deal with “tough legacy” contracts that cannot transition from LIBOR before end-2021.

“In particular the government will use the Financial Services Bill to introduce amendments to the Benchmarks Regulation 2016/1011 as amended by the Benchmarks (Amendment) (EU Exit) Regulations 2018 (the ‘UK BMR’), to ensure that the Financial Conduct Authority powers are sufficient to manage an orderly transition from LIBOR,” Sunak added.

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# The changing face of a transfer agent

Industry participants from RBC I&TS, UMB Fund Services, Fenergo, HSBC and Thomas Murray discuss the changing role of the transfer agent

## How has the role of the transfer agent changed? What do clients now expect from their transfer agent compared to five years ago?

**Ronan Doyle:** Five years ago transfer agents, in addition to their standard record-keeping responsibilities, were seen as conduits to enable distribution through connectivity to large distribution platforms globally. Now that level of connectivity is expected and while expertise around the operational details is still valued, there is an increased emphasis on how transfer agents can support asset managers in delivering a seamless and digitised investor experience.

Digital capabilities are also expected to include the provision of insightful analytics and online data features directly to the asset

manager in order to support the fulfilment of their own regulatory oversight responsibilities.

**Mike Huisman:** Product evolution has been dramatic in recent years. We are no longer only servicing traditional mutual funds; we're seeing the desire for diversification driving growth of varied product types. As a transfer agency, it's important to stay ahead of unique investment vehicles and be innovative in our offering as we expect product evolution to continue.

We are also seeing more firms prioritise client service in their decisions to select a transfer agent. As managers diversify their product offering and launch more complex investment vehicles, they are looking for expertise and consultation from their service partners.



*We are no longer only servicing traditional mutual funds; we're seeing the desire for diversification driving growth of varied product types*

**Mike Huisman of UMB Fund Services**

**Kevin O'Neill:** There is a big shift within the asset servicing industry to try to automate processes associated with the transfer agency operating model. The industry is still very manual by nature relying on fax, telephone, paper, and face-to-face meetings for client and investor servicing. Firms are tentatively leaning towards automation by working with third-party software vendors or by utilising in-house solutions to streamline operations. Combined with draconian operational processes, this makes what should be relatively straightforward, very complicated.

In addition, asset managers are attaching greater importance to high standards of anti-money laundering (AML) and know-your-customer (KYC) processing, driven by increasing regulatory scrutiny, so compliance demands have resulted in higher human capital costs.

Strong and highly personalised service levels, streamlined risk management, accuracy, and speed of delivery are all critical. Given how competitive the market is becoming, there is no room for error. Investors and clients expect and demand the same simplicity provided by the on-demand services they use in their personal lives such as Amazon, Uber and Revolut.

**Sooraj Sreenivasan:** Client expectations from transfer agents are shifting from a mere back-office processing agency role to one that is solutions-oriented and delivering positive client experiences. I refer to the investor in general, the onboarding process has been fragmented across the industry owing to different documentation requirements by fund domicile domiciliary; this is further accentuated in a scenario where the investor is serviced across multiple platforms. The service expectations to deliver a positive client experience is to have a single identifier and onboarding process for the investor across fund domiciliaries, domiciles and product types.

**Llew Walker:** The Alternative Investment Fund Managers Directive (AIFMD) and UCITS V has required transfer agents to respond to numerous requests

for information and they simply were not ready. Transfer agents complained that they weren't consulted or warned of the impact these regulations would have on them. It has taken transfer agents a long time to acclimatise to the new regulatory environment where they have to satisfy the investment community that they are well run and manage risk so as not to expose the investors to losses. The memories of Bernard Lawrence Madoff are still painfully fresh.

One of our clients commented to us recently that 'more and more of our clients are looking for greater transparency and more transfer agents use openness as a selling point. I always think those being difficult are doing themselves a disservice. This statement articulates pretty well the view of most clients of our regulatory solution division (who are made of up 40 European depositary banks and management companies). Most transfer agents now accept heightened scrutiny from their clients and counterparties as a cost of doing business. Those that fail to comply with monitoring requirements are often flagged as 'high risk', even though they might have reasonably robust risk management operations.

### **With changes in investor buying behaviour and the demands of the investment management community, how have transfer agents had to adapt?**

**O'Neill:** Digital transformation is starting to become more commonplace. With the rise of digital-first challenger banks, traditional brick-and-mortar transfer agents will not stand a chance unless they switch to a digital model fast. From what we are seeing, the tide is starting to turn with more and more transfer agents deploying best-of-breed solutions for automation, straight-through processing (STP) and improvements in business and operational efficiencies. This ultimately enables the delivery of a frictionless and streamlined client and investor experience.

**Huisman:** Transactions are happening quicker and at higher volumes, especially in a highly fluctuating market. The difference between a few minutes and a few hours is more significant now than in the past. As a transfer agency, it is crucial to innovate to solve for challenges that would hinder the speed at which we operate. In the past, it was accepted that systems would sync data at end of day or even weekly. Now, investment managers need access to data in real-time to make informed decisions.

**Doyle:** From an investor perspective we see more intermediation in the market place. This has driven transfer agents to engage in multi-lateral relationships with platforms or other intermediaries that are mutually beneficial in nature. Transfer agents and intermediaries tend to interact across a range of different fund families, therefore, it is sensible to collaborate to improve the overall experience for the end investor. While welcome, this has created an added dimension to the role of the transfer agent which in the global distribution support environment can be quite complex given the range of distribution platforms now available across various markets.

From an investment management perspective, the demand has been for continually high levels of service and distribution connectivity, but now with an emphasis on digitisation and a more focused commercial interaction. Asset managers test the market much more frequently now than in previous years so transfer agents know that they are being continuously evaluated against their peers. They are also aware that this applies as much to their long-term strategy and investment plans as it does to their current operational performance.

### **In recent years, the industry has seen an increase in the use of technology, how has this had an impact on the role of a transfer agent?**

**O'Neill:** By leveraging best-of-breed technology, transfer agency firms can provide a strong framework for governance, risk and control. By replacing manual compliance and onboarding processes with automation, employees can focus on value-added services and significantly reduce errors which have huge reputational, regulatory and cost implications.

**Walker:** There has been a lot of chatter about the transformations wrought on the industry by innovative technology. There is no doubt that online portals enabling transfer agents to better service funds and platforms have been on the rise. Reports of their widespread adoption seem to have been overplayed. For example, we see only about 50 percent of the 1,000 plus transfer agents we look at, offering online portals to clients!

Among the transfer agents, we monitor for clients – which is well over half of all transfer agents globally since we started looking at them in 2014 – there is a bewildering array of third-party and proprietary software used. Most transfer agents appear unwilling to migrate from legacy systems because the margins on transfer agency are simply too small to justify such a move. Until there is a clear industry-leader facilitating easy migration, automation

*The use of analytics on the data as an example allows transfer agents to provide value-added intelligence to asset managers on their distribution channels*

**Sooraj Sreenivasan of HSBC Securities Services**

and standardisation at a reasonable price, we are unlikely to see large-scale adoption of innovative technology. That said, the larger groups patronage and development of new technologies shouldn't be underplayed, and has contributed towards the gradual elimination of human error, which is still a common cause of failure at a transfer agent.

**Sreenivasan:** Transfer agents consume and generate a lot of data; its use has been confined to transactional and registry processes and newer technologies facilitate streamlined processing and dissemination of data. The use of analytics on the data as an example allows transfer agents to provide value-added intelligence to asset managers on their distribution channels.

The transfer agency technology blueprint is, however, shifting from a monolithic to a microservices architecture; it is central to our strategy to have a central data pool that is integrated with processing systems and digital delivery channels.

**Doyle:** We do not believe this is a new trend but technology is incredibly important to the role of the transfer agent. Supporting global distribution, in particular, requires an ability to connect with distributors and investors around the world and manage multiple, often complex, operational solutions on our client's behalf. We have done this for many years therefore for us it is not a shift, just an evolution.

Digital technologies present an opportunity to progress the work already done on automating the transfer agent value chain with the added benefit of enabling a superior experience for asset managers and investors. Given the long list of potential use cases for digitisation, engaging with clients to jointly prioritise investment, and where sensible co-invest, is critical. This allows us to ensure that our investments are delivering optimal value for us, our clients and their investors.

*The challenge is in the sheer volume and complexity of the regulations that are in effect, yet it is critical for transfer agents to keep up and remain compliant*

**Kevin O'Neill of Fenargo**

Engaging and partnering with other firms, from platforms to fintechs, is now also of great importance. In the past, transfer agents could build technology solutions almost exclusively in-house and, while in-house development is still important, it needs to be combined with expertise and insight from partners who have the same overall view of how the industry can develop and how digital solutions can be delivered. Trying to do everything in-house does not take advantage of the opportunity to leverage technology optimally.

## Have recent regulations created challenges or opportunities for transfer agents?

**Huisman:** The need for transfer agents is only becoming greater due to increasing and ever-changing regulations. With each new regulatory requirement, investments must be made in internal processes and system development. Smaller in-house operations are finding it advantageous to look at a third-party transfer agency to handle scale and lower their costs.

**O'Neill:** The challenge is in the sheer volume and complexity of the regulations that are in effect, yet it is critical for transfer agents to keep up and remain compliant. The requirement to adapt and streamline processes to adequately meet regulatory obligations is both a threat and an opportunity. With the right technology that automates KYC and AML compliance processes, transfer agents can manage risk by exception and digitally onboard the lower risk cases. This approach will not only streamline client due diligence and accelerate onboarding but will deliver differentiating customer experiences and enable faster time to revenue.

**Walker:** The impact of AIFMD and UCITS V is still working its way through the industry and fund centres, such as Luxembourg, continue to further harden up regulatory monitoring requirements on regulated entities. There

were certainly challenges at the outset – transfer agents were not consulted about European regulation and were loath to respond to questionnaires because they simply felt that they were not directly impacted or didn't have the resources. Most have now softened in their approach to scrutiny, however, recognising that there are benefits to providing greater transparency to fund management companies, fund platforms and depositary bank.

There have no doubt been opportunities. Fund platforms, and to a lesser extent the regulatory risk concentrators within the funds industry, the depositary banks, are increasingly looking to influence the selection of transfer agents, blacklisting non-compliant groups and white-listing those that they prefer to work within a given market.

Transparency will bring benefits to the transfer agents themselves as well. Increasingly, transfer agents want to know how their service measures up to competitors and if they offer a better service, although most remain entirely in the dark. Having evolved organically, from market and client demands, transfer agents had no idea of their peers' offering from a cost, risk and service perspective. They were unable to differentiate themselves.

A few years ago, the US Securities and Exchange Commission (SEC) issued a discussion document regarding plans to update the 40-year-old transfer agency regulations in the US. One of the suggested changes was transparency concerning fees. This proposal elicited much comment – many arguing against revealing any fee information, as fees were considered 'trade secrets'. This points the way to a demand for fee transparency going forward, as the sector looks to reduce the increased costs associated with the regulatory burden.

**Doyle:** Both. Regulatory change, in particular at the pace and frequency it has been rolled out since the 2008 financial crisis, is always going to provide a challenge in terms of the balance of investment between compliance activities and value-adding solutions.

That said, getting on top of the regulatory change agenda, being active in industry advocacy groups, and delivering effective solutions, remains a real opportunity for transfer agents to augment their value proposition.

Getting the balance right between this challenge and opportunity is not always easy (although it is made easier where the transfer agent has deployed flexible, easily configured digital technology solutions) but it is an important area that all transfer agents spend a lot of time and effort to get right.



## With an increase in costs associated with regulatory compliance, do you think there will be a concentration of the transfer agency industry?

**Doyle:** There is an opportunity for the transfer agency industry to evolve given the availability of new technologies. The challenge for transfer agents will be to identify those solutions, prioritise and execute against them, and successfully integrate them into existing components. Those who successfully do so can re-imagine the role of the transfer agent based on a more scalable, automated model with value-adding solutions in place at client and investor interaction points. This will make the cost of compliance and other complicated aspects of the current business environment more manageable. Where larger, more established transfer agents embrace this approach there is an opportunity for them to expand their market share given their ability to influence the market to adopt the digital practices that will create the efficiencies required to drive a more commercially appealing proposition to asset managers and investors.

**O'Neill:** I believe that the industry will see a rise in merger and acquisition (M&A) activity especially as we start to feel the economic impact of the pandemic. Combine this with regulatory costs, shifting investor demands and rising costs to acquire and maintain investors, many transfer agents will stand to benefit from consolidation.

**Walker:** The sector has seen consolidation in recent years – partially as a result of increased regulation and the costs associated with it – but not nearly as much as was predicted before 2014. Even though we have tracked around 100 M&As in the last seven years, there are still over 2,500 entities of all sizes in the world providing transfer agency services. This is about twice as many as believed when the regulations were first introduced. Much of the consolidation has been strategic, rather than as the direct result of the increased administrative burden. M&A in this sector is often no more than an exercise in rebranding, where a full merger of records and systems is deemed too onerous to contemplate.

Some of the bigger transfer agents are still quite resistant to scrutiny from their clients and counterparties. The internal complexity of their business does not lend itself to easy assessment. Some are unable to demonstrate whether they are lower-risk than their peers because they resist disclosing basic data which would allow existing and potential clients to benchmark them. There is the 'too-big-to-fail' mentality, that should be a concern for everyone!

*The sector has seen consolidation in recent years – partially as a result of increased regulation and the costs associated with it – but not nearly as much as was predicted before 2014*

**Llew Walker of Thomas Murray**

## Are you still seeing new entrants to the transfer agency market?

**Sreenivasan:** There continues to be active commercial interest in the transfer agency space amongst services as well as technology providers. We have witnessed consolidation via acquisitions in recent past as well as new entrants that are predominantly non-bank sponsored business entities. Speaking for HSBC, we have a global transfer agency strategy that aims at providing a simplified outsourced arrangement whereby the asset manager and their investor benefits from a consistent service across geographies and product types. Geographical expansion, as well as customer segment extensions, are part of this strategy and we crossed a significant milestone last month when we went live with our UK transfer agency service. This is a new operations centre in Edinburgh and also has a retail investor servicing capability leveraging on our broader group infrastructure.

**Doyle:** We feel the picture varies depending on the market. In some domestic markets, we are seeing consolidation through partnerships or joint ventures. In others, we are seeing established asset servicers enter new markets where it is accretive to existing large client relationships or their wider institutional footprint.

We are also seeing fintech entrants, some who are looking to address specific inefficiencies in parts of the value chain, others who are looking to disrupt the entire value chain. In most cases, these firms seek to partner with established providers to collaborate on a new vision for the industry. What is clear to us from our dialogue with clients and other industry participants is that while transfer agency can be a complicated environment, the value it provides to asset managers (when executed well) is real and can be enhanced over the coming years, albeit how it will look in three to five years time will likely be different than it is today.

*One of the biggest challenges for transfer agents will be continuing to digitise the investor experience as we practice social distance and work from home*

**Ronan Doyle of RBC Investor & Treasury Services**

**O'Neill:** With costs so high, we expect to see less new market entrants and more reinvention of existing providers as they adapt to the changing environment and market volatility. They are under increasing pressure to add value, maintain margins and reinvest in the business.

### What do you think the biggest challenges will be in the next 12 months?

**O'Neill:** In previous recessions, recovery was somewhat predictable but that is not the case with the current pandemic. Like all financial institutions, transfer agents need to take stock and begin to digitally transform. The focus will be on providing frictionless experiences to clients and investors while ensuring they are satisfying regulatory obligations and driving efficiencies that impact their bottom line from a profit and loss perspective. Without reinvention, the outlook will be bleak for transfer agency firms.

**Doyle:** The COVID-19 crisis will bring about challenges and opportunities for transfer agents over the next 12 months. One of the biggest challenges for transfer agents will be continuing to digitise the investor experience as we practice social distance and work from home.

The crisis has emphasised the need for more collaboration between transfer agents, asset managers and platform providers. COVID-19 has highlighted the need for the implementation of many contingency measures and have provided an opportunity to gauge their strength for the longer term.

The uncertainty that COVID-19 has brought to the industry is unlikely to disappear in the near future.

For transfer agents, ensuring the operational changes implemented to become the new normal will be paramount. In addition, continuing to

realise the benefits of digitisation and automation will need to be top of mind as we look to the future. Reimagining the onboarding experience and reducing the number of manual processes to deliver a first-in-class solution for investors and clients will be paramount in a post-COVID world.

**Huisman:** The evolving work environment is going to create new challenges for transfer agents, fund managers and shareholders alike. The entire investment lifecycle has been impacted and all parties are adapting to the swift changes brought by COVID-19.

Flexibility is no longer a future challenge—it's a present challenge that is being addressed throughout the industry. The good news is, transfer agents have successfully adapted to support clients in a remote work environment without disruption to shareholder service.

### How do you see the transfer agency role changing in the next few years?

**Huisman:** Transfer agents will see increased pressure to deliver flexibility, speed and scale. Technology roadmaps that implemented digital transformations over the next three to five years will be compressed dramatically to support the new business landscape.

Clients will be expecting an ability to adapt quickly to change without sacrificing speed, accuracy or top-tier client service.

**Walker:** Transfer agents are to fund platforms what sub-custodians/central securities depositories are to global custodians. We see risk monitoring of transfer agents will increasingly come to the fore. The depository banks are becoming more pro-active because of the regulatory burden placed on them and will seek to influence funds' selection of transfer agents. T

he most transparent transfer agents – those whom fund management companies consider appointing and fund platforms and depository banks can scrutinise, monitor and whitelist – will come out on top.

Finally, with the proliferation of business being placed with fund platforms, these organisations are playing a critical role in the asset safety chain for fund investors. Exactly how the fund platforms fit into the AIFMD/UCITS V framework is still unclear, but they will likely be required to monitor the thousands of transfer agents to which they are exposed, and to whom they expose millions of underlying investors.

**Doyle:** The COVID-19 crisis will accelerate the inevitable change in the role of transfer agents. The crisis has demonstrated how the industry can operate by deploying new ways of working and by emphasising the need to implement digital solutions to support business continuity practices.

It is important for the industry to continue on this path and look to drive more efficient practices based on digital solutions. The crisis has shown that the use of media such as fax must surely come to an end sooner rather than later.

At its most basic transfer agency can be seen as two macro activities – one that focuses on the area of transaction processing and record keeping, and the other that focuses on investor and client servicing including data sharing, analytics and other reporting.

As the industry has grown we have seen significant automation in the transaction processing environment and this will continue, in fact, the practical implementation of distributed ledger technology (DLT) solutions at scale will materially change the way this part of the transfer agent's role evolves.

The industry still has work to do in terms of improving the proposition provided to investors and clients around on-boarding, day-to-day servicing and data/analytics.

Getting these right presents opportunities for transfer agents to enhance the value proposition and growth enablement role they can play in their relationships with asset managers and Investors in the future.

**Sreenivasan:** Asset managers that are transforming existing operating model to enable a digital infrastructure have a reliance on service providers including transfer agents for data on demand; this is paving the path for an application programming interface (API) delivery ecosystem. Service standards are shifting with an expectation for faster outcomes and manifests in digital onboarding or faster settlements. Generational change and associated buying behaviour are leading asset managers to experiment with direct distribution; self-service digital channels are in play with being provided by transfer agents.

A growing number of specialist technology firms are operating in this space and present different options to effectively respond to the new age contemporary expectations. In summary, a lot of transformational change is expected to take place in the funds distribution value chain and presents newer opportunities and threats challenges for transfer agents.



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# Shining a light

*Maddie Saghir reports*

Proxy voting has been a largely manual and outdated process for some time but COVID-19 has shone a light on new, technological ways of doing it. Could this change the system for the future?

Proxy voting is an important part of the asset servicing industry whereby a member of a decision-making body delegates their voting power to a representative to enable a vote in absence.

Companies hold annual general meetings (AGMs) with shareholders to review their performance over the last year, but if the shareholders are unable to make it then they can pass their vote through their banks and custodians who vote by proxy on their behalf. As well as reviewing performance, AGMs look into executive compensation, dividend proposals and significant investment decisions, and the ever-increasing hot topic of environmental, social and governance (ESG) and the risks related to it.

Charu Jain, product specialist for IHS Markit's IMProxy solution, explains that institutional investors own shares in hundreds of global companies that hold AGMs as per applicable company laws. Jain says: "AGMs for an investor are concentrated in a short time span and are located at distant global venues, therefore making it impossible for investors to personally attend all

these AGMs to vote. However, investors can appoint someone else as their proxy and authorise them to cast their vote, in line with their directions."

Jain adds: "Once AGM notice and materials have been delivered to the shareholders, proxy votes can be cast online, by mail or by phone, prior to the meeting. The votes can also be casted in person by the appointed proxy at the meeting itself."

Karen Weaver, custody product manager at BNY Mellon asset servicing, notes that if an issuer announces a general meeting, custodian banks will receive the notification, calculate the eligible position of their clients and pass the notification on.

She highlights that this process is usually manual and is repeated in every organisation. "By the time the shareholder gets the information it may have passed through four intermediaries to get to them and, if it's a popular security, most of the large custodian banks will have been involved."

Unfortunately, Weaver notes that while investment strategy and the ability to hold securities globally has evolved, a lot of processing for meetings remains manual which can make the events difficult to manage.

She adds: "Due to the inefficient process, shareholders then have a limited time to send their votes back to the issuer ahead of the meeting deadline as there is currently no option than to go back via the same route from which the meeting announcements came."

Indeed, the current model around proxy voting is somewhat outdated and in need of a technological update, but COVID-19 has exemplified this need even further.

## Adapting to a new way

The global pandemic threw a spanner in the works for AGMs this year. February to June is the prime season for proxy voting, which is when countries around the world started going into lockdown. As well as this, travel to and from many countries was banned, as were public mass gatherings. This meant that companies were forced to put in contingency measures to minimise the disruption to their AGMs.

In terms of adapting to this, ISSA's Jyi-Chen Chueh, chair of the ISSA Operating Committee, explains that the ISSA Corporate Action & Proxy Voting Working Group (CA WG) has seen a series of measures taken by various regulators and market infrastructures during COVID-19 to address the challenges that have arisen as a result of the implementation of confinement and social distancing rules across the globe.

This has included providing guidance on conducting safe physical meetings; allowing for the postponement of annual general meetings; relaxing requirements in terms of physical documents/ wet signatures; allowing for alternative modes of meetings such as video, teleconferencing and/or any other electronic means.

IHS Markit's Jain agrees that COVID-19 had an extraordinary bearing on the AGMs this year. He explains that companies that could not leverage technology either due to the legislation or their own constitutional rules or their choice, resorted to postponement, adjournment or seeking waivers from the regulators.

*COVID-19 and the measures that have been implemented demonstrates that electronic processes being used can work without physical representation*

## Shining a light

While the pandemic has caused some disruption to AGMs, it has shone a light on new ways in which proxy voting can be carried out. In terms of whether the changes around proxy voting because of the current situation will alter for the long term, BNY Mellon's Weaver says: "COVID-19 and the measures that have been implemented demonstrates that electronic processes being used can work without physical representation. It would be such a waste to simply return back to the way things were."

"The technology and the processes already exist to manage the interaction between company and shareholder and this is shining a light on the manual and paper-based processes that have continued to stay in place instead of evolving with the times. The temporary measures will hopefully open the door to more substantial changes. That said, it could require legislative changes, so it is unlikely to happen overnight," she says.

Similarly, at ISSA, the belief is that the securities industry has an opportunity to help shape the post-COVID-19 "new norm".

Chueh comments: "We are accelerating that thought leadership among our members through new topical themes and by putting a new lens on existing topics like proxy voting. In that space, some of the temporary measures that have been adopted have the potential to be deployed on a more permanent basis, especially on topics related to electronic proxy voting and digital/ hybrid meetings. This would require further assessment of the appropriate controls and governance, leveraging data and lessons learned during COVID-19 and engaging regulators."

On this issuers side, Jain says that the usage of technology brings considerable savings due to lesser printed AGM documentation and reduction in costs associated with a physical meeting for venue, travels and logistics.



*Innovation and new technologies will have an important role to play in terms of lowering costs and deploying scalable and more efficient solutions*

He adds: "Additionally, such online AGMs have a reduced carbon footprint due to lesser travels by the company's management and the board as well as the shareholders or their proxies. Although online meetings have their own set of challenges in terms of Q&A governance during the AGM and risks of technology failure; overall, the reduced costs and more end-shareholder participation will prop more and more companies to adopt technology solutions, where legally allowed. Once moved, the companies will tend to retain these technologies and might not revert to physical meetings even if the situation changes."

## Technological intervention

A number of challenges associated with proxy voting can be addressed with technological intervention. Hosting virtual meetings and online votes via technology can help improve efficiency and save on travel costs as well as reducing the carbon footprint.

Some of the main challenges around proxy voting include communication timelines, especially voting results communication, where dissemination still needs further harmonisation globally.

Jain says that many a time, issuers are unable to identify the shareholders through the complex chain of financial intermediaries and it takes significant time and effort to send AGM notice and materials to them.

"Additionally, the communication is non-standardised and non-machine readable, thereby slowing the communication down the chain because each participant needs to validate the information being passed on. A number of shareholders might be receiving the AGM information so late in the process that they do not get sufficient time to delve on the resolutions and decide their vote," Jain explains.

Leveraging technology can help reduce complexity and improve traceability in the voting chain and provide for easy identification of shareholders and reconciliation of the valid votes, according to Jain.

However, Jain highlights that currently, only a few technology providers facilitate the processes for proxy voting. More investments will bring in new providers, technology innovations and process efficiency proposals to help improve upon the current technology infrastructure and the related processes.

Meanwhile, BNY Mellon's Weaver affirms that the current model was due for a change even before COVID-19.

As such, BNY Mellon recently joined a consortium consisting of Citi, Clearstream, Computershare, Deutsche Bank, HSBC, J.P. Morgan, and State Street to back a platform that simplifies how information and votes are shared from/to the issuer and its shareholders. This tool is called Proximity and was initially developed by Citi before spinning off into its own entity.

Weaver comments: "Instead of looking to incrementally improve small parts of the current process, Proximity looked at the problem as a whole; how to help the issuer speak directly to their shareholders and limiting the actions of those involved to be what's important. And so Proximity was born and instead of processing the general meeting notifications, all the intermediaries need to do is confirm the eligible positions of our clients to the Proximity platform."

"The platform marries the issuer information with the position information from the intermediaries for the client to see and cast their votes with Proximity, which is directly connected to the issuers in several markets already."

Over at ISSA, looking at how technology can improve the proxy voting process, Chueh concludes: "Innovation and new technologies will have an important role to play in terms of lowering costs and deploying scalable and more efficient solutions. For instance, there has been a series of distributed ledger technology proofs-of-concepts that demonstrated the potential benefits of blockchain for proxy voting. However, broader adoption will also require regulatory support to promote e-voting, digitised authentication and documentation."

"Global standards harmonisation will also be key to avoid a multiplicity of proprietary formats, in order to reduce costs and enable interoperability."

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# A growing industry

*Maddie Saghir reports*

Margaret Law, head of client management for Asia Pacific at CLS, explains that while Australia's superannuation industry is continuing to grow, technology and automation will play a significant role in further development



## **What is the current landscape like for Australia's superannuation industry?**

The Australian superannuation industry is growing, and it is now the second-largest pensions market in Asia Pacific, after Japan. As Australia's superannuation industry has continued to grow over the last decade, it has faced increased pressure from its members to expand investments globally, and thus, Australian superannuation funds have boosted asset allocation to foreign investments.

The 2019 National Australia Bank's (NAB) 9th annual biennial Superannuation Foreign Exchange (FX) Hedging Survey states that on average, superannuation funds had 41 percent of their assets offshore as of

June 2019, and 72 percent of respondents indicated that over the next two years, they plan to expand their share of investments in international assets.

The recent COVID-19 pandemic has tested the Australian superannuation industry significantly, with the government announcing a stimulus package on 22 March 2020 to assist businesses and individuals. The stimulus included two superannuation measures where eligible members can get early release of superannuation of up to AUD20,000 tax-free and retirees can reduce their annuity drawdowns by up to 50 percent.

Although initially there were concerns that this would cause a massive strain on the industry, with many Australian super funds concerned about falling asset prices, liquidity pressures and declining investor inflows, the





*We are seeing various opportunities in the superannuation space, including the opportunity to streamline current processes and review existing outsourcing arrangements*



country's treasury reported that Australia's superannuation funds have so far not encountered any liquidity issues in connection with the early withdrawal scheme. The Australian Prudential Regulation Authority (APRA) has been constantly monitoring the impact of COVID-19 on the financial and operational capacity of funds by speaking to super funds on a weekly basis to certify that liquidity and stress testing is being completed properly.

However, a continuing economic slump in Australia could cause a reduction in contributions and limit cash flow in the superannuation industry, which would in turn affect investment decisions.

#### **How fast is the industry moving to consolidate Australia's superannuation industry? What does this mean for custodians?**

A recent report by KPMG suggests that industry consolidation may occur sooner than previously forecasted. The research predicts that the 217 APRA-regulated superannuation funds will shrink to 138 within the next five years, with industry funds declining at a faster rate than retail funds. The report also claims that the 38 industry super funds which look after Australians' retirement savings will have dropped to 21 in five years' time and that by 2029, only 12 will remain. The industry's expected consolidation is largely

due to increased scrutiny by the Australian government on the superannuation industry regarding under-performing funds and heightened pressure to cut fees and boost returns. Funds are also becoming increasingly more ambitious by targeting large-scale mergers, as well as the typical acquiring of smaller funds by large firms. The impact of COVID-19 will likely cause the rate of consolidation to increase more rapidly with regulators already highlighting the urgent need for consolidation and pushing for under-performing funds to exit the industry.

As a result of the industry's expected consolidation, custodians likely will have fewer but larger super funds to service. The expectations on value-added services, consultative and collaborative servicing, support for complex alternative assets, timely and more granular reporting, and increased demand on data will likely grow. Larger custodians could possibly leverage their scale of IT systems to gain dominance. However, smaller niche players could also grow market share through their agility and ability to provide unique customised solutions.

#### **What challenges and opportunities are you seeing in this area?**

We are seeing various opportunities in the superannuation space, including the opportunity to streamline current processes and review existing outsourcing arrangements. Australian superannuation funds traditionally outsource investments to external managers and related investment operations processes to custodians, but there has been a recent shift toward insourcing across front, middle and back-office functions.

AustralianSuper, the country's largest superannuation fund, announced in late 2019 that it plans to bring half of its total assets in-house by 2021, citing cost control as a key driver. In 2017-18, AustralianSuper was managing 31 percent of its portfolio internally, and this figure increased to 40 percent in 2018-19.

We are seeing some asset owners increasingly considering whether to bring even more investment operations in-house, particularly for areas of risk reporting and analysis around private equity.

The bigger funds can now afford to hire the necessary expertise rather than rely on external fund managers or custodians to perform their investment and operation functions. In addition, operationally, super funds need to be leaner than ever – hence the drive towards in-sourcing, first of passive equity strategies, then of active local and overseas equities and more complex asset classes.

The migration of functions and processes in-house creates opportunities to review existing processes, risks and controls, especially as supers increasingly focus on operational efficiency, liquidity optimisation and risk mitigation. This leads to further opportunities for funds to adopt best practices such as the FX Global Code of Conduct in relation to their FX trading activities.

**What are some of the prominent trends you are seeing from clients and how are you working to help asset owners gain access to CLS Settlement and CLS Market Data?**

In recent years, we have seen an increase in buy-side firms becoming more aware of the risks associated with FX settlement. As such, they are choosing to become more involved in how they manage those risks. Our goal, as a systemically important financial market infrastructure, is to reduce systemic risk for all participants in the FX market, and to help educate asset owners on how they can access our services via their custodians. Through this, we are seeing a focus on operational efficiency and a growing need for certainty of payments and protection of principal.

We are also finding that as funds in Australia increase their investments overseas, they hold more foreign currency in their portfolios – exposures they potentially could hedge through FX trading. Against the backdrop of an ever-changing regulatory landscape and heightened pressure to reduce costs, it is important to ensure that FX trading and settlement is executed to the best standards. The superannuation industry's growth and expanding interest in alternative investments has drawn the attention of regulators, which may lead to new or increased regulation, governance and transparency. The natural response to this additional attention would likely be a focus on operational resilience and risk management.

With this drive for operational efficiencies we anticipate an increased need globally from asset owners for data insights, especially during periods of high market volatility and an unpredictable environment, as we have experienced. This could potentially increase the demand for CLS data, which is the largest single source of executed FX trade data in the market.

In addition, we have recently collaborated with Mosaic Smart Data and MUFU to launch a new free analytics service, FXLIQUIDITY, which has already generated substantial interest from market participants in the region who are trying to navigate the changing FX liquidity landscape and understand more about FX market sentiment in order to better evaluate their trading strategies.



*The superannuation industry's growth and expanding interest in alternative investments has drawn the attention of regulators, which may lead to new or increased regulation, governance and transparency*



**Over the next few years, how do you expect Australia's superannuation industry to evolve and grow even further?**

Over the next few years, Australia's superannuation industry will further consolidate, likely at a rapid pace. Firms will also continue to grow in-house management capabilities and reduce outsourced mandates. Technology and automation will likely play a significant role in the development of the Australian superannuation industry as it continues to grow. Whilst service providers and regulators are reviewing new technologies, they will need to ensure that the enthusiasm to increase efficiency does not overshadow or degrade current levels of operational resiliency.

During and following the pandemic, the industry will not only continue to prioritise planning, but firms will broaden their considerations when ensuring operational resiliency. For financial market infrastructures, specifically, it is not sufficient to merely be operationally efficient. They must also have multiple back-ups and resiliency strategies that address a range of scenarios impacting premises and staff. It will become essential for these strategies to be carefully planned and extensively tested to ensure delivery of service to the standards users expect. For Australia's superannuation industry to maintain an upward trajectory post-pandemic, funds should demonstrate solid governance and controls, protection of member interests, and safety of assets by using best practices in operations and risk management.



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# The liquidity mirage

*Maddie Saghir reports*

Liquidity has been one of the main challenges over the years, but how has the financial crisis helped to prepare the industry for the ongoing pandemic?



Liquidity has been described by some in the market as the “fetish of the financial services industry”, while others have referred to it as “a mirage that evaporates as soon as you try to reach it”.

In the event of a crisis, assets can evaporate overnight when times are volatile and trust between institutions is lost – is this the case with the ongoing COVID-19 pandemic?

A recent R&M survey found that the asset servicing industry has coped well with the challenges presented by COVID-19, as clients are overall happy and appreciative of the support given.

In terms of liquidity, COVID-19 has certainly brought about volatility, and back in March, the Bank of England cut the interest rate to provide liquidity and much-needed support for small and medium-sized enterprises.

But this liquidity challenge isn't new, liquidity has been a prominent challenge for the industry over the past few years. And, since the strike of the pandemic, different liquidity reporting and monitoring requirements have been triggered.

## Reporting and monitoring requirement changes

In terms of liquidity reporting and monitoring requirements that have been triggered by COVID-19, Nadeem Shamim, head of cash and liquidity management at SmartStream Technologies, observes that since the pandemic there has been an extra focus on liquidity, not just in terms of end of day reporting or short-term liquidity management, but on intraday liquidity.

“Banks are finding it almost a necessity to know exactly what liquidity they have, where it is, and at what time it is being used throughout the day,” Shamim says.

In addition, Shamim notes that they are also looking at the value of the collateral that is used to secure that liquidity. The market has been rather turbulent and so the valuation of the collateral could either plummet or alter largely.

Meanwhile, in the context of the US and North America, Don Mumma, managing director at AxiomSL, identifies a couple of trends that happened.

The first was an increase in the frequency of reporting. Mumma explains: "The big banks in the US that have to comply with the liquidity coverage ratio (LCR) do that by submitting a federal reserve report called 2052a. Within 2052a, there are some characteristics that are based on a certain set of criteria that the Federal Reserve calculates the LCR for those banks. When banks use our software and their own they also calculate their own LCR."

However, Mumma says: "The frequency for 11 G-SIBs that includes eight domestic and three foreign banks reporting and have been reporting daily for some time, the balance of the banks only had to report their LCR and their 2052a monthly. The increase from monthly to daily was a massive deal for a lot of them and the challenge of getting their data together in order to be able to run daily was the first big change."

Mumma highlights the speed with which changes occurred and had to be adhered to was extremely significant. He remarks: "The Federal Reserve allowed some banks to report weekly for a month but then they had to go daily. This was a very fast ask."

The second big change involved the Fed saying that they have made changes to improve liquidity that has been adverse to the LCR, according to Mumma.

"Therefore, the Fed said they would give relief from the calculation of the outflows that are associated with the support that has been given by the treasury and the Fed in the calculations and compliance of LCR – and that was with immediate effect," Mumma notes.

Thirdly, the frequency of calculation of stress testing in the US also increased. Mumma says: "A lot of the banks started doing that on their own because they were very concerned about what was happening and they were trying to show some stress scenarios that were reflective of changes in their cash flows that weren't necessarily related to things such as the LCR calculation."

Further challenges revolve around the operational side of things. Shamim comments: "In order to do the reporting and monitoring, the data needs to be gathered on time. With teams being located in different locations – and potentially reduced teams as well – it is causing operational issues. There are delays in establishing liquidity positions, which could effectively mean that the banks are leaving additional liquidity, excessive liquidity, which is unused."

## Minimising the challenges

For minimising the challenges associated with liquidity, firms can reduce their dependence on manual processes in favour of a more automated solution.

Shamim says that if firms start the journey of putting an automated solution in place then that can improve their ability to handle unusual events.

"They can closely monitor intraday solutions. If you make that an active part of your intraday management then you are aware of your acute events within a day far quicker than waiting overnight to find out. Many of the leading banks have already invested in an automated solution," Shamim notes.

Shamim remarks that while some organisations have robust end-to-end straight-through processing (STP) and automated liquidity monitoring in place, the vast majority have just some elements of automation but not all aspects, which means they are not necessarily able to know where the liquidity is throughout the day or who is holding it. "This is the key differentiator between how the banks are coping," Shamim highlights.

Shamim also stipulates that COVID-19 has exposed the shortcomings in banks in terms of how the banks used to think it was ok to have a manual process of their end of day liquidity.

But because of the operational challenges, manual processes are causing delays in getting liquidity positions sent overnight. Shamim explains that this creates challenges for the treasurers as they will want to know whether the liquidity is being managed to the best ability.

"There are also concerns as to whether liquidity is being wasted, and whether they can operate within the internal rules and regulations and policies that have been created. If the data is not received quickly enough then the challenge is that there could be delays in being alerted to any issues in a timely manner. There will be quite a lot of operational challenges until an automated solution is presented," Shamim says.

At AxiomSL, Mumma says the software has been able to accommodate the changes very quickly. He notes: "The main thing is being able to access your data and to be flexible to accommodate changes."

“Once our clients give us their data, we can change the way it is being calculated and mapped, which is one of the flexible features of a software.”

“Coping with data inside of a bank is something that has been in the works for a while. There has been a challenge in getting data readiness and the big thing now is that the frequency is much more frequent,” he says.

Meanwhile, lower data costs are something that could help to increase liquidity. Indeed, a new report on market data costs highlights that global principles must be implemented to effectively address high market data fees and unfair licensing provisions.

Authored by the European Fund and Asset Management Association (EFAMA), International Council of Securities Associations (ICSA), and Managed Funds Association (MFA), the report recognises that the uncompetitive conditions of trading venues were the motivation for high data price.

Bryan Corbett, president and CEO of MFA, says: “Excessive market data fees harm investors and their beneficiaries, including pension funds which require reliable returns to fund workers’ retirement. Access to market data enables investors to participate in capital markets, increases liquidity, and better serves all market participants.”

Stress testing is another factor that is of paramount importance when it comes to minimising challenges.

Liquidity stress testing aims to test the ability of banks to meet near-term payment obligations, under funding loss and other counterparty cash drain. Shamim notes that this is now more important than ever.

“If you have an ability to test your liquidity and stress the liquidity on demand and know that in a stress condition which one of your potential counterparts can create a crunch in your liquidity then that gives the treasurer much better control. On a business as usual (BAU) basis, this will allow you more control of your liquidity,” Shamim explains.

Echoing this, Mumma adds: “Liquidity stress testing is very important because it gives the bank or the institution that is doing the stress testing the ability to determine their own vulnerabilities and create scenarios that reflect their individual vulnerabilities.”

In the case of COVID-19, this was a systemic event. Mumma affirms: “The liquidity challenge hit everybody fast and hard. Stress testing helps you discover what your vulnerabilities are and putting stress scenarios around that, which will lead you to have enough liquid assets to be able to accommodate the outflows that are not going to be offset by the inflows.”

## Regulatory guidance

Currently, there is still room for more regulatory guidance when it comes to liquidity. However, Mumma points out that regulators tend not to want to make changes to their rules without a long process of talking among themselves and consulting with constituents on changes they might want to make.

Most treasuries in 2008 were not prepared for these kinds of liquidity issues. Mumma explains: “With the strengthening of the post-2008 liquidity standards rules that were made with LCR and other stress testing, banks are much more attuned to their liquidity vulnerabilities.”

Interestingly, over the last 18 months Mumma has observed that many big banks said they did not need such large amount of liquid assets, as it was costing their ability to provide more financing to clients.

They thought it should be relaxed, and in the US they did just that.

In October last year, the US came out with a revised set of rules that loosened LCR requirements for all but the G-SIB banks.

Shamim also notes that there could be more guidance from regulators.

He concludes: “In terms of intraday liquidity level, some regulators are saying they would like banks to be reporting the periodic reports but they are not asking for the active management of liquidity.”

“Linking in with stress testing, to become a periodic business as usual process then you would be able to see the effect of any events happening and how the banks would respond in a more logical and not just periodical way.”



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**SANNE has appointed Catherine Law as head of business development across the Asia region.**

In her new role, Law will work closely on SANNE's alternatives and corporate offerings, and new strategic business development opportunities across the region. Law previously held senior roles at Apex and Vistra as head of sales and senior business development manager, respectively.

At SANNE, Law will be part of the firm's ongoing commitment to provide global alternative asset and corporate business services.

Jing Jing Qian, managing director at SANNE Asia Pacific, commented: "Catherine Law has an exceptional understanding of both the practical and cultural nuances in the market and will bring invaluable insight into SANNE's growing presence in Asia."

Law added: "I look forward to using my influence and industry network to further expand SANNE's premium alternative asset capabilities across Asia Pacific."



**BNP Paribas Securities Services has appointed Franck Dubois, the current head of France and Belgium, as regional head of Asia Pacific (APAC).**

In his new role, Dubois will continue to expand the business in APAC, where BNP Paribas Securities Services has seen an average yearly increase of 18 percent in assets under custody over the last six years. Based in Hong Kong, Dubois will report regionally to Paul Yang, CEO of corporate and institutional banking (CIB) APAC, while reporting globally to Alessandro Gioffreda, global head of territory management.

Dubois has held a number of senior roles within the bank's CIB and securities services business in APAC and Europe.

Yang commented: "With Dubois' deep industry knowledge, we are confident that our business will continue to grow for our clients across APAC. Dubois brings with him direct experience from our biggest markets in Europe, as well as knowledge of the local environment having previously worked in Hong Kong."

Gioffreda said: "Dubois brings a wealth of client and operations experience to this important role

in charge of one of our fastest growing regions. Under his leadership, we intend to continue to grow our business in APAC, positioning ourselves as a long-term partner to our clients and accompanying them in their domestic and international development." Meanwhile, Pierre Jond replaces Franck Dubois as head of France and Belgium, effective 1 August. Jond will also report to Alessandro Gioffreda.

Jond, who joined in 1994, is currently the chief of staff for Patrick Colle, CEO of BNP Paribas Securities Services.

His previous roles include head of corporate trust services and head of Australia and New Zealand.

Jond's responsibilities will be to continue to develop BNP Paribas Securities Services' commercial offering, most notably towards institutional investors, and implement our strategy to be the leading positive impact custodian.

**Apex Group has appointed Michael Sheahan as global head of real estate, based in London.**

The appointment comes after Apex revealed its connected real estate technology solution to enable the provision of real estate asset servicing, which currently accounts for over \$300 billion in assets under management along with private equity.

Reporting to Srikumar T.E., global head of fund solutions, Sheahan will assume responsibility for leading Apex's real estate service line, owing to his experience from previous senior roles at Vistra and Citco as global sector lead for real estate and managing director of real estate servicing respectively.

He joins from Vistra where he held the role of global sector lead, real estate and acted as country managing director, Luxembourg.

Commenting on his appointment, Sheahan said: "Apex is doing exciting things in the real estate servicing space; its connected technology platform alone is a game changer for real estate managers and investors. I am excited to be part of a business that is leading the way in innovation while successfully delivering on its ambitious growth trajectory."

Srikumar T.E. added: "We have placed real focus on ensuring we have the most talented people in the industry to lead, develop, and evolve our product roadmap as we continue to expand."

"Michael has an impressive real estate track record and we are delighted to welcome him to the team, bringing both buy-side and sell-side insights to enhance our client experience and further develop our real estate service offering."



**Confluence Technologies has appointed Sunil Rajan as global head of sales, based in the company's London office.**

Reporting to president and COO Todd Moyer, Rajan will assume responsibility for overseeing Confluence's wider sales strategy and objectives, such as volumes, cost of sales and product profitability, and their global execution.

The appointment follows Confluence's acquisition of StatPro in October 2019, which saw the firm combine front, middle, and back-office offerings to enhance its provision of technology solutions.

Rajan joins Confluence from Axioma, where he served as managing director for Europe, Middle East and Africa, and Asia Pacific regions.

Commenting on his appointment, Rajan said: "The asset management industry wants best-of-breed risk, performance, regulatory and

shareholder reporting solutions, supported by robust analytics and the latest technological innovation."

"Confluence leads the way in delivering these exact things, so it is an exciting time for me to join the business and I look forward to working with the team to execute on the long-term growth strategy."

Moyer added: "We're excited to welcome Sunil Rajan to Confluence and I'm confident that he will be a great addition to the team. As Confluence works to deepen our partnerships with existing clients and expand our offering of solutions into new markets, Sunil's deep expertise in international sales and business development make him the perfect fit for a growing, global company like ours."





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