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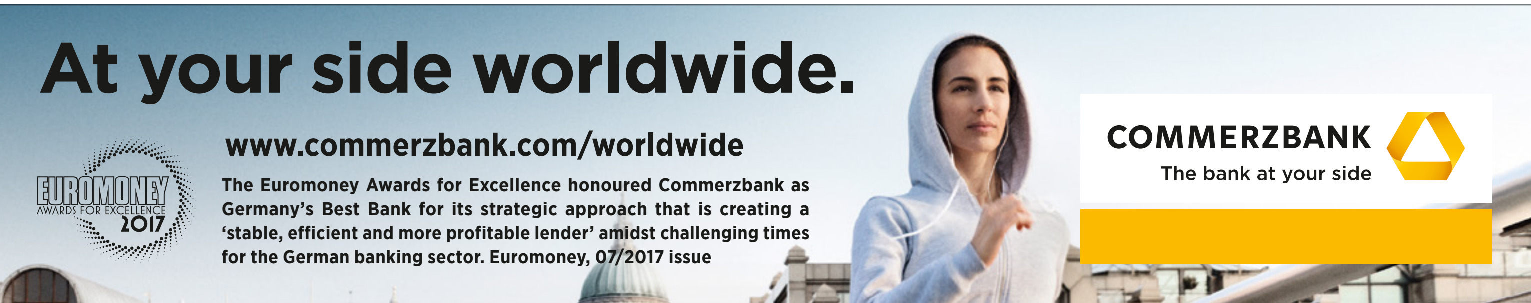

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The Euromoney Awards for Excellence honoured Commerzbank as Germany's Best Bank for its strategic approach that is creating a 'stable, efficient and more profitable lender' amidst challenging times for the German banking sector. Euromoney, 07/2017 issue

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ESMA confirms recognition of three UK CCPs post Brexit

The European Securities and Markets Authority (ESMA) has confirmed LCH, ICE Clear Europe, and LME Clear will be recognised as third country central counterparties (CCPs) from January 2021. The three UK CCPs will be eligible to provide services in the EU after the end of the transition period following the withdrawal of the UK from the EU on 31 December 2020.

On 21 September, the European Commission adopted a time-limited decision to allow financial market players until 30 June 2022 to reduce their exposure to UK CCPs. Additionally, ESMA has adopted decisions to recognise the three UK CCPs as third country CCPs under the European Market Infrastructure Regulation (EMIR). In line with the equivalence decision, the recognition decisions will only take effect on the day following the end of the transition period and continue to apply while the equivalence decision remains in force.

ESMA explained the 18-month period will provide the opportunity to conduct a comprehensive review of the systemic importance of UK CCPs and their clearing services or activities to the EU and take any appropriate measures to address financial stability risks.

The review will include a fully reasoned assessment to examine whether a third country CCP or some of its clearing services are of such substantial systemic importance that this CCP should not be recognised to provide certain clearing services or activities.

ESMA said it will conduct such a comprehensive review in due time.

The decision was also welcomed by the Association for Financial Markets in Europe (AFME), who recently published a paper calling for both UK and EU market participants to develop equivalence determinations and address regulatory challenges.

Oliver Moullin, managing director at AFME, commented: "We welcome today's confirmation that the commission has adopted a time-limited equivalence decision for UK CCPs. This is a vital step to address an important financial stability risk and ensure continued access for EEA firms to clearing services at the end of the Brexit transition period. We hope that progress will be made in the negotiations and completing equivalence assessments in other areas. We continue to encourage the EU, the UK and national member states to take action to address remaining risks at the end of the transition period such as the implications of the trading obligations for shares and derivatives, and continued servicing of existing contracts," Moullin concluded.

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BNP Paribas and Curv complete proof of concept for secure transfer of digital assets

BNP Paribas Securities Services has partnered with cloud-based digital asset security infrastructure Curv to transfer security tokens securely between market participants. The security token was transferred using Curv's multi-party computation solution to ensure the security of the private keys. The proof of concept, which was successfully completed, helped to demonstrate that tokenised securities can be transferred quickly, safely and transparently on the blockchain. BNP Paribas and Curv used the ERC1400 token standard to carry out the transaction.

Itay Malinger, co-founder and CEO of Curv, explained that BNP Paribas has the opportunity to play a "vital role" in the digital economy. However, Malinger said in order to do this, BNP Paribas requires "a secure and scalable infrastructure to deliver competitive custody products to their customer base". He added: "Curv's infrastructure is able to meet these needs and support the acceleration of innovative programmes like the one BNP Paribas is spearheading with its technology and cryptographic expertise. We are excited to have been selected to partner with BNP Paribas on this pivotal engagement."

Bruno Campenon, global head of financial intermediaries and corporates client line at BNP Paribas Securities Services, said: "This proof of concept with Curv represents a significant step forward in our strategy to deliver an integrated custody solution that combines both traditional and regulated digital assets. We are now well-positioned to deliver an exciting new service to our clients once regulations on digital assets are in place."

Talos introduces new trading platform to digital assets market

Talos, a technology provider for the institutional trading of digital assets, has launched a new platform that connects crypto-asset market participants to institutional investors, prime brokers, exchanges, over-the-counter desks, lenders and custodians.

The Talos platform will help support clients with price discovery to execution through clearing and settlement, across spot, futures and foreign exchange markets.

The new platform is set to address key issues including security, efficiency and scale.

While the Talos platform is currently comprehensive, the firm plans to roll out additional capabilities in the coming months, focusing primarily on further reducing trading and settlement risks.

"Our expertise is in trading systems, and we built this platform from the ground up specifically for crypto by working closely with our customers. We'll continue collaborating with them to stay ahead of competition as digital assets begin to truly transform financial

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markets," said Ethan Feldman, co-founder of Talos.

Anton Katz, co-founder and CEO of Talos, added: "We don't get to see a brand-new asset class emerge very often, so naturally this is an incredibly exciting time, especially for engineers in the financial sector. Moreover, these technical and operational innovations we see in the digital assets space will accelerate the progress of other asset classes. Our mission is to bridge these two worlds, using our understanding of institutional requirements, and further drive the evolution of trading."

The Talos platform began development in October 2018, and has been in production since August 2019, providing digital asset trading solutions to a core group of capital market participants.

BNY Mellon partners with NCB Capital to provide asset servicing in Saudi Arabia

BNY Mellon and NCB Capital have entered into a strategic alliance to deliver global custody and associated asset servicing activities to institutional and large asset owners based in the Kingdom of Saudi Arabia.

The collaboration will provide clients of NCB Capital, the Saudi Arabia's largest custodian and asset manager, with local expertise together with access to BNY Mellon's global custody, asset servicing, data and technology capabilities.

BNY Mellon has been serving clients in Saudi Arabia for more than 30 years, and has been conducting business in the region for over a century.

Todd Gibbons, CEO of BNY Mellon, said: "We are excited to announce this strategic alliance with NCB Capital and look forward to working together to support the financial and social agenda the Kingdom of Saudi Arabia has forged as part of its transformation, by sharing capabilities, resources and practices via our new alliance."

Sarah AlSuhaimi, CEO of NCB Capital, commented: "As Kingdom of Saudi Arabia's largest asset manager and investment bank, NCB Capital has a proven track record of successfully collaborating with global leaders across the asset management value chain."

"To that end, we are looking forward to working very closely with BNY Mellon to both deepen and broaden our securities services offerings to our clients in line with NCB Capital's unwavering commitment to the development of the Kingdom's financial sector in line with Vision 2030, and meeting the increasingly sophisticated demands of our institutional client base," added AlSuhaimi.

FundRock takes on new Irish ICAV for WHEB Asset Management

WHEB Asset Management has appointed FundRock to manage its new Irish collective asset-management vehicle (ICAV).

FundRock will provide oversight of the delegated functions, risk and compliance monitoring, as well as distribution support services for the new structure and its sub-fund.

The new fund will have a sub-fund, called the WHEB Sustainable Impact Fund, which is expected to launch during Q4 2020 and will mirror its existing impact investment fund that is domiciled in the UK, the FP WHEB Sustainability Fund.

George Latham, managing partner of WHEB Asset Management, commented:

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LCH SA connects to Cboe Europe for equities clearing

LCH's EquityClear service is now providing clearing services for Cboe Europe, one of the largest pan-European equities exchanges by value-trading.

Market participants trading Euronext securities via Cboe Europe's UK order books, BXE and CXE, are now able to select LCH as their clearing-house under the preferred central counterparty (CCP) model.

The 'preferred CCP' model enables Cboe Europe participants to clear through LCH provided that both counterparties to the trade have elected it as their preferred CCP for Euronext securities.

According to LCH, this will allow members to consolidate their clearing activity for those securities through one clearing house and benefit from increased netting, lower settlement costs and greater operational and margin efficiencies.

Christophe Hémon, CEO at LCH SA, commented: "This is the latest milestone in our strategy to expand the number of equities trading venues available to our clearing members."

David Howson, president at Cboe Europe, added: "We're pleased to be working with LCH to widen the choice of clearing venues available to our customers."

"This demonstrates our commitment to open access and competitive clearing in European equities, and we look forward to continuing our collaboration to provide this important post-trade service to our customers."

News of the partnership follows confirmation that LCH's UK entity will be one of three clearinghouses to be recognised by the EU as third-country CCP from January 2021, following the conclusion of Brexit.

The three UK CCPs will be eligible to provide services in the EU after the end of the transition period following the withdrawal of the UK from the EU on 31 December 2020.

"We're delighted to have partnered with FundRock to continue to build our business in the European markets and make our investment strategy available to new investors."

Xavier Parain, CEO of FundRock, added: "We are pleased to be WHEB's partner of choice in another fund launch. Sustainable and impact investing is very much entering the mainstream for investors and pioneers like WHEB are well positioned to benefit from the rapid growth in this space."

"Our best in class solutions will enable the firm to focus on its core business activity of delivering returns to its clients while having a positive impact on society."

Northern Trust boosts benefit payment access for Canadian plans

Northern Trust Canada has launched a new online portal, Benefit Payment Participant Passport to enable advanced automation for participants of Canadian benefit plans.

The new portal capability allows pension and benefit plan participants to access their programme information in real time in either French or English.

The self-service option supplements mailings, call centres and other means of requesting statements and related information.

It will also allow pensioners to enroll themselves and review their balance as well as payment information online.

Additionally, participants can also update personal information, review payment history,

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modify payment and deposit instructions, as well as review and print tax documents.

Katie Pries, president and CEO of Northern Trust Canada, commented: “We listened to our clients when they told us they want their participants to have real-time access to benefit payment information and are excited to offer these new and innovative capabilities.”

“Information is all about choice, convenience and security, and we are always looking to make our services more accessible and more intuitive for our clients.”

DTCC introduces new service to simplify corporate actions claim processing

DTCC’s subsidiary the Depository Trust Corporation (DTC) has filed a proposal with the US Securities and Exchange Commission (SEC) to launch a new platform that will help automate and simplify corporate actions claim processing.

With the new ClaimConnect service, DTCC said it seeks to address limitations in corporate actions processing related to untracked cash claims.

The service will provide clients with near real-time claim validation and matching, email alerts and the ability to pinpoint data leveraging intuitive search functionality.

In addition, clients will be able to post claims versus their counterparty with the ability to track those claims through to settlement.

Ann Marie Bria, executive director, corporate actions business management at DTCC, said: “We’re continuously meeting with our clients to learn more about their evolving internal processes and challenges in order to identify ways we can deliver new and improved services to meet their needs.”

“Centralising claim processing through ClaimConnect will enable clients to seamlessly manage the entire lifecycle of a claim while reducing risks,” she said.

ClaimConnect, which will launch following SEC approval, will be one of the first services available on DTCC’s new application programming interface marketplace.

HSBC gains custodian mandate for Ping An’s first UCITS funds

HSBC Luxembourg has been appointed as custodian, central administrator, depositary (trustee) and transfer agent for the first UCITS umbrella fund of Ping An of China Asset Management (Hong Kong).

The Luxembourg-domiciled UCITS fund comprises four sub-funds including China A-Shares AI Multi-Factor Fund, China Green Bond Fund, China High Yield Private Strategy Bond Fund, and Emerging Market Income Fund.

Sebastien Danloy, global head of asset owners and managers, securities services, HBSC, said: “We’re delighted to be partnering with Ping An as they expand their European offering to include investment opportunities under the UCITS regulatory framework.”

“It provides a means for European and global investors to access China’s equity and fixed income markets via Ping An of China Asset Management Hong Kong’s offshore investment platform.”

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BNP Paribas and Allfunds agree fund distribution deal

BNP Paribas has teamed up with Allfunds to build next-generation fund distribution services. The deal will see BNP Paribas give its fund-buyer clients access to around 2,000 fund houses and 100,000 funds as well as fund analytics services from its new Fund@ccess platform, which is operated by Allfunds.

Allfunds will be responsible for BNP Paribas' clients, managing their distribution contracts with third-party investment funds on behalf of the retail, wealth management, insurance and asset management businesses of the BNP Paribas Group.

Around 250 employees of BNP Paribas Securities Services have transferred to Allfunds, primarily in its Poland and Italy offices, contributing to the expansion of Allfunds' expansion. BNP Paribas Securities Services and BNP Paribas Asset Management now hold together a 22.5 percent strategic stake in Allfunds.

Patrick Colle, general manager of BNP Paribas Securities Services, commented: "The partnership will create a leader in the fund distribution space, giving clients access to a wide range of funds and streamlining the fund buying process for greater operational efficiency. Our ambition is to build a new range of fund distribution services enabling clients to seize investment opportunities and enhance the monitoring of their operations."

Juan Alcaraz, CEO of Allfunds, added: "By integrating the business model of a top-tier custodian bank with the scale and value-added services of our leading fund distribution platform, we will offer a one-stop suite of services that is unique on the market, unrivalled in scale and efficiency, for the benefit of our clients."

Danloy added: "China's GDP significantly recovered in the second quarter and we continue to see global investors seeking Chinese assets for both yield and diversification of their portfolios. As a result, we are successfully supporting more and more new Chinese asset managers requesting to set up European funds for distribution in Europe and across Asia."

TMF Group agrees acquisition of Selectra

TMF Group has acquired Selectra Management Company, a regulated management company based in Luxembourg servicing both alternative investment funds (AIFs) and UCITS, from Farad Group.

Selectra, which was created in 2013 as part of the service delivery platform Farad Group, was a "strategic acquisition" for TMF Group, driving its fund activities growth in Luxembourg.

Frank Welman, regional head for TMF Group, said the acquisition is a "huge step forward" for the firm.

Welman commented: "Selectra is a well-established management company with the experience and the licenses to provide all the services that their clients – and our clients – require."

Marco Cipolla, managing director of Selectra, said: "We are happy that Selectra has been chosen by TMF for its excellence in the market, and becoming part of TMF Group gives our clients access to the services and reach of a firm with a footprint in 80 countries worldwide."

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J.P. Morgan and H4 offer new documentation solution for global custody clients

J.P. Morgan has teamed up with H4, a cloud-based healthcare data management, integration and analytics company, to create a new documentation solution for global custody clients.

As part of this collaboration, J.P. Morgan's custody business will leverage H4's technology to help transform the client contract onboarding experience, reuse data contained in documents and build a digital library.

H4 and J.P. Morgan have already successfully piloted the new documentation platform in the global custody business, with a view to rolling it out across J.P. Morgan's Securities Services business in the coming months.

The data management company has also been used by the J.P. Morgan team to assist with the capture of critical data elements from their historical agreements.

Mike Hughes, managing director and head of global custody at J.P. Morgan, said: "We're excited for the future as our collaboration on the platform develops. It potentially creates an ecosystem for J.P. Morgan and its clients to negotiate and alter contracts real time in a controlled environment."

Hughes continued: "This technology will allow for efficient collaboration at an important stage of the new client relationship, an additional tool for effective onboarding, all fitting squarely within J.P. Morgan's Securities Services data-focused strategy."

Joe Seifert, CEO and co-founder of H4, added: "Many fintech CEOs I speak to are frustrated by the lack of client understanding and urgency around tech adoption despite the rhetoric. It requires business leaders to 'get it', make bold choices and lead the change. The J.P. Morgan Securities Services team is helping to lead the industry and have been outstanding partners."

Completion of the transaction is subject to regulatory approvals from the Commission de Surveillance du Secteur Financier.

HUB Security and Marsh unveil new digital asset solution for custodians

HUB Security has collaborated with Marsh to create an insured storage solution that enables US-based financial institutions to securely offer digital asset custodial services.

As part of the partnership, financial institutions can now store and manage digital assets, including cryptocurrency, on HUB's technological platform.

In addition, firms can purchase up to $400 million in cold storage insurance through Marsh's Digital Asset Risk Transfer (DART) team to cover the risk of theft or damage to the assets or destruction of private keys.

The solution follows the August letter from the US Office of the Comptroller of the Currency (OCC) which gave national banks and federal savings associations the green light to provide cryptocurrency custody services on behalf of customers.

"The crypto custody market is poised to grow significantly following the OCC regulatory clarification," said Ankur Kacker, senior vice president and a specie specialist on Marsh's DART team.

Kacker continued: "Our combined insured storage solution can provide financial institutions seeking to enter the market a secure place to safeguard their clients' assets and peace of mind knowing their exposures are covered."

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Citi Australia enhances partnership with Netwealth

Citi Australia has extended its partnership with Netwealth as its provider of international custody, global and domestic equities execution and fund administration.

Netwealth will be the first Australian wealth platform to have access to Citi's global platform execution to custody (E2C), which provides institutions with global execution, settlement and custody services.

The announcement comes as Netwealth recently launched a new series of funds within their global specialist series products with Magellan Financial Group.

Citi Australia's head of equities Daniel Young said: "Netwealth has an outstanding reputation in the local market and we are thrilled to provide them with a high-tech solution that will reduce manual workload, allowing them to concentrate their resources towards clients and technology as opposed to operational flow."

Matt Heine, joint managing director of Netwealth, commented: "We know our clients want greater access to International markets both directly, via funds and also via our managed account, and Citi was able to provide unparalleled exposure for our team."

Heine added: "Following a seamless onboarding experience, we look forward to leveraging Citi's strengths to help in our aim to be the most comprehensive wealth platform in Australia."

"Together, HUB and Marsh are empowering banks and other financial institutions to offer services for storing their clients' digital assets by ensuring they are digitally secure and protected," said Eyal Moshe, CEO and co-founder of HUB Security.

Clearstream creates new fund centre

Deutsche Boerse's post-trade services provider Clearstream has created a new fund centre following its acquisition of a majority stake in Fondcenter AG from UBS.

The deal, which completed on 30 September, combines the Fondcenter business with Clearstream's existing fund desk for global fund distribution support with over $290 billion assets under administration.

Earlier this year in January, Clearstream and UBS announced a joint agreement under which the international central securities depository has now acquired 51.2 percent stake in the fund distribution support platform Fondcenter for £308 million (CHF 389 million).

UBS holds a minority stake of 48.8 percent, remaining a strategic partner, and has entered into long-term cooperation agreements for the provision of services by Clearstream including to continue using the fund centre platform on a long-term basis.

Bernard Tancré, CEO of Fondcenter and head of investment fund services product at Clearstream, said: "Fondcenter's fund platform business perfectly complements Clearstream's existing fund distribution support services. With the newly combined Clearstream Fund Centre, fund distributors will now have access

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CACEIS becomes servicing partner for ArchiMed’s latest €1bn fund

CACEIS has been selected to service the new MED Platform I fund run by ArchiMed, a private equity firm focusing on the healthcare industries.

The mandate covers depositary bank, custody, middle-office, fund accounting and financing services for the mid-market buy-and-build fund, MED Platform I fund. MED Platform I, which held a final closing on 31 July at a hard cap of €1 billion, has attracted a range of institutional investors and family offices across Europe and North America.

The fund targets growth companies in the European and North American mid-cap healthcare industries and provides the strategic, tactical and financial resources required to extend product lines and expand into new regions.

Denis Ribon, founding partner of ArchiMed, stated: “Since winning the mandate for our second small-cap fund mandate in 2017, CACEIS’ private equity team has proven to be a reliable servicing partner, demonstrating its ability to deliver the comprehensive set of services we need.”

“By supporting our first two small-cap funds, and our progression to the mid-cap space, CACEIS has become a key partner in administering the €1.7 billion under our management.”

Arnaud Garel-Galais, group head of private equity, real estate and securitisation, coverage and business development at CACEIS, commented: “We have a detailed understanding of ArchiMed’s needs and have adapted and developed our services to meet their ongoing requirements.”

“Furthermore, we are proud to service a fund with several portfolio companies that are playing a major role in tackling the COVID-19 pandemic.”

to contracts covering over 70,000 funds worldwide. We are delighted that we can offer this comprehensive portfolio to our existing and future client base.”

Bruno Marxer, head of CIO global mandates and investment content at UBS Global Wealth Management, added: “We look forward to working with the Clearstream Fund Centre team and to continue leveraging the platform’s leading capabilities as the preferred provider for UBS Global Wealth Management.”

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A diamond in the rough

An anticipated delay to the implementation of SRD II drove some firms to a certain lack of readiness, and although the directive is now live, industry concerns continue as various challenges remain

Daniel Bardini, managing director financial messaging, Bottomline Technologies

David Baxter, managing director, T-Scape

Joe Mernagh, senior product manager, securities services, HSBC

Demi Derem, general manager, international investor communication solutions, Broadridge Financial Solutions

Charu Kirti Jain, director product management, corporate actions, IHS Markit

Maciej Trybuchowski, CEO, KDPW

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Was the go-live of SRD II a success?

Daniel Bardini: There are two lenses to look through. We have to keep in mind that the second Shareholder Rights Directive (SRD II) is a right given to the EU companies to ask for the disclosure of their shareholders, and it is a duty for the financial industry to facilitate the disclosure.

From an issuer perspective, the answer is yes since the request for disclosure has been activated by several companies since the very beginning of the go-live. SRD II already is helping meet the need for the issuers to be closer to their shareholders.

Meanwhile, from a financial industry perspective, it might be looked at differently. Many may have anticipated a delay of the go-live due to the exceptional situations brought on by this year.

However, the preservation of the go-live date drove to a certain lack of readiness from some players, with fragmented tactical solutions being implemented with a sense of emergency. So the industry at-large is not yet at the level of automation and interoperability required by the directive, which will need some time to stabilise.

David Baxter: The directive came into force on the day it was scheduled to, so in that respect, it was a success. In terms of market readiness to implement and adhere to the directive, however, you would have to say questionable at best. The directive aim is to facilitate much better engagement between a company and its shareholders to the benefit of both. Being able to issue a shareholder identification disclosure (SID) request at any time (and frequency) and get results within a 24-hour window regarding who its shareholders are is something of real value to a company. A shareholder knowing they will get the right to vote at each and every meeting is much the same. To achieve better engagement there has to be a reduction in the 'distance' between company and shareholder. This distance exists because of the number of intermediaries, disparate systems and inherent processing steps that sit between the two. To reduce the distance we accelerate the process, and to do that we need a common structure with which to exchange data.

Demi Derem: Considering the number of outstanding and late transpositions, the last-minute market practice guide changes, and the ongoing debate on what constitutes an SRD II-compliant electronic message, I think the industry did the best job it could under the circumstances. From a Broadridge perspective, we certainly consider SRD II go-live as a tremendous success.

The directive is using ISO 20022 as its vehicle of choice for this exchange but does state 'other machine-readable' formats as acceptable. While some participants are ISO 20022 ready others are not. SID requests, for example, are still being issued and passed along the chain of intermediaries in MT564 and MT568 format. Having the ISO 20022 data fields and content slapped into the 'additional text field' of a MT568 isn't really where we want to be. Nor too should we be looking at sending such sensitive shareholder information as a spreadsheet attachment to an email address that we are unfamiliar with. But this is what's happening, and it does beg the question as to how efficient issuer agents are at collating all of the data received from a multitude of intermediaries into a single set for the issuer, and just how accurate that information might be.

We knew back in April that the market wasn't ready. The same trade association groups that tried to push the directive out by a year because of COVID-19 are now pushing for any penalty for non-compliance to be waived until September 2021. The approach is slightly different in that the COVID-19 isn't so much to blame, but rather that the directive should be viewed as a market infrastructure project, meaning all market participants have to be 'in' for it to work.

They've got a point, to a degree, but it does still seem as though the market has reacted rather belatedly to a directive that's been out there for some time. That said there are a number of participants that are ready, and some that are working hard to be ready in the coming months. Small victories, but perhaps not enough of them to claim the launch of SRD II was a resounding success.

Joe Mernagh: HSBC had a successful go-live for SRD II. We now provide clients with an SRD II-compliant proxy voting service, and internal enhancements have been made to ensure HSBC meets its regulatory requirements for shareholder disclosure requests and corporate events.

Determining the successful outcome of SRD II requires both systemic readiness and market practice harmonisation through the intermediary chain – from central securities depositories (CSDs) all the way through the chain to the last intermediary before the shareholder.

What hadn’t been expected was some participants in the intermediary chain not using the new markets standards’ MX 20022 messages for shareholder identification requests, so we implemented additional controls and processes to account for this.

Charu Kirti Jain: SRD II went live amidst COVID-19, adapting market infrastructures and a scramble to implement new messaging standards for communication around disclosures, meeting announcements and proxy voting. In its first week of implementation, many issuers used the new standards to announce their annual general meetings (AGMs) and directly send meeting notifications, having structured the agenda and content down the intermediary chain to their investors. A number of issuers also used this opportunity to request shareholder identity from the intermediary chain by issuing disclosure requests to their respective CSD, using the new process flow. At a macro level, these achievements are no less considering the extraordinary year and the comprehensive industry efforts that went into the implementation of SRD II.

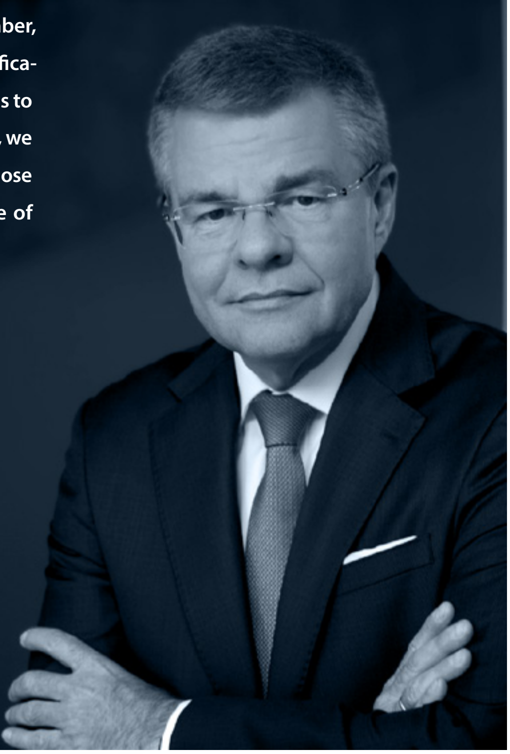
However, a high-level technical integration and establishment of key market procedures can only be the first step towards achieving the overarching implementation imperatives laid down by the European Commission. Now, more industry participants need to move away from the manual processes and adopt automation technologies, to process and distribute issuer information as well as to generate responses for the disclosure requests. This transition will help them support the upcoming volume season and ensure that SRD II lives up to its original promise to increase transparency in shareholder identity, issuer to investor communications and flow of the votes.

On the buy side, we have seen firms providing specific documentation on their websites with regards to SRD II transparency objectives. However, the adequacy of these transparency procedures and the need for any further legislative proposals are up for review by the European Commission before June 2022, when they are expected to publish their report on SRD II implementation.

Maciej Trybuchowski: Generally speaking, it is still too early to tell for certain. Intermediaries were prepared to varying degrees, but we do not yet know much about the readiness of the key players, such as issuers.

However, from the perspective of the Polish CSD (KDPW) the implementation of SRD II was a success. On 3 September, we launched the shareholder identification service as the recipient of replies to company requests. By 25 September, we received 22 requests from issuers whose shares are recorded in KDPW. Five of them have already received replies.

We have migrated the entire general meeting service to ISO 20022, including not only SRD II-compliant securities but all securities recorded in KDPW. We have integrated the general meeting application with our innovative blockchain solution supporting general meetings for the use of eVoting.



How does the directive specifically affect the asset servicing industry?

Trybuchowski: SRD II regulates three core operational processes in the custody chain (from issuer to investor): shareholder identification, general meetings and corporate actions.

However, there are some doubts and uncertainty in view of potentially different approaches and interpretations.

First of all, SRD II does not define clearly who the shareholder is. SRD I defines 'shareholder' as the natural or legal person that is recognised as a shareholder under the applicable law. SRD II gives member states options on how they transpose this into member state law. Finally, SRD II allows for national differences in many areas, including the rules for the attribution of entitlements and the rules for the exercise of rights (such as requirements for powers of attorney).

> *Currently, under SRD II, we are only looking to improve the processing of disclosures and meetings. What we may actually be doing, however, is laying the foundations and paving the way for a full migration to ISO 20022 for all corporate action types, not just these two*
>
> **David Baxter**

Baxter: The aim of the directive is to encourage transparency and a greater level of engagement between a company and its shareholders. It can be difficult for a company to determine whom its shareholders really are when they are somewhat hidden within a chain of intermediaries and within omnibus/nominee accounts. This can potentially leave a company exposed and open to unwanted shareholder influence if, for example, that shareholder holds a much greater stake than is visible to the company.

As a result of better engagement under SRD II, things become much more transparent. Looking at it from a shareholder perspective, the directive's purpose is to ensure shareholders are able to exercise their right to vote at company meetings. Current practices fall short because company information doesn't always filter through the chain of intermediaries to shareholders. And votes being 'lost' can mean the difference between a resolution being approved or not, the knock-on effect of which could prove damaging to both the company and its shareholders. It's also worth highlighting again, that the directive stipulates ISO 20022 as the preferred 'machine-readable' format. As such it is forcing those market participants affected by SRD II, to adopt a new structure, and for me, this is the exciting bit.

Currently, under SRD II, we are only looking to improve the processing of disclosures and meetings. What we may actually be doing, however, is laying the foundations and paving the way for a full migration to ISO 20022 for all corporate action types, not just these two. And perhaps even more significant is the fact that companies and their agents are coming on board the ISO 20022 train, which may have a much wider impact and lead to a substantially improved corporate action process across the market, not least because we have corporate actions in a structured format from the outset.

Jain: Aimed to improve corporate governance and shareholder engagement in EU-listed companies, SRD II lays down specific requirements that are applicable for the asset servicing industry and which largely fall under the definition of 'financial intermediaries' under the directive.

The obligations under SRD II are triggers for a systemic change in European markets and the financial intermediaries servicing them. The resulting imperatives for financial institutions acting as intermediaries are to develop an electronic mode of communication to disseminate meeting and agenda details to their clients, capture voting preferences, confirm receipt of voting instructions and confirm the status of voting instructions;

develop the capability to process newly launched ISO 20022 messaging and process flow for shareholder identification requirements; and to develop the capability to process ISO 20022 proxy voting messages for transmission of meetings information and voting instructions and corresponding status without delay.

This requires technology intervention or outsourcing because many asset servicing firms need to transition from a discretionary service using manual processes to a mandatory service with such elaborate electronic mechanisms and ISO messaging.

Bardini: The impact comes in many parts, one being corporate actions management. SRD II falls in this space, which is a quite complicated area and remains difficult to automate as it still holds a lot of manual processing. The communication exchanges are often poorly formatted, with limited possibility to enhance straight-through processing rates and it is relying on a quite old SWIFT standard. This situation was accepted by the market which had to work with it. And now SRD II is coming with a lot of new features and is completely changing the rules. Take a few examples: when a request for disclosure is emitted, this request has to be forwarded across a chain of players until it has met its final destination, and this has to be achieved with quite stringent deadlines. And some thresholds and calculations need to be respected throughout the processing. This will be very difficult (or even impossible) to achieve without an enhanced level of automation.

Joe Mernagh: Aside from the mechanics of quicker processing and greater facilitation of investor rights, SRD II could be the catalyst to rethink asset servicing.

One of the key sub-themes of SRD II is that in order to allow intermediaries to provide corporate event notifications to end-investors, a standardised harmonised approach is required for processing, starting with the issuers/issuers agents. If an issuer, or its agent, were to provide a full operational detail of a corporate event, also referred to as the golden operational record, it would allow intermediaries to rely on its accuracy, removing duplication of effort, interpretation issues, delays and costs right the way through the chain. SRD II has opened up that conversation.

As a result, in order to meet the expected speed in transmission, and to boost automation, a new standard has been created specifically for that. This standard, based on ISO 20022, is a new one much richer in content, one which the industry is not used to dealing with. The industry has to adapt their backend systems to manage this standard. The design of the flows is also unusual: with SRD II, the response to the request has to be sent most of the time to a third party player who is not the recipient which sent the request to you. You might be asked to respond via a different channel than the one on which you received the request. Again, managing flows, understanding, interpreting and sending the response to the right guy in the appropriate format and on the relevant rail is a challenge as you can easily imagine.

Other aspects could be mentioned as well, such as the level of security and confidentiality which are required when you are managing shareholders names. But I think SRD II is an opportunity to rethink asset servicing in general, with more interactions with shareholders, more transparency, and more long term engagement from investors.

Derem: Intermediaries are the link between the issuer and the shareholder, so they are the ones that must provide the platform that enables shareholders to engage, i.e. a voting platform. Due to the timeliness and 'undue delay' requirements of the directive, all intermediaries in the chain need to be able to support some form of electronic processing to ensure that information is passed up and down the chain quickly and efficiently.

Therefore, timing is a key implication for the electronic same-day transmission of meeting information, vote processing back to issues without delay and the handling of issuer disclosure requests within 24 hours. These aspects of the regulation have forced the asset servicing industry to renew, and in most cases, update processes.

As calls for the directive to be delayed were rejected, how much of an issue did this cause for the industry?

Baxter: Given the fact that those participants who earlier this year, called for the directive to be deferred by a year — which was rejected by the EC — are now calling for any penalties for non compliance to be waived, suggests it's a rather big issue. The writing was on the wall back in April when the first letter went out citing the COVID-19 and the interruptions it had caused to operations and projects as a good reason to defer.

In a subsequent letter sent shortly before SRD II came into force, the group focused upon 'national transpositions' i.e. how the directive would be applied by member states, and SRD II being defined, mistakenly, as a 'regulatory compliance project' rather than a 'market infrastructure project', the belief being that full compliance by any individual entity is dependent upon full compliance by all entities.

There are arguments for and against what has been written, but the fact that such time and effort has been put into trying first to defer the implementation date and then to waive penalties for non-compliance post implementation, indicates that we may be some way off full compliance by all entities. Something we can already evidence with the continuing usage of MT messages, e-mails and spreadsheet uploads.

Mernagh: HSBC employed a large-scale programme dedicated to delivering SRD II-compliant solutions by 3 September.

Originally, 10 June 2019 had been the deadline by which EU countries were due to transpose into law the SRD II Directive. In reality, the deadline was missed by the vast majority of those countries and even today not all of those markets have transposed. This has a knock-on effect for intermediaries, raising questions such as: What securities are in scope per market? How does each market define a shareholder according to SRD II? These questions matter when it comes to building systemic solutions.

Charu Kirti Jain: Some industry participants, including the large market infrastructures and the leading financial institutions, had been operational as a working group to ensure SRD II compliance for the last two plus years. They had gone through the regulation and its technical implementation in detail and had come up with adequate standards, direction and plans for compliance. We at IHS Markit had established an SRD II working group with our clients for a similar period to ensure the right solutions were in place for the September deadline. This was to help our clients to comply with the technical requirements laid down by the regulation 2018/1212.

Although a wide majority of the EU countries had passed respective legislations to implement SRD II, some had it still outstanding when the calls to delay the implementation were rejected by the EC. This decision led to the passage of more national transpositions over the summer, thereby pushing respective market participants towards compliance certainty. This created implementation pressures for those firms that had delayed their compliance planning. But a wide majority of the industry went into compliance as per the planned deadline. Any outstanding hurdles and issues are being addressed by the industry to achieve higher degrees of compliance before the volumes hit in early 2021.

> *The exceptional situation and the pressure on the market due to the COVID-19 pandemic was advocating in favour of such a delay. But the date was preserved, leading to a fragmented and heterogeneous level of readiness from the marketplace*
>
> **Daniel Bardini**

> *While most financial institutions were able to move to work from home set-up quickly, this did not eliminate the real day-to-day challenges experienced by staff at the height of the pandemic*
>
> **Demi Derem**

Bardini: The industry was clearly expecting a delay and even anticipating this delay by putting SRD II projects lower in their agenda. The exceptional situation and the pressure on the market due to the COVID-19 pandemic was advocating in favour of such a delay. But the date was preserved, leading to a fragmented and heterogeneous level of readiness from the marketplace, with many tactical implementations done in emergency conditions. We still see a lot of non-structured narrative exchanges, a lot of questions on how to cope with SRD II, and there will be quite in depth tuning to be achieved before we see a frictionless SRD II landscape.

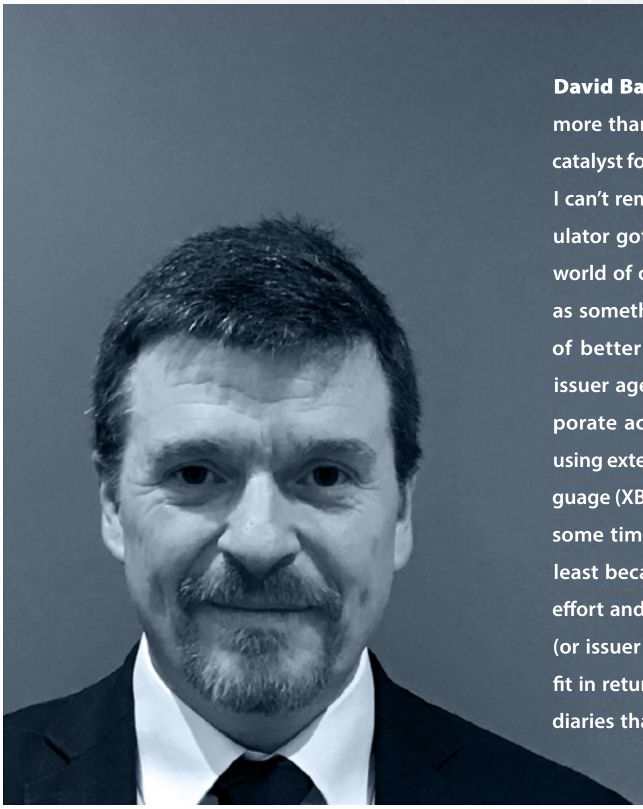
On the other end, we could have also anticipated the preservation of the go-live date because the COVID-19 pandemic created a lot of market volatility with some companies being heavily impacted. We can understand that SRD II was perceived by the regulator as an option for the issuers to communicate with the shareholders to reassure them on their investments and to share their strategy in front of the situation.

Derem: Undoubtedly the global pandemic caused many issues for the industry. While most financial institutions were able to move to work from home set-up quickly, this did not eliminate the real day-to-day challenges experienced by staff at the height of the pandemic. Safety of staff, looking after loved ones, home essentials rightly were the priority at the time.

Trybuchowski: There are several open issues to be clarified, as summarised in the joint letter of many market organisations, including the European Central Securities Depositories Association (ECSDA) presented on 1 September 2020 to the EC and the European Securities and Markets Authority (ESMA). The letter outlines the current difficulties of the SRD II implementation due to differences in the national transposition and national applicability of SRD II rules, and the timing of national transpositions, so that market infrastructure entities and market participants have had insufficient time to build fully SRD II-compliant processes. The impact of the differences in national transpositions and of the timing of national transpositions, has been exacerbated by the effects of the COVID-19 pandemic.

Looking longer-term, do you believe SRD II will accomplish its objectives?

> *Through EC intervention there is now a clearer understanding that through better issuer/shareholder engagement all market participants stand to benefit, not just the intermediaries*
>
> **David Baxter**



David Baxter: Yes, I think it will, but more than that I think it could be the catalyst for greater change longer term. I can't remember the last time the regulator got involved specifically in the world of corporate actions but I see it as something very positive. The topic of better engagement with issuers/issuer agents is not new. Tagging corporate action data at the issuer end using extensible business reporting language (XBRL) was touted as the answer some time ago. It didn't happen, not least because it was clear that all the effort and cost would fall to the issuer (or issuer agent) with very little benefit in return. It was in fact the intermediaries that would pick up virtually all of the benefit. The general consensus thereafter was that nothing would really change unless regulation forced the issue. That's exactly what has happened, albeit with respect to only a couple of corporate action types and specifically in relation to European equities. And even if the directive is deemed a market infrastructure project rather than a regulation, the process has started.

Through EC intervention there is now a clearer understanding that through better issuer/shareholder engagement all market participants stand to benefit, not just the intermediaries. SRD II will accomplish its objectives, but has the potential to go even further.

SRD II also empowers investors much more than before, and this is appreciated by the market. In this context, SRD II is meeting evolving customer expectations. I bet on the development of SRD III in the mid-term

Daniel Bardini

Mernagh: In relation to Chapter 1a of SRD II, the objectives were to identify shareholders, transmit information to them and facilitate the exercise of their shareholder rights.

To fully achieve these objectives, there is more work to be done. Indeed, the EC has recognised the industry's concerns and, as per, the EC's new Capital Markets Union Action plan, they agreed "to assess the possibility of introducing an EU-wide, harmonised definition of 'shareholder', and if and how the rules governing the interaction between investors, intermediaries and issuers as regards the exercise of voting rights and corporate action processing can be further clarified and harmonised".

Trybuchowski: If the directive's objective is to change the relationship between issuers and investors, we can say that yes, the goal will be achieved. But, if the objective is to improve European financial stability by boosting shareholder loyalty and limiting short-term and speculative behaviour, it is difficult to predict the effects.

How will issuers use their newly acquired better knowledge of their investors? Will they be able to communicate better with shareholders? How will issuers interact with shareholders to ensure greater attendance and engagement at AGMs? Will this affect new corporate governance regulations? All this depends on the issuers.

Derem: Yes. I can see a time in the not so distant future where the spirit of the directive, local transpositions and market guidelines all come into alignment – when this happens, the objectives of the directive will be met.

Jain: In the longer term, it will be important to differentiate tangibles from the intangibles. If we look at implementing regulation 2018/1212 and its associated provisions, the industry leaders/market infrastructures have invested enough to accomplish objectives as envisaged by the EC.

However, it will be interesting to see if any of these leading firms can publish actual comparative percentages from the previous years for the data transmission on AGM announcements or the disclosures processed by them.

Any statistical inputs on the timeliness of information flow, for example, decrease in processing time at each intermediary level, decrease in transmission time from issuer to actual investors on AGM and agenda information and vice versa for voting instructions, can easily help establish the achievement of SRD II objectives.

Similarly, the quality of data being received electronically will help shareholders vote on agenda by agenda level rather than voting amass across all agenda items.

On another key objective, the issuers will be able to request and identify shareholders in a simplified way via the intermediary chain without incurring any exorbitant costs, especially in cross-border investments and will be able to better engage with them.

The higher degrees of compliance over the longer term will also help accomplish the intangibles like increased transparency, thereby better investor confidence into the company's dealings, more scrutiny and review of the agenda actions and thus probably more actions taken towards the long-term sustainability of the companies.

Bardini: These types of directive will expand. Investors will like it because they need transparency and they are looking at companies with strong rates in governance; and SRD II is part of that. SRD II also empowers investors much more than before, and this is appreciated by the market.

In this context, SRD II is meeting evolving customer expectations. I bet on the development of SRD III in the mid-term.

What opportunities has SRD II provided to the industry?

> *Improved corporate governance and better communication between issuers and investors is the obvious win.*
>
> *By necessity, it's also prompted many intermediaries to rethink and invest in their technology*
>
> **Demi Derim**

Trybuchowski: New regulations allow costs to be reduced for intermediaries in charge of processes associated with the exercise of shareholder rights such as voting, shareholder identification, general meetings and corporate actions, ultimately to the benefit of end investors.

SRD II allows CSDs to comply more easily with CSDR (Article 23 (3) and Article 49 (1)) on CSDs providing services to issuers located in the other member states.

It is also an opportunity to facilitate the use of new technologies, such as DLT, that support the voting and corporate action processes.

Derem: Improved corporate governance and better communication between issuers and investors is the obvious win. By necessity, it's also prompted many intermediaries to rethink and invest in their technology, leading to higher levels of efficiency and an enhanced, and more empowering end-client experience.

Baxter: SRD II is a fabulous opportunity to increase efficiencies in the processing of corporate actions. This is the first step to engaging properly with issuing companies and their agents. It opens up the real possibility of corporate action announcements becoming available and consumable by all market participants on the announcement day.

The introduction of ISO 20022 as the mechanism by which issuers can communicate out, means we are laying the foundations that will enable us to go beyond shareholder disclosures and meetings and tackle all of the other corporate actions using the same format. Having a structured message from the outset means the processing of data along the chain should be far more efficient. Not only does it mean the likelihood of error due to misinterpretation is reduced but also the speed at which the announcement is processed should increase. This can not occur unless all market participants are ISO 20022 compliant but SRD II is forcing change, albeit for disclosures and meetings only at this stage. Imagine a corporate action world that has migrated fully to ISO 20022 and communications between all participants is a reality. Errors should come down, processing speeds should go up and the knock-on effect of this may mean that deadlines set by custodians and others are closer aligned with market deadlines reducing the potential for suboptimal decision making on voluntary events, by way of example.

Go beyond all of this though and the possibility for a central 'announcement' market utility that all market participants could subscribe to begins to take shape. The benefits of having digitally notarised source accurate data available in a standard format ready for consumption on announcement day are many. To those at the end of the processing chain, it means they are able to understand the economics of any corporate action immediately and without having to wait for external providers to deliver their interpretation, which may, of course, be inaccurate.

Mernagh: The opportunity here is a chance to reorganise asset servicing for optimal processing. Corporate events, in particular general meeting and disclosure request messaging, are not optimally structured for clean quick processing. SRD II has pushed the development of new messages and the use of the MX format to be the market standard. This should allow for more straight-through processing and, overall, a more efficient industry; however, for this to work end-to-end, the onus is on the issuer community to provide all the required operational information to the central securities depository, as the first intermediary.

Jain: SRD II has introduced definite technical requirements to facilitate identification of shareholders, the transmission of information without delay and facilitation of the shareholder rights. These requirements provide enough impetus to the asset servicing industry to increase the transparency between the issuers and the investors.

The first transparency opportunity came in the form of the definition of a new ISO-based standard for shareholder identification, by the working group that included participants across the industry spectrum. The new standard has helped to harmonise the content around shareholder identity as well as automate the information flow between the issuers and the intermediary chain.

The next transparency, as well as efficiency opportunity, is on the meeting agenda and the proxy voting that will now be processed without undue delay through the intermediary chain. Using SRD II as a lever for driving change, the working group accepted and refined ISO 20022 proxy voting message set to standardise and structure the content for meeting announcements and proxy voting.

This has eventually led to more harmonised content and automation of information flow on AGMs and corresponding agenda.

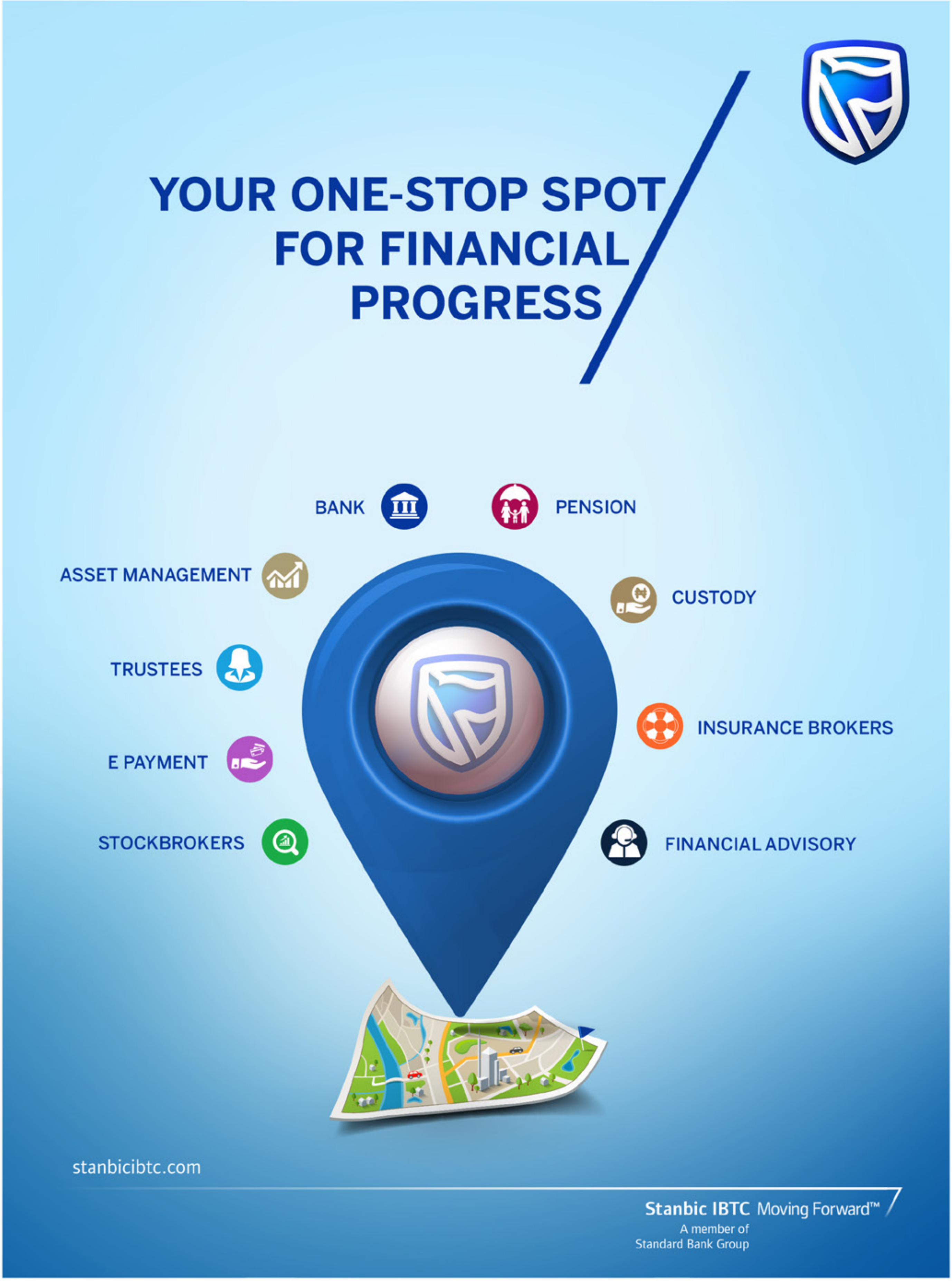
The end investors are expected to get sufficient time to review and deliberate on various agenda items before submitting their voting instructions.

Thus, in addition to increased transparency, the industry will benefit from the timely delivery of quality information for disclosures and AGM procedures by using automated messaging protocols.

Daniel Bardini: Opportunities can be seen at various levels. As an example, SRD II is providing transparency to the investors so it is an opportunity for companies to favour longer-term investments. It is also providing the base for more communication between issuers and investors, and this should strengthen relationships between players. The directive also provides issuers with more options to position and disclose their strategies in order to gain market share.

SRD II is a new type of corporate action designed with new flows and new standards aiming at more automation and more speed. This increased level of automation could be replicated for the other corporate actions, still quite manual, and for other lines of business in general, giving an opportunity to reduce costs and to improve profitability. For other players such as software vendors, it is an opportunity to build new solutions and to innovate in this space.

But this will also increase competition and it could be a threat for some intermediaries to be disintermediated on the mid-term. The way SRD II is designed could favour direct communication between issuers (or their representative) and their shareholders, without the need to involve intermediaries.



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The perfect fit

Maddie Saghir reports

With payments becoming faster, digital, frictionless and invisible, collaboration between fintechs and banks will be key for future innovation and development in the payments space

In a world driven by technology, the landscape of the payments industry has gathered more pace than ever before in the last 12 months.

The mixture of technology and innovation has encouraged industry players in the payments space to embrace new technologies to further improve the user experience.

The UK has been accustomed to faster payments for a while, so while it might seem like old news, but there are plenty of countries — even developed economies — that don't have a real-time payment service similar to faster payments.

Vinay Prabhakar, vice president, product marketing, Volante Technologies, suggests Canada is a good example of this.

However, Prabhakar says many countries are implementing real-time payment systems and traction has picked up in the last 12 months.

The ongoing COVID-19 pandemic has proven to be a catalyst in the adoption of digital payments especially contactless payments making it a table stake requirement for customers looking for new cards.

The resilience of the payments industry has been tested due to a sudden surge in transaction volumes. Santosh Tripathy, practice lead, digital payments of SmartStream, explains that the industry has responded brilliantly with greater collaboration between participants. Tripathy says: "There has been a steady rise in the adoption of real-time payments and open banking use cases across the board, which in itself is very promising."

Although the trends continue to be in the space of instant payments, open banking, blockchain, e-wallets, contactless payments and Central Bank Digital Currency (CBDC) initiatives, a very interesting trend, according to Tripathy, has been the inception and growth of domestic/regional card networks globally.

Tripathy noted that the National Payments Corporation of India (NPCI) has launched its international subsidiary NPCI International to take its popular instant payment service Unified Payments Interface (UPI) and card network RuPay to international markets.

Elsewhere, 16 banks from Germany, France and three other eurozone countries are working on a 'truly European' payments system that shall act as a rival to global card networks Mastercard and Visa.

images by christian_horz/adobe.stock.com

> *Often, these banks are focused on the ambition of becoming authorised and lose the long term focus of becoming a sustainable business or fail to appreciate the ongoing need to invest in systems and controls to ensure they remain commensurate with the evolving needs of the business*

Central banks globally are not only pushing and adapting to real-time payments and open banking, Tripathy says some of them are exploring the feasibility and benefits of CBDC.

Head in the cloud

The adoption of cloud is a trend that has been around for a while but has been heightened during the pandemic.

Although more of a technology trend, the number of banks that are committing to moving their payments processing structure to the cloud or working with fintechs who provide payments as a service in the cloud, is going up "significantly", according to Prabhakar. He suggests the pandemic has acted as a driver to increase demand and accelerate urgency.

"As a bank or financial institution, if most of your staff are working from home it doesn't make sense to run your own data centres. In fact, it is problematic if machines are housed in buildings and your staff cannot access them, this causes resiliency and business continuity issues, as well as security concerns", Prabhakar added.

Other advantages of the cloud include cost reduction and being able to reduce the operating costs of processing a payment by moving the same volume and the same customers to the cloud.

He explains: "That's a big deal because in a price competitive market it is hard to increase revenue and customers, but you can look to manage costs. With the pandemic, we are seeing a big focus on cost reduction and cost efficiency driven by that."

Interest in innovation

The payments industry and the regulators have slowly started to take cognisance of the lack of investments and innovation in the operations and control space, according to Tripathy.

The Prudential Regulation Authority (PRA) has launched a consultation paper "Non-systemic UK banks: The PRA's approach to new and growing banks" to discuss how to supervise and manage new and growing non-systematic UK banks.

Tripathy says the PRA has noticed that many of these new banks have underestimated the development required to become a successful and established bank.

"Often, these banks are focused on the ambition of becoming authorised and lose the long term focus of becoming a sustainable business or fail to appreciate the ongoing need to invest in systems and controls to ensure they remain commensurate with the evolving needs of the business", he added.

The lacunas in the operations control has shocked the payments industry time and time again with its "ill-effects" causing financial and reputational risks for organisations.

Tripathy explains that the collapse of Wirecard is a case in point on how the industry can avoid such shocks with appropriate checks and balances.

But, the good news is that the industry need not wait as the technology and relevant solutions are available that can be leveraged immediately, he suggests that innovations in artificial intelligence and machine learning "could not have come at more of an opportune time".

Elsewhere, Prabhakar notes that there is not a lack of innovation, it is not evenly distributed.

Using the example of cross-border payments, he says: "It used to be that if you wanted to move money from one bank account to another and one country to another then as a bank, SWIFT was one of the only options but now both banks and consumer businesses have a lot of options."

More options such as Ripple, which has a blockchain-based network, Visa B2B, TransferWise, Paypal Xoom, among others, have been introduced to the market. The availability of the new platforms is the result of innovation in the last few years.

However, Prabhakar identifies that innovation is only happening in certain areas; innovation is being experienced more so by fintechs and challenger banks rather than by traditional banks.

A lot of traditional banks are changing at a slower pace and still offering the same corporate and small business services that they were one year, two years, or even five years ago.

However, he suggests this is "on the cusp of change" as banks need to be more competitive and look at the different ways to deliver new services to their end clients.

Also weighing in, Andy Schmidt, global industry lead, banking at CGI, says: "There isn't a lack of innovation in payments in terms of technology, rather, there is a lack of imagination in terms of use cases for this technology."

For example, Schmidt asks why has it taken so long for faster payments to catch on?

"There is a lack of compelling use cases and value creation given that there are plenty of other payment rails that are fast enough", he adds.

Is collaboration key?

Collaboration can come in many shapes and sizes. Some of the best collaborations are between traditional banks and fintechs as they have an extremely complementary approach, working hand in hand to learn from each other.

Tripathy believes that collaboration within the payments industry is the way forward to approach the challenges for participants whether it be in the form of share, survival or growth. He explains: "There is no need to shelve important but time-consuming enhancements for the want of time and resources. The industry can leverage the specialists to handle it for them. The payments industry is looking to outsource some of the routine but critical functions in operations to partners."

> *There is no need to shelve important but time-consuming enhancements for the want of time and resources. The industry can leverage the specialists to handle it for them. The payments industry is looking to outsource some of the routine but critical functions in operations to partners*

It was noted that it would allow "transparency, greater control and would free resources to focus on their key functions".

While banks are not as good at being agile, providing new product development or customer experience, fintechs are able to deliver those qualities. And on the other hand, banks are very good at regulatory compliance and trusted by the industry, something that fintechs could be seen to lack.

Experts also affirm that the size of the firm is not really relevant. Prabhakar notes that whatever the size, the fintech must be the right fit for the bank, for example, banks should look to partner with firms that have modern technology stacks that can think and move like tech startups.

Firms of any size, if they are structured correctly can move very quickly. He says: "There is no one right way of working with fintechs either, it could be a pure partnership-based collaboration or it could be that the bank makes an investment in a fintech. Sometimes banks create their own fintech subsidiaries. Collaboration has many different flavours regardless of size."

Digital banks licensing norms would be eased even further and we shall see new entrants.

I am also expecting central bank digital currencies to gain traction in addition to other blockchain-based payment solutions

Elsewhere, Tripathy suggests the payment industry is on the cusp of "momentous revolutions that would change the world of payments we know".

The payments are becoming faster, digital, frictionless and invisible.

He says: "The ecosystem is changing and rewarding the ones most responsive to change."

Schmidt also stresses the importance of collaboration in payments, highlighting how "essential" it is right now.

"The fintechs play an essential role in that this is where many of the groundbreaking opportunities continue to come from," Schmidt said.

However, he believes the challenge is in getting the banks and the payment networks to adopt and adapt these ideas into meaningful customer outcomes and revenue streams.

What's next?

The challenges are often intermingled with the opportunities so, despite the challenging demands of the pandemic, opportunities in innovation can be made in this space.

Experts predict an expansion of real-time payments and open banking use cases.

Artificial intelligence, machine learning, blockchain and cloud-based technology will drive innovations and fintechs will continue to push the boundaries along with challenger banks, according to Tripathy.

He adds: "Digital banks licensing norms would be eased even further and we shall see new entrants. I am also expecting central bank digital currencies to gain traction in addition to other blockchain-based payment solutions."

Although it is always hard to make predictions, because of events such as the ongoing COVID-19 pandemic, Prabhakar suggests that because banking and payments are essentially stable industries, there will be innovation and further change.

He believes this change will be based on an acceleration of existing trends rather than the birth of brand new ones.

"For example, an increase in digital payments volumes with more banks moving to the cloud, which is going to become the norm for delivering payment services. In eighteen months the industry will still be grappling with the impacts of real-time payments, ISO 20022, and open banking, so any truly new trend would not kick in until later," Prabhakar adds.

These new payment services are more likely to be delivered by fintechs rather than banks in collaboration environments. He notes that there will be more real-time experiences, greater use of the data in ISO 20022, which will help drive analytics as well as the kind of data that is common in other areas such as social networks.

He concludes: "When you consider social networks, they are essentially running their businesses on the data in their networks. Today, banks make very little use of the payment data that flows through their accounts and I believe we will see more use being made of that data as is possible from a regulatory perspective."

Rising above the surface

Maddie Saghir reports

India's financial services market is continuing to grow from strength to strength, with some experts arguing the country should now shed its tag as an 'emerging market' because of its success

It's one of the most important markets for asset managers and consequently for asset service providers too. India made a name for itself in Asia's market since its National Stock Exchange began operations in 1994. But the regulation requirements in India are often described as "cumbersome" and "ever changing".

With the emergence of boutique investment managers in India, servicing requirements are getting customised accordingly. Effectively, fund accounting and regulatory reporting are being bundled with custody services.

Most custodians are currently working towards Securities and Exchange Board of India (SEBI) reporting along with holding securities and accounting.

SANNE's India head of business development Khushboo Chopra says that the ever-changing regulatory framework can lead to change in underlying systems and platforms.

Chopra comments: "A good example being the latest change in margin requirements for cash equity trades/introduction of physical settlement in the derivatives segment and intraday monitoring of limits by clearing members for derivative trades, which is being introduced from 1 January 2021."

Amid regulatory challenges, technology is beginning to take centre stage in order to achieve operational efficiency and maintain customer engagement. Technologies like artificial intelligence (AI) have the ability to remove manual tasks and enhance the regulatory reporting process and this is particularly making waves here. In addition, asset servicing companies are moving from straight-through processing (STP) to no-touch processing (NTP) in India.

More positive news for India is the flourish of growth in the alternatives industry which is demonstrating an increase in money and pension funds.

There is also a sharp shift in asset allocation to India as well, which comes as the people of India pay less attention to traditional avenues such as gold, and more towards financial assets.

India can also proudly boast of having an extremely successful futures and options market (F&O). Last year, India's National Stock Exchange traded approximately 6 billion derivative contracts, which represented a 58 percent year-on-year growth — the most in the world.

Anuj Rathi, head of securities services, India, HSBC, explains: "The exchange has been a pioneer in using technology to bring exchange products within greater reach of retail investors along with institutional investors. A steady supply of new products and a robust risk management framework have further supported the growth."

The momentum of this success is expected to continue with product innovation, reducing the cost of transactions and encouraging a wider participation from domestic investors.

"This trend and appetite will continue with the bulls seemingly using any decline as a buying opportunity," predicts SmartStream's senior vice president of Europe, the Middle East and Africa (EMEA) Pritesh Kotecha.

Opportunities ahead

Amid success in India's capital markets, experts suggest there will be a corresponding growth in demand for the asset servicing industry as well.

Opportunities include traditional asset classes serviced via the usual brick-and-mortar asset servicing model catering to both foreign and domestic investors; newer products and areas such as GIFT-City, commodities etc; and the burgeoning outsourcing industry, which has already seen several large asset service providers set up shop to handle their global back-office operations.

While these opportunities will require innovation and technology, HSBC's Rathi says there is a need to "simplify and broaden" the regulatory scope for what can be outsourced by investors to further allow asset service providers to put forth unique solutions.

"The focus also needs to shift from pure back office, as currently is the case, to the inclusion of mid-office activities that will provide further impetus for the asset servicing industry to grow. Such regulatory changes will create a paradigm shift, allowing the asset servicing industry to capture the opportunities through full use of data and technology-backed solutions," says Rathi.

Further opportunities here include servicing family offices and continuing the focus on offshoring asset servicing work to India.

On the technological side of things, keeping costs down will be key when using technology to unlock opportunities, specifically when it comes to data opportunities.

Now more than ever, people are seeing the art of creating, capturing and utilising data as a top priority as it can open up all kinds of revenue opportunities and empower decision making.

Rathi affirms: "Disruption through data and technology is very real and very visible in the current times, with asset servicing participants and the regulators continuously looking to use technology to enhance the customer experience."

For example, in its quest to digitise, SEBI has introduced a common application form (CAF), an online platform to simplify the registration process for foreign investors.

Elsewhere, technology such as robotic process automation (RPA) is showing the potential to deploy data and technology solutions to further improve ways of working, and it is just at the tip of the iceberg.

"As assets under administration and assets under custody (AUA/AUC) volumes grow, the winners will be those that have deep partnerships with fintech firms who already provide rich and deep AI capabilities in order to drive both efficiencies and revenue opportunities. AI is not the answer to everything," says SmartStream's Kotecha.

However, he warns AI is not the answer to everything. Instead, he stipulates that "focus has to be myopic to address specific and persistent problem areas rather than the traditional 'mile wide' approach".

According to Koteca, they are already seeing results from both international and domestic players who have engaged with companies who have already embedded AI to remove manual tasks within reconciliation and trade breaks, trade processing, and reporting for regulators and clients.

Offering further potential opportunities in India is the Vajra Platform, a distributed ledger technology (DLT) system for automated payment, clearing and settlement, which the National Payments Corporation of India (NPCI) is set to introduce.

Distributed ledger has the ability to give control of all its information and transactions to the users and can promote transparency. Back in January, NCPI highlighted that a permissioned network will be set up so that only the parties who have been approved by the Network Administrator can be a part of the network.

“This platform will be beneficial for payment companies to make their process seamless also in addition DLT will help in making it easier to track and resolve payments. In addition to securing payments, this blockchain-based technology will also help the Unique Identification Authority of India (UIDAI) in facilitating Aadhaar authentication,” comments SANNE’s Chopra.

Meanwhile, RBI has also shown interest in developing India’s own digital currency in India and is thinking about developing a sovereign digital currency in the country and will be releasing it appropriately.

Chopra highlights: “This is a truly world leading initiative and could help India leapfrog ahead in the DLT space.”

An established market

So while much of the asset servicing space in India has experienced growth, can it still be said that India is an emerging market? According to experts, India is the fifth-largest economy in nominal terms and the third largest in purchasing power parity terms. It also remains one of the fastest-growing major economies.

“If Plato’s claim that ‘Necessity is the mother of Innovation’ is to be embraced, then the next few years should represent a perfect storm for India’s asset servicing space,” says Kotecha.

Rising AUA/AUC coupled with the promise of AI technology to reduce costs by 30 to 40 percent, driven by India’s mature and bullish investors, points to opportunity and growth.

> *A key challenge is to ensure domestic asset servicing players capture their fair share of this opportunity and do not allow the international giants to take all of the Rabri*

But choppy waters and the current climate with challenges around COVID-19 have rocked the boat slightly and could potentially capsize this going forward.

“A key challenge is to ensure domestic asset servicing players capture their fair share of this opportunity and do not allow the international giants to take all of the Rabri.”

India also recently encountered a setback on GDP numbers, but HSBC’s Rathi highlights India is expected to bounce back strongly as the fundamentals remain strong fuelling a percent plus growth rate post pandemic.

Rather a double-edged sword, the pandemic can also be seen as an opportunity for India to undertake major reforms that could help benefit the market even further. While India’s F&O market, for example, is developed, corporate debt markets could be improved to achieve an established status. Labour and land reforms as well as improvements to the privatisation and divestment programme could also help further strengthen the momentum.

“The best way to keep the momentum going is for the policy-makers to create an environment for wider investor participation such as retail, domestic and cross-border institutional. A broader market is not only deep but it also helps steer it towards efficiency and innovation that will be the key in times to come. Indian markets will surely benefit by inclusion/ increased weightage in global equity and bond indices and there should be a concerted effort towards the same.”

“As a conclusion, it is probably time for India to shed the tag of an emerging market,” concludes Rathi.

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What has COVID-19 done for the cause of green finance?

Guernsey Finance ran a webinar as an official event of Climate Week NYC which drew a high-level panel. Here we highlight the key contributions from Guy Hands of Terra Firma, Gillian Tett of the Financial Times in the US, and Anastasia Amoroso of J.P. Morgan

I see a very strong link between the health care issue and the climate change issue. At the beginning of the pandemic, many hailed the fall in CO2 emissions when the economies shut down and CO2 emissions fell. But the real lesson learned here is that climate change is not about shutting down certain economic activities, it's the ability to carry out that activity, but in a cleaner and greener way.

I think the role of private capital in carrying out these cleaner and greener solutions is very much top of mind for investors. We've had significant interest from investors, especially this year, not only in putting money to work in ESG assets, but also really seeing some of those returns come through.

Investors over the years have had to choose the morally responsible thing to do against the one that's going to gain yield and financial results. Those two stars are finally aligned today. Investing in climate change and renewables is no longer just a responsible thing to do, it's increasingly the economic thing to do.

We are seeing significant growth in the ESG funds that are being offered globally, and, importantly, in the assets that are flowing to those funds. We've seen billions of dollars going into ESG assets, and I don't think this is coincidence or an off year. This is the start of what is going to be a longer-term trend.

At J.P. Morgan, we're making 100 percent commitment to ESG integrated assets, so all of the funds that we have on the platform already take into account the financially material ESG factors, and I think that's here to stay.

This is not just the right thing to do, this actually makes sense for the portfolio, because that's where returns are. This is going to go from niche to mainstream over the next few years.

Anastasia Amoroso
Executive director
Head of investment strategy
J.P. Morgan Private Bank

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I was brought up believing that we were meant to leave the world a better place for the next generation, and I have to say I don't think my generation has been successful in doing that.

But it is clear to me that the younger generation is really focused on environmental issues and any major company, any major brand, will ignore them at their peril.

I really believe that the youth of today have a very different agenda, and it's much more about a balanced world. It's about sustainability, it's about being willing to give up economic growth for a better environment.

And if big companies miss that trend, my personal view is they won't succeed very long.

We owe it to our children and their children to start making some really passionate moves. We are spending trillions on COVID-19, and if we spent similar sort of money on trying to find some real positive solutions on how the world can develop, but at the same time not destroy itself, we would make enormous progress.

Guy Hands
Chairman and founder
Terra Firma

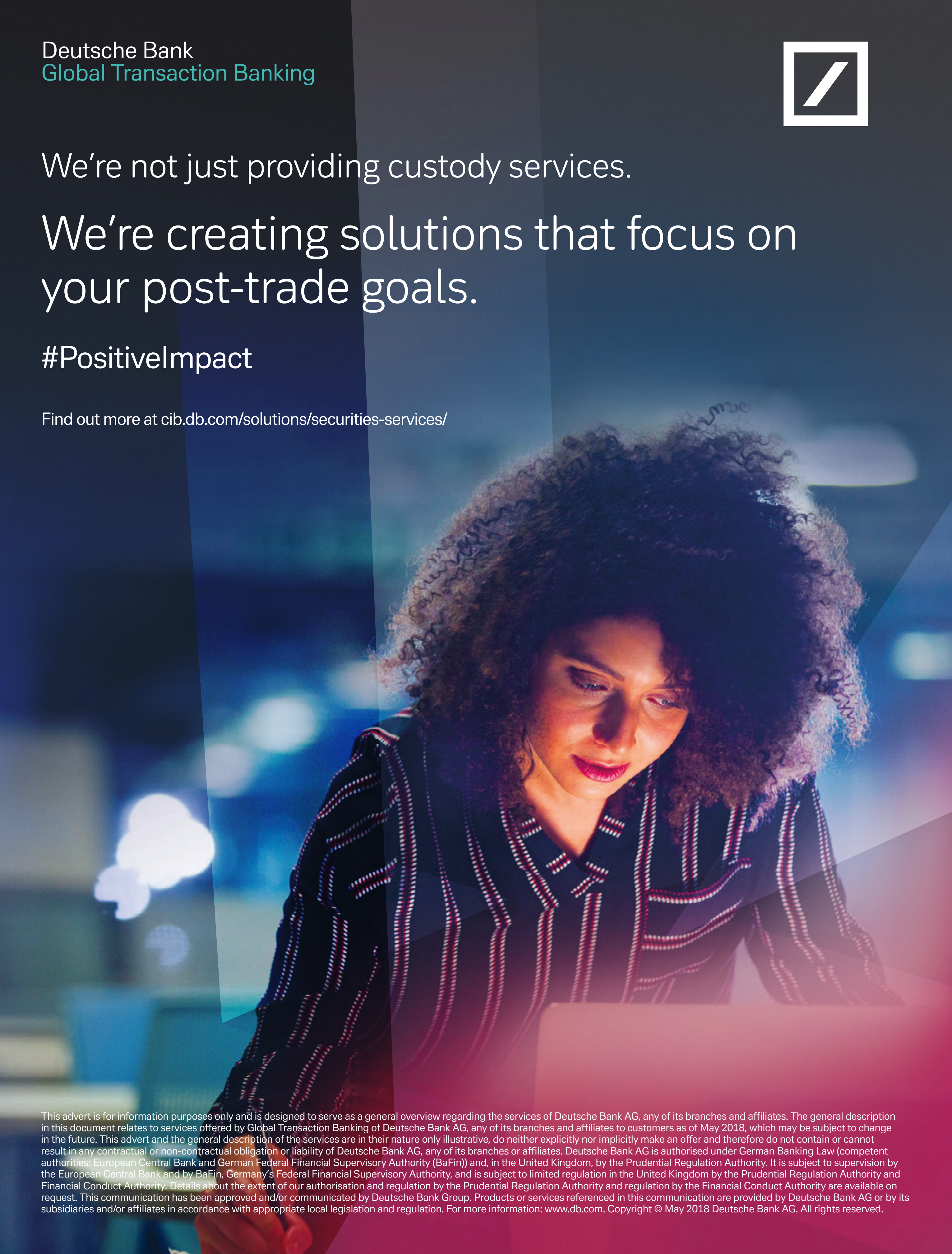
We wondered if COVID was going to completely crowd everything out, and in fact, quite the reverse has happened. We've actually seen a dramatic increase in reader interest on Moral Money, the FT's platform on environmental, social and governance (ESG) investment.

One of the most interesting things about what we're seeing from the Moral Money platform is our engagement levels and the degree to which people open the email and pass it on to colleagues is much higher than for any other topic, which makes me think there's a real grassroots information snowball happening, as people tell other people inside companies that they need to pay attention to this stuff.

This has tilted the balance away from just E in ESG, towards the S and G as well, but they are interrelated. And I think the climate crisis and the pandemic has shown us three things.

Firstly, science matters and you ignore that at your peril. Secondly, we do live in a globally interconnected world. And thirdly, that behavioural change is possible, not just at the individual level.

Gillian Tett
Editor-at-large, US
Chair of the editorial board
Financial Times



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Traiana on the buy-side's increasing adoption of post trade technology

Head of product strategy for CME Group Traiana Steve French discusses how the buy-side is adopting the latest post-trade technology

How has the post-trade world been impacted by the COVID-19 pandemic?

The current situation has been dominating every aspect of the financial markets and our day to day lives. It's also impacting Traiana on a number of different levels. We have seen huge increases in trade volumes across our network for all asset classes. All our staff have had to work from home, but all required connectivity, allocation processing, and matching, all the way down to the end of the trade lifecycle at settlement and clearing have worked extraordinarily well.

How big does a fund need to be before it considers post-trade solutions offered by Traiana?

With everybody we work with from the tier ones to the smaller hedge funds, we always find some element of manual processing that takes place – whether that's from the front to the back office or down to settlement. So, it's not about the size – it's about the number of counterparties. Whether there have been any acquisitions resulting in multiple internal systems, is there one system looking after just one asset class?

We think that most things can be automated. So, it's not so much the size – it's a mindset change to see which manual post-trade services can be automated. It is technology, now more than ever, that is going to be helping people during this difficult period.

> *"We think that most things can be automated. So, it's not so much the size - it's a mindset change. It is technology, now more than ever, that is going to be helping people during this difficult period"*

Where would you expect hedge funds to increase their spend in the coming months?

With the post-trade side of things, it's more about reconciliation – so looking for those optimisations in the post-trade processing trade lifecycle. People are thinking more holistically about what problems they have today, and how and where they're going to save money.

Where is the change coming from?

Most of the industry has been focused on regulation, since 2008 and before with the first Markets in Financial Instruments Directive (MiFID I), so we've had a whole generation of people working on nothing but regulation with a lot of investment in the front office, and not so much the back and post-trade side of things.

There will always be innovation in the front office, but what we're seeing now is clients looking to optimise post-trade events. There's operational cost, and where there's cost, there's operational risk. Most of the conversations that we're having now are around how to smooth out those touch points.

Clients are asking, rather than having multiple connections out to multiple vendors, can I do it using a more consolidated vendor approach? At one extreme, people are looking at blockchain and maybe moving to a quicker settlement model. The best thinking now is focusing on how you can reduce the cost, looking at every single process that you've got in-house, and then thinking about where you can automate.

Which asset classes are taking up the most time and why?

Historically, everybody looked at asset classes and different securities in silos. And what we're seeing now, especially from the buy-side, is a push to standardise along with the greater usage of industry-standard protocols, such as FIX, to try to move everything to look almost the same on T-zero (on trade date) and then on T-plus. Then you've got nuances, whether it's an interest rate swap or whether it's a synthetic instrument – things have to be dealt with differently. But there's definitely a push, led by the buy-side, to try and move everything to look the same from execution to trade matching, and the brokers themselves are actually stepping up to the plate with this approach as well. It will take a few years, but what you are going to see is this consolidation down into common workflows using industry-standard protocols.

We're seeing a move to an event-driven architecture. You can interact with your front-to-back office system if you've got one, or your separate front and back-office systems. You look at the events to see if there are any exceptions, and only if there are any, do you then do your break management processing, so you don't have to reconcile all the way through. It's going to take a

"There is definitely a change now. There will always be innovation in the front office, but what we're seeing now, is that clients looking to optimise post-trade events"

while for everyone to get to this model, but this is where the real efficiencies are going to come from, and this is where the sort of intelligent thinking is right now.

In terms of pre-and post-trade technology investments, where are you guys investing?

We're investing a lot in Traiana right now.

We're moving to a cloud-based, micro-service driven architecture, and that's going to pave the way for us to be able to consolidate our asset class processing as well.

We already have the first releases coming out this year, benefitting many of our buy-side clients.

You can immediately gain operational savings. For example, connectivity costs can be minimised because you're all connecting across the same robust infrastructure.

Traiana has an extensive network of all different kinds of market participants.

Due to industry demand, we are also investing heavily in self-service technology.

Many buy-side firms have a lot of funds that they manage, many accounts with different names.

Brokers know these funds by different names and tying all of this up has been a long-standing industry problem.

So what we're doing now is empowering hedge funds and asset managers to be able to maintain a lot of these fund names themselves.

To analyse breaks in the system based on the alert service, and then actually remediate: do what they can, tell them how they can remediate those trades, and actually get these trades played back into the system if need be. This is all coming online this year.

When you're onboarding people to new technologies, how do you get them comfortable with your process?

The key thing is, you need to have things running in parallel.

You have to ask clients, "Do you want to take the opportunity to connect differently, to do some testing with us?" because this is the trigger point where you can actually start making in-roads into these operational efficiencies.

If you just move everything over wholesale and do the monitoring in isolation, then I think people are missing a trick, and we're really pleased with the interaction that we're having with the buy-side as well as the sell-side on this.

The other thing that's key is that it's so easy to test a sunny day scenario – does a trade flow through the system?

Yes, of course, it does.

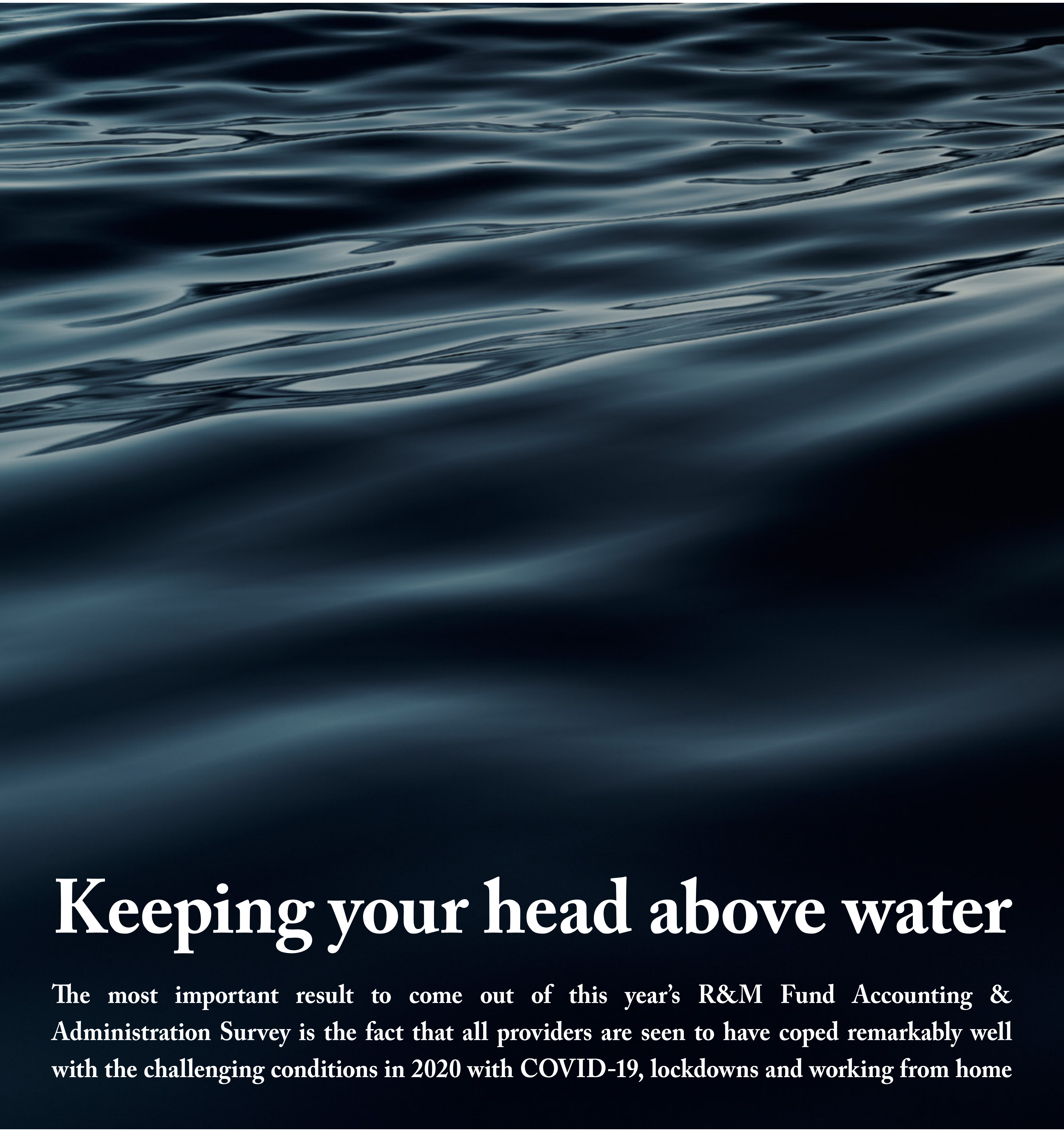
So, you must consider all of the outside events - amendments and cancellations, all of the things that might take place when you don't expect them, and on T+1. That's where the tough testing comes in, and that's where all the hard work has to be put in.

How technology can be trusted to manage the process in its entirety?

There is no need to create a huge project. Often, we find that we need to take out manual processes that are currently used for reconciliation.

We find that there's always opportunity here, even with the smallest clients.

*Click **here** to find out more about Traiana's services.*



Keeping your head above water

The most important result to come out of this year's R&M Fund Accounting & Administration Survey is the fact that all providers are seen to have coped remarkably well with the challenging conditions in 2020 with COVID-19, lockdowns and working from home

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Overall

	Overall Score	2020	2019	Change 20/19
1	RBC I&TS (4)	6.24	5.99	0.25
2	HSBC Securities Services (1)	6.20	6.25	-0.05
3	Northern Trust (3)	5.95	6.04	-0.09
4	JP Morgan (7)	5.87	5.33	0.54
5	State Street (2)	5.86	6.18	-0.32
6	Societe Generale SS (6)	5.64	5.37	0.27
7	BNP Paribas (5)	5.50	5.73	-0.23
8	BNY Mellon	5.39		
9	Citi	5.01		
	Overall Average	5.95	5.96	-0.01

Ireland

	Ireland	2020	2019	Change 20/19
1	HSBC Securities Services (1)	6.69	6.33	0.36
2	RBC I&TS (2)	6.35	6.22	0.13
3	Northern Trust (3)	6.06	5.88	0.18
	Overall Average	6.35	6.14	0.21

UK

	UK	2020	2019	Change 20/19
1	HSBC Securities Services (2)	6.12	6.24	-0.12
2	Northern Trust (4)	5.88	5.97	-0.09
3	State Street (1)	5.81	6.39	-0.58
4	BNP Paribas (3)	5.50	5.73	-0.23
5	BNY Mellon	5.39		
6	Citi	5.23		
7	JP Morgan (5)	5.38	5.10	0.28
	Overall Average	5.82	5.96	-0.14

Luxembourg

	Luxembourg	2020	2019	Change 20/19
1	RBC I&TS (3)	6.13	5.74	0.39
2	Northern Trust (2)	6.11	6.07	0.04
3	JP Morgan (4)	6.06	5.52	0.54
4	HSBC (1)	5.82	6.18	-0.36
5	Societe Generale SS (5)	5.53	5.10	0.43
	Overall Average	5.96	5.82	0.14

Becky Bellamy reports

A very different year from any other we have experienced, with the large numbers of employees working from home, new challenges and agendas reprioritised. Unlike a lot of events this year, the R&M Fund Accounting & Administration Survey still went ahead as planned.

The survey, which was conducted between June and September, received responses from 87 fund managers.

The survey questionnaire asked a total of 38 questions broken down into six categories covering core fund accounting and administration, fund valuation, communication, approach and flexibility, quality of personnel and value for money.

Although there were some interesting results from this year's survey, the most important results to come out of the survey is the fact that all providers are seen to have coped remarkably well with the challenging conditions in 2020 with COVID-19, lockdowns and working from home.

One respondent said: "RBC are positioning themselves as a role model in how to effectively transition their business to a work-from-home arrangement with no impact on their deliverables."

This comment could have applied to any of the providers, all having dealt well with new working arrangements.

Another survey participant, discussing State Street's service, revealed they acted "exceptionally well managed and we were kept informed with regular updates".

"There was some delay in pricing during the initial phase of the pandemic due to volatility and delays from third parties. But we were kept informed each day with estimated delivery times," they added.

On Northern Trust, one respondent explained: “From a service perspective we have not seen any decline in service or had any issues related to the day to day operations of our fund and the provider has done a good job of communicating updates to their remote work situation and plans to return to the office as they continue to develop.”

“The biggest compliment I can pay is we wouldn’t even know the staff weren’t in the office. There has been no deterioration in the service levels whatsoever,” said another manager about HSBC.

All in all, fund managers have given a ringing endorsement to the well-laid contingency plans of providers that have now been tried and tested for real.

Overall results

The 2020 overall results showed RBC Investor and Treasury Services (RBC I&TS) regaining the top spot, pushing HSBC into second place. Meanwhile, State Street slipped into fifth and Northern Trust held onto third place. J.P. Morgan witnessed the most significant gain, jumping 0.54 points into fourth.

The majority of respondents were very satisfied with service levels at most providers.

One manager commented: “RBC set themselves up as a class-leading administrator, speaking from personal experience from working with numerous administrators in the market. Communication is important from a client perspective and there is little to fault with RBC. Any questions are met with a timely considered response or at least the promise to provide one.”

Elsewhere, another stated: “Northern Trust has been exceptionally efficient and very supportive to all our requests with great willingness to be flexible whenever we had issues that needed sorting out. They were very fast to respond and very professional in all the advice and support they gave.”

UK

In the UK State Street lost its first place, being pushed aside by HSBC followed by Northern Trust in second. Out of all the service providers, J.P. Morgan had the only gain of 0.28, even though it dropped from fifth to seventh.

Commenting on HSBC’s service, one respondent said: “We have a large number of complex accounts. All require the staff at HSBC to be responsive to queries when issues arise. Our experience over a number of years is that the team, especially on the client relationship side is exceptionally knowledgeable and responsive to our requests.”

Elsewhere, a Northern Trust client stated that the speed of response to queries was very client centric and attentive while transaction types did not encounter anything that Northern Trust couldn’t handle.”

Ireland

In Ireland, HSBC came top once again gaining 0.36 on last year’s score. RBC remained in second place with 6.35, an increase of 0.13 from 2019’s result. The third bank to qualify was Northern Trust totalling 6.06.

“The team at HSBC provide an exceptionally timely and accurate service. Regular key performance indicator meetings keep us well informed with detailed and knowledgeable explanations being provided,” according to one survey participant.

Meanwhile, an RBC client said: “Every person we deal with (at RBC) communicates in a clear and consistent manner, always providing timely feedback and information for any requests or inquiries made.”

Luxembourg

Finally, in Luxembourg, RBC edged ahead of Northern Trust to take first place. HSBC fell back to fourth, dropping 0.36 from its score last year. The biggest increase was from J.P. Morgan who scored 6.06, compared to 5.53 in 2019.

Societe Generale remained in fifth place but did increase its score by 0.43, taking this year’s total to 5.53.

One survey participant revealed: “The accounting and administration team are always up to speed on current issues, quickly resolving any potential problems in a proactive manner so as not to impact the daily net asset value pricing. RBC are flexible in their approach to providing a top-class service.”

Another highlighted that Northern Trust has been “exceptionally efficient and very supportive indeed to all our requests with great willingness to be flexible whenever we had issues that needed sorting out. They were very fast to respond and very professional in all the advice and support t hey gave”.

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Investors are driving demands for economic substance

Guernsey Finance's Rupert Pleasant reflects on the importance of economic substance in determining a domicile for investment funds

Over the past couple of years, economic substance has become a growing global issue.

The launch of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) and EU substance provisions, along with evolution in the global tax environment since the global financial crisis, means the global marketplace has changed and continues to change, as domiciles address the need to demonstrate economic substance.

There are concerns from managers on the potential impact and rising costs of meeting these requirements – but they are being superseded by the need to adapt.

Substance is proving primarily important to general partners and fund managers – after all, they are the entities that have to comply with the requirements. But compliance with economic substance is relevant to a jurisdiction's reputation, and an investor would not necessarily want to be seen to be investing in a blacklisted jurisdiction. So it is becoming an increasingly important issue on both sides of a fund.

The role of the investor has escalated rapidly in recent times.

Their needs may not have changed, but Guernsey-based administrators said that investors were seeing economic substance as a way to stamp their authority on the choice of domicile. "Investors don't want to be going to jurisdictions which may not give them the protection they need," one said.

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Managers accept that client demands are now becoming paramount. The investment world has moved from almost a "rinse and repeat" with fund launches before the global financial crisis, to one where there is enhanced manager knowledge about jurisdictions, and clients seeking more bespoke structures, including funds-of-one and private investment vehicles.

An increasingly-educated client base matched against a changing regulatory landscape have influenced LP demands, and products, such as Guernsey's Private Investment Fund (PIF), available only to a limited number of investors and offering lighter touch regulation and quicker regulatory approvals, has emerged as a result.

While jurisdictions such as Guernsey have had only to make relatively minor legislative changes to accommodate economic substance compared to others, more recent amendments introduced locally have opened up a new fast-track migration and licensing regime for funds and managers, which was followed by new regulations allowing the migration of limited partnerships into the island. This has been met by increased interest in migration inquiries from a range of jurisdictions, driven, it appears, by demand for economic substance, or the opportunity to simplify structures and streamline activities for both tax and substance reasons.

Experience of service providers on the ground helped to reinforce the island's economic substance position, and, indeed, the focus on that issue has definitely led to Guernsey's investment funds industry being more competitively placed and strongly positioned in the global market.

A Guernsey lawyer said recently that quality of service providers and substance on the ground should be seen as a key factor in domicile choice.

Guernsey recently launched its first cannabinoid healthcare fund. The island was chosen from five jurisdictions to domicile the fund, and chose Guernsey, in part, because it was transparent and clear on the policy of cannabis regulation.

There is no doubt that they could not have launched the fund from any jurisdiction – it is a move which reflects well on Guernsey both in diversifying into an innovative asset class, and demonstrating the quality of service providers.

This mix of stability and innovation reflects what most managers would be seeking from a domicile.

From the operational perspective of the manager, the launch of a new product is always a high execution risk. The domicile needs to be able to assist in mitigating that risk – designing products which are innovative and meet demands for product or distribution channels – and all jurisdictions set out to do that.

But also critical is the manager being absolutely clear on what they want the fund to achieve and their investment strategy.

There are advisers and experts who can guide them through that process to make sure they find the right domicile, in terms of experience, stability, location and the right regulatory regime, but having that clear picture of what they want the fund to do is critical.

> *Experience of service providers on the ground helped to reinforce the island's economic substance position, and, indeed, the focus on that issue has definitely led to Guernsey's investment funds industry being more competitively placed and strongly positioned in the global market*

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CEO
Guernsey Finance

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Building Responsible Partnerships

BNY Mellon has appointed Laura Steinbach, formerly of State Street, as head of investment managers sales in the Americas, based in New York.

Reporting to Jane Mancini, global co-head of asset servicing sales, Steinbach will be responsible for leading sales and business development efforts in the Americas for investment manager clients.

Additionally, she will oversee new revenue development, pipeline management and designing go-to-market strategies.

Most recently at State Street, Steinbach was responsible for introducing and expanding the firm's business servicing the world's most complex global investment managers.

Prior to her role with State Street, she was part of J.P. Morgan's corporate and investment bank, responsible for growing the firm's relationships with international banks and broker-dealers.

Commenting on the appointment, Mancini said: "We are delighted to welcome Laura Steinbach to BNY Mellon.

"Steinbach's robust sales and business development experience will be invaluable as we continue to advance our strategic dialogue with our clients and work to drive client-centric and global digital solutions."

Steinbach added: "I am excited to join BNY Mellon and look forward to partnering with my new colleagues in support of our clients' priorities and business needs."

Apex Group has hired Ross Webber as managing director to lead the business and continue the development of the firm's business in Bermuda.

Webber will report to Georges Archibald, head of Apex Americas and also work alongside Graham MacDonald, director of operations, for the Bermuda office.

Previously, Webber served as CEO of the Bermuda Business Development Agency.

Most recently, he worked as principal of management consultancy BDSbermuda and a director of wealth management firm Peregrine & Black. He joins Apex with 25 years of experience in financial and professional services including a decade as global head of marketing and business development for Conyers Dill & Pearman.

Peter Hughes, founder and CEO of Apex Group, commented: "We are pleased to welcome such a highly respected member of the Bermudian business community to Apex. Ross Webber brings an unparalleled network and deep local expertise to his position as managing director of Apex Bermuda."

Hughes continued: "The innovative legislative and regulatory developments implemented in Bermuda over recent years have created a highly responsive capital market for investors and Ross will play an invaluable role in pursuing this growth opportunity."

Commenting on his appointment, Webber added: "I am excited to be joining one of the world's largest independent providers of fund administration, financial services and corporate solutions. In recent years, I have watched with interest as they made strategic acquisitions while also nurturing organic growth."

Diginex, a digital assets financial services company, has appointed its board of directors, following its listing and commencement of trading on Nasdaq.

The new board of directors, which meets the required standards of corporate governance for a Nasdaq-listed company, consists of three executive directors and four non-executive directors, each of whom meets applicable independence standards under SEC and Nasdaq rules.

Executive directors of the board will comprise Chi-Won Yoon, who will lead the board as chairman, Richard Byworth, the company's CEO, and Paul Ewing, the company's chief financial officer.

Meanwhile, non-executive board members include Lisa Theng, who has been in legal practice for more than 28 years and is the managing partner of CNPLaw, Richard Petty, a board member of the International Federation of Accountants (IFAC) and a member of IFAC's public policy and regulatory advisory group.

Further additions include Paul Smith, who was most recently president and CEO of CFA Institute; and Andrew Watkins, a former partner at PwC Hong Kong and Mainland China.

Yoon commented: "I am delighted to welcome Lisa Theng, Richard Petty, Paul Ewing and Andrew Watkins to the Diginex board, each of whom brings distinguished expertise and experience from a wide range of backgrounds."

For all the latest industry appointments visit www.assetservicingtimes.com

TMF Group, a global professional services firm, has appointed Kwame Lewis to the newly created role of head of fund services for the North America region.

Reporting to Andrew O'Shea, global head of fund services, and to Jan Willem van Drimmelen, market head for the North America region, Lewis will support and accelerate the growth of TMF's fund services unit in North America.

Lewis joins from ACON Investments, a middle-market buyout private equity manager, where he worked as chief financial officer.

Prior to that he spent 16 years as an auditor for PwC, focusing on private equity and venture capital funds.

Drimmelen said: "Kwame Lewis' arrival greatly advances our fund services offering for private equity, venture capital, real estate, private credit and other managers of closed-end funds. He is well-known among his peers and widely viewed as an innovator."

Lewis added: "I am excited to bring my experience as a fund manager CFO to TMF Group's fund administration business. TMF represents a hugely exciting challenge, it has a unique global footprint and has all of the resources needed to be a leading fund administration provider. I'm looking forward to helping the firm continue its fast growth."

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