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...pick yourself up and try again

To give this magazine any one theme seems curiously at odds with the location of this year's Sibos conference.

Dubai, and by extension, the Middle East, cannot be lumped together into any one category. Considering that, traditionally, the region is thought to encompass countries from Cyprus to Lebanon, it is little wonder that economies, cultures, landscapes, and even climates are all incredibly diverse.

Despite this, the theme of failing, and of trying again, does keep cropping up throughout this issue.

HSBC's Arindam Das talks about the five years of refusals that Qatar and the United Arab Emirates received before they finally made the grade as emerging markets. BT's Chris Pickles, meanwhile, discusses the transition of the ISO standards from the 1970s to today—and how continuous work is bringing us towards a point of common identification.

Most significantly, many financial articles will, at some point, bring up the failure of Lehman Brothers and others. Although these events may feel overplayed to those who read around the industry, it is crucial to keep talking about them, so that mistakes can be rectified and systems reconsidered. Some may call it locking the door after the horse has bolted. I prefer to call it the benefit of hindsight.

One last thought: once upon a time, Dubai asked Disneyland to consider building a resort there. The city was duly rebuffed by the theme park on the basis that it was too small. So Dubai decided to construct its own park, called Dubailand. At 100 square miles, it cost \$64 billion and will feature attractions such as a snow-dome and a polo club.

But it suffered a terrible blow during the recession, with American investors such as Six Flags and DreamWorks dropping like flies, and critics noting they hadn't seen building going on in years. But construction on the site resumed in early 2013, and Dubai Miracle Gardens opened at the beginning of March. It has the world's largest natural flower garden, with more than 45 million flowers. How's that for failure?




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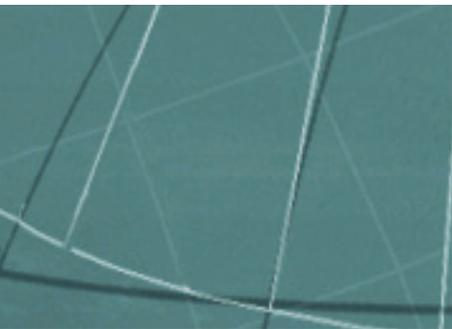
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You heard it here first

New CEOs, depository acquisitions and office openings from Frankfurt to Bangalore—AST revisits a selection of stories from 2013

GEORGINA LAVERS REPORTS

Industry

The **NASDAQ Dubai** exchange appointed Hamed Ahmed Ali as CEO in August.

The appointment followed Ali's success in developing the exchange in the role of acting CEO since August 2012.

Activities at NASDAQ Dubai in 2013 include the listing a number of sukuk and conventional bonds and preparing innovative plans for further expansion in addition to listing of equities.

Abdul Wahed Al Fahim, chairman of NASDAQ Dubai, said: "[Ali's] record of achievement positions the exchange to grow further and offer new advantages to issuers and investors. The expansion and strengthening of Dubai's economy, combined with MSCI's upgrade of the United Arab Emirates to emerging market status last month, are positive indicators for the future of the country's capital markets."

Accenture and **Broadridge Financial Solutions** collaborated in July on the launch of a new post-trade solution, signing up Societe Generale Corporate & Investment Banking (SGCIB) as its first client.

Accenture Post-Trade Processing provides post-trade processing and technology services to support settlement, books and records, asset servicing, operational management and control, real-time data access and administrative accounting.

The two firms have designed the solution to also accommodate other technology to support functions such as reconciliations and corporate actions processing, which is provided by SmartStream, another partner of Accenture.

SGCIB is the first client of the solution and will use it to manage back-office securities processing.

Buy-side and sell-side firms can now confirm trades between themselves via FIX, **Fidessa** revealed.

The company announced the availability of its **open post-trade confirmation hub** in August, which firms can certify to once and then be part of Fidessa's global trading hub of 3600 buy-side firms and 775 brokers.

Fidessa's new service will enable firms to send and receive allocation and confirmation instructions to each other via an open, free-to-use protocol. This, a release said, removes the need for proprietary alternatives that charge on a per message basis.

Aequitas Innovations entered the Canadian capital markets to establish a new stock exchange that promises to restore what it called the "original purpose" of an exchange.

The current stock exchange in Canada is TMX Group, with which Aequitas hoped to compete. The CEO of Aequitas exchange is Jos Schmitt, who started Alpha Group as a rival platform to TMX. He left the company in October 2012 after it was bought, along with Canadian Depository for Securities, to combine with TMX for \$3.73 billion.

"We are seeking to apply innovation, technology and competition to improve fairness and efficiency in the markets with particular attention to the benefits of investors and issuers," said a release from the firm.

Aequitas's founding investors include Barclays and the Royal Bank of Canada, among others.

EMCF and **EuroCCP** announced in July that the sale and purchase agreement had been signed to form a new pan-European cash equities clearinghouse that builds on the strengths of both firms.

It followed the announcement made in March that the firms planned to combine.

The owners of EMCF—ABN AMRO Clearing Bank and NASDAQ OMX—and owner of EuroCCP—DTCC—along with BATS Chi-X Europe, are signatories to the agreement.

The new central counterparty will be called EuroCCP N.V. It will use the risk management framework and customer-service organisation of EuroCCP, and it will run on the technology and operations infrastructure of EMCF.

EuroCCP N.V. will be headquartered in Amsterdam, with customer-facing functions located in London and Stockholm.

BNP Paribas Securities Services launched its global Dealing Services solution in the UK, with the aim of providing institutional investors access to a global network of dealing teams covering all asset classes.

The outsourced dealing solution was described as broker-neutral, and designed to meet an industry trend towards outsourcing from asset managers and owners.

HSBC Securities Services expanded its broker-dealer outsourcing solution in June to cover Europe, Asia, US, Latin America, Middle East and North Africa.

The broker-dealer outsourcing solution was developed in response to clients demand from broker-dealers that are looking for ways to reduce their capital outlay on technology and move to a variable cost model for core processing of post execution services.

The service is supported by a full integrated, real-time web portal that is mapped to key performance indicators and the service level agreement, enabling clients to view business performance in real time and to highlight potential trade issues.

Offices

SmartStream Technologies opened an office in Bangalore in August to speed up research and development of its data management services business.

The new office is managed by Ranganath Maligi, head of Bangalore data operations for SmartStream India.

Citi established a new depository in the Netherlands in July, just two days after the implementation of the Alternative Investment Fund Managers Directive (AIFMD).

AIFMD went live on 22 July. It affects fund remuneration practices, marketing guidelines, documentation and reporting, and requires alternative investment fund managers to appoint a depository.

The bank's new Dutch depository will support locally domiciled funds with service provider oversight, asset safekeeping and investment guideline and regulatory restriction monitoring.

Jan-Olov Nord was appointed as head of depository services in the Netherlands for Citi's securities and fund services, effective from 22 July.

Building on its custody services offer in sub-Saharan Africa, **Societe Generale Securities Services (SGSS)** announced in June that it was setting up in Ghana.

SGSS will provide custody of Ghanaian equities and bonds and a comprehensive foreign exchange and cash management service to a clientele of Ghanaian and foreign investors, frontier market funds and other players looking for increased exposure to the Ghanaian market.

This new activity further strengthens SGSS's presence on the African continent, where, in

addition to South Africa, it is also present in Morocco, and Tunisia.

Northern Trust opened an office in Frankfurt Germany in May, as part of a continuing commitment to servicing clients as close to their home market as possible.

Northern Trust Management Services (Germany) was established to provide investment operations outsourcing services to Allianz Global Investors, one of the largest investment managers in Germany, and with which Northern Trust has a strong existing relationship across North America, Europe and the Asia Pacific.

Through the expansion of its investment operations outsourcing capabilities in Germany, Northern Trust now provides services for a total of €110 billion in assets in Germany. From its Frankfurt office, Northern Trust announced that it would also begin servicing assets for Allianz Global Investors' other pan-European locations.

Kai Dirk Leifert was appointed as head of the German office.

Firsts

In February, **HSBC Securities Services** became the first fund administrator in Singapore to connect a Singaporean domestic fund to an electronic, securities processing platform.

This development, in partnership with **Lion Global Investors**, leads the way for fund managers in Singapore to achieve greater international distribution of their domestic funds, said a statement from the bank.

Many large financial institutions operating in the US and Europe only distribute funds to which they can link electronically. The trend is now emerging in Asia, enabling the growth of cross border distribution of Asian domestic funds.

NASDAQ Dubai, the Middle East's international financial exchange, is preparing to open a platform on which investors can trade sukuk (Islamic bonds) and conventional bonds.

Trades will be automatically and exclusively routed for settlement at Euroclear Bank. The tradable securities will initially comprise at least 12 sukuk and bonds that are listed on the exchange, with a nominal value of \$10.9 billion.

The platform will be available to institutional and high-net worth investors and will be opened and gradually developed in coming weeks.

For the first time, prices of NASDAQ Dubai-listed sukuk and bonds will be visible to all investors simultaneously on the same screen-based system, through the exchange.

CLSA became the first Asian broker to go live on **SWIFT's** global electronic trade confirmation

(GETC) solution for the automation of allocation and confirmation processes in May.

SWIFT's GETC messages—MT509, MT513, MT514, MT515 and MT517—provide operational control through trade confirmation messages generation.

The GETC solution is backed by the ISO 15022 standard, which follows a collaborative effort between SWIFT and a group of investment managers and broker-dealers to create and agree an enhanced ISO best practice implementation governing the use of the securities GETC messages over SWIFT.

Acquisitions

Citi Securities and Fund Services seized opportunity in the Central and Eastern European markets with its purchase of **ING's** custody and securities services business in April.

ING was a premier provider of custody services in the region, and the clients in the seven

markets that Citi acquired collectively held €110 billion in assets under custody with ING.

The Dutch bank will continue to offer custody services in Poland, and said that the assets lost to the sale should not have a material impact on its results.

The transfer is in line with its "strategic objective of sharpening the focus of the bank", and is a direct result of the strategic review of ING Commercial Banking's business portfolio presented in November 2012.

ING Bank will continue to offer commercial banking products in 10 countries in the CEE, including lending services, transaction services, corporate finance and financial markets products to its local and international clients.

The transaction includes ING's local custody and securities services businesses in Bulgaria, the Czech Republic, Hungary, Romania, Russia, Slovakia and Ukraine. Once implemented, the addition of Bulgaria will extend Citi's custody



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network coverage to more than 95 markets and its proprietary custody network will be expanded to 62 markets.

Terms of the deal were not disclosed. Subject to standard closing conditions and regulatory approvals, Citi and ING expect this transaction to close in Q1 2014.

Standard Chartered said in April that it was buying the South African custody and trustee business of **Absa Bank**, building on the significant investment the firm has already made in its African franchise. As well as organic investment, the group acquired First Africa, an African M&A advisory business, in 2009 and Barclays' Africa custody business in 2010.

In the same month, the bank announced the opening of two new wholesale banking corporate offices in South Africa, in Cape Town and Durban.

Over the past two years Standard Chartered has sought to develop a profitable custody model across 21 sub-Saharan African countries, launching custody operations in South Africa earlier this year.

LCH.Clearnet and **London Stock Exchange** announced in May that their joint revised offer is "wholly unconditional" and is now completed.

On 7 March, LCH.Clearnet and London Stock Exchange Group (LSEG) announced a change

in the cash offer from London Stock Exchange—the wholly owned subsidiary of LSEG—for a majority stake in LCH.Clearnet.

LSEG re-negotiated its acquisition down to €15 per share from €20, with full terms and conditions of the revised offer sent to shareholders in both companies.

A spokesperson from LSEG commented that new regulations requiring clearinghouses to put more capital aside led LCH.Clearnet to require more capital, and therefore more funding from shareholders.

In a circular, LCH.Clearnet said that clearing fee revenue for the first three months of 2013 has increased compared with the Q4 2012, particularly in key OTC business lines.

The **Depository Trust & Clearing Corporation (DTCC)** took full control of post-trade services provider **Omgeo**, after agreeing to acquire **Thomson Reuters's** 50 percent stake in the company.

Equal partners DTCC and Thomson Reuters launched Omgeo in 2001.

Since its inception, the now fully-owned DTCC subsidiary has introduced a straight-through-processing solution for institutional post-trade processing, which integrated an electronic allocation engine, a central matching

solution and an account and standing settlement instruction database.

Marianne Brown continues to serve as president and CEO of Omgeo.

BNP Paribas Securities Services acquired **Commerzbank's** depository business for German-domiciled UCITS and institutional funds, securities funds as well as open-ended real estate funds in July.

The 80 Commerzbank employees that were involved in these activities were given the opportunity to join BNP Paribas.

The deal aimed to strengthen the French bank's position in the depository market, following its acquisition of Credem, an Italian depository, in 2012.

The bank stated that it would also expand its UCITS business, and establish a new service offering for real estate funds.

As of the end of April 2013, a volume of approximately €93 billion assets under depository was serviced by Commerzbank.

Financial information services firm **Markit** acquired the ownership stake in MarkitSERV held by the **Depository Trust and Clearing Corporation (DTCC)** in April.

Markit and DTCC founded MarkitSERV in 2009 as a joint venture that combined the firms' electronic trade processing services for OTC derivatives.

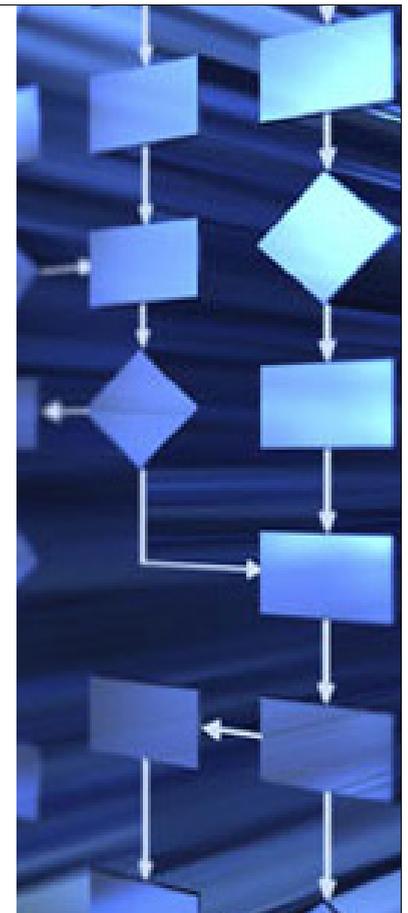


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Luxembourg UCITS: the new custody model

Piqued interest in UCITS out of Asia, the Middle East and Africa has thrown up an alternative to the conventional custody model, say Alan Naughton and Margaret Harwood-Jones of Standard Chartered

Undertakings for Collective Investments in Transferable Securities (UCITS) have been a phenomenally successful investment vehicle in Europe and have also exported that success to markets in Asia, the Middle East and Africa. Interestingly, their remarkable expansion in these latter markets is now stimulating interest in a new alternative to the conventional global custody model.

Luxembourg UCITS are the most commonly used international fund structure, effectively a worldwide brand in the industry, with global AUM of \$2.4 trillion. Furthermore, the nature of their structure allows asset managers to distribute their investment expertise using UCITS as a vehicle across multiple jurisdictions.

Current and future growth

For a variety of reasons, the level of UCITS activity in Asia, Africa and the Middle East is likely to continue increasing for the foreseeable future. For both regional and global asset managers, these markets represent a valuable

source of new investors. This is particularly true of countries such as China, where the development of a new emerging consumer class is a matter of state policy.

At the same time, companies in these markets are growing rapidly and are therefore attractive from an investment perspective. While Western equity markets are recovering, they cannot currently offer the potential returns of markets such as those in Asia.

A further factor is the administrative and cost convenience that UCITS offer. For instance, Asia does not have a fund passport scheme as seen in the EU, so by tapping into this brand, asset managers can distribute their product regionally without the need to establish multiple local entities and structures.

This combination of new investment opportunity, new investor base and cost/convenience is reflected in the number of top 50 investment managers offering UCITS, which includes all the globally recognised names. In addition,

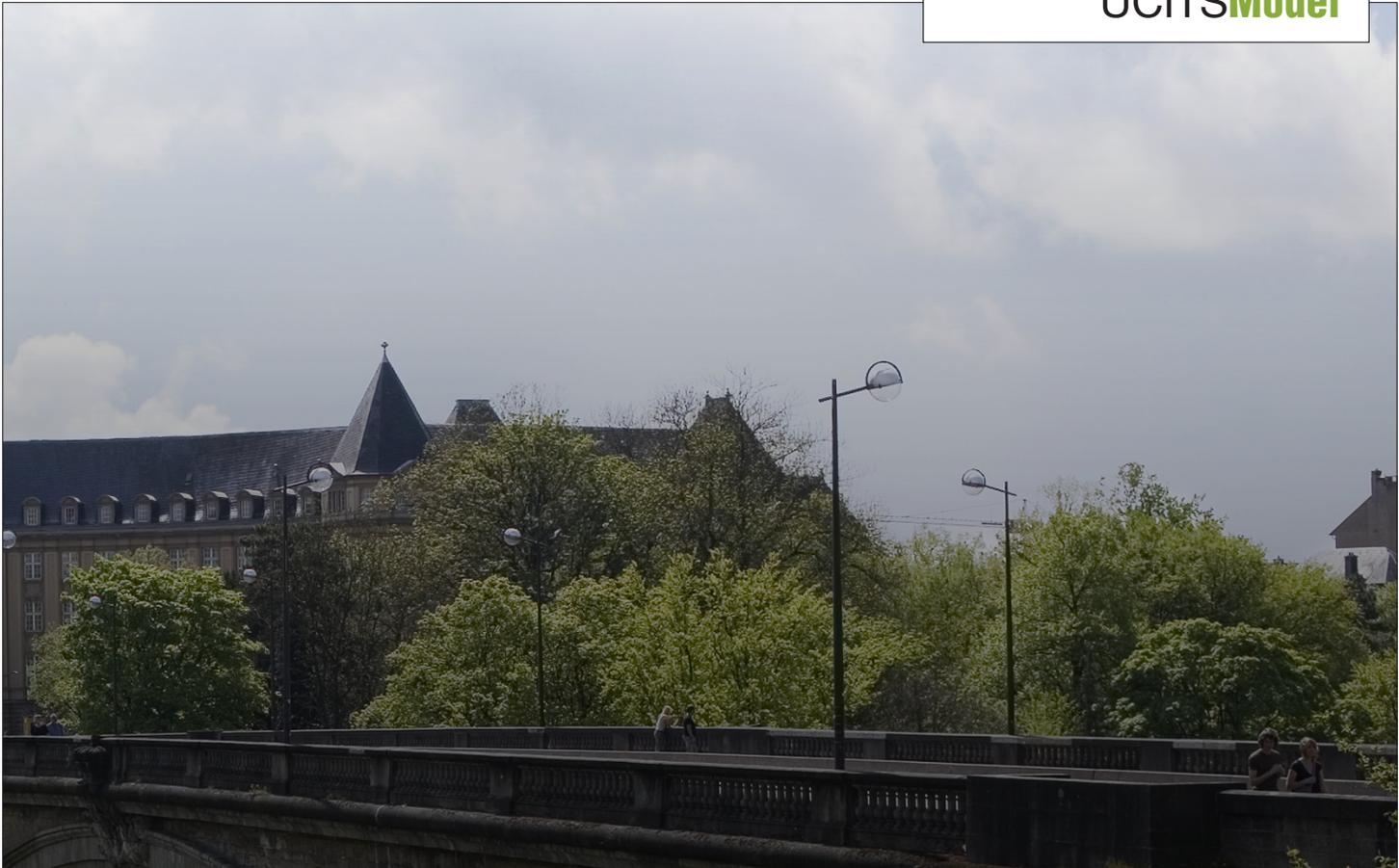
more than 70 percent of cross-border funds registered for sale in the major Asian markets of Hong Kong, Singapore and Taiwan are structured as UCITS.

Asian local and regional asset managers are also proving an increasingly important element in the success of UCITS in Asia, Africa and the Middle East as they look to replicate their domestic success in other markets.

The lack of a passport scheme and the cost and time of establishing a local presence in multiple markets make UCITS a natural preference.

The case for a new custody model

For most asset managers offering UCITS, the conventional approach when investing into emerging markets has been to turn to a global custodian, which in turn delegates local custody to a network of sub-custodians. This model provides convenience and scale, but involves trade-offs.



To provide a single point of access and uniform service across a wide range of investment markets, global custodians have built up a centralised layer of infrastructure and processes to channel all instruction and information flows between investors and sub-custodians. Despite the increasing scale and compression in global custody fees in recent years, the cost of this convenience and standardisation remains significant.

The transit time for instructions and information flowing through an extended global custody supply chain also impacts operational risk by compressing the back-office processing window available to asset managers.

Finally, institutional investors are increasingly seeking line-of-sight to local investment markets that they can't achieve when accessing them through a global custodian. This covers a wide spectrum of needs, from direct access to local market experts through to the onshore foreign exchange and cash management services.

In summary, investors are beginning to challenge the traditional layered global custody access model, and are seeking innovative alternatives.

New custody model delivered

In response to growing client demand, Standard Chartered has developed a new

holistic UCITS servicing model. This solution delivers the same Luxembourg-based depository bank and administration services offered by other providers, but is strongly differentiated by its seamless integration with Standard Chartered's unparalleled proprietary sub-custody network, which covers 39 securities markets across Asia, Africa and the Middle East.

This integration began in September 2012 with the rollout of our next-generation core custody and clearing platform in key Asian centres.

This platform was designed with a custom architecture dubbed 'single touch', which creates a single window with direct access to all 39 local markets in Standard Chartered's network. Single touch effectively eliminates the traditional global custody processing tier, and as a result offers a range of unique capabilities, including the highly competitive instruction deadlines and direct line-of-sight to local market position and transaction data that many fund managers are now demanding.

UCITS have already proven themselves an invaluable tool for asset managers of all sizes—irrespective of their location and distribution priorities. At present there seems no reason to anticipate any reduction in their popularity in emerging markets. A holistic fund servicing solution is pivotal for asset managers with UCITS assets invested in Asia, the Middle East and Africa. **AST**



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The €300 billion question

Philip Brown talks to AST about Clearstream's new study that looks at how TARGET2-Securities will reduce custody supply chain risk

MARK DUGDALE REPORTS

What are the key findings of the Clearstream/PwC study on T2S?

They're very positive! Firstly, our new findings show that depositories and global custodians have the potential to benefit from reduced risk in the custody chain, thanks to TARGET2-Securities. This will be key as they face new liability risks for loss of assets, as set out under the Alternative Investment Fund Managers Directive (AIFMD) and the Undertakings for Collective Investment in Transferable Securities Directive (UCITS V).

Secondly, our findings identify (and quantify) potential relief banks can find in meeting their new capital requirements: the study found that

they could achieve 11 percent relief in their collective capital shortfall based on the €295 billion that OECD projected as needed to meet Basel III capital requirements.

The chance to much more effectively manage collateral was also confirmed as a potential T2S benefit, though this was something we already knew and have been quite vocal about.

How can these findings be explained?

For reduced custody risk, our study highlighted how T2S can introduce opportunities to reduce risk in the custody chain via the more efficient link-up of central securities depositories (CSDs). Most major CSDs have announced that they will establish direct access to one an-

other, which would enable market participants to hold their assets directly with one CSD without having to open up business relations with each and every one of them. Instead, they can hold their assets indirectly in T2S via another CSD of their choice, which acts as an investor. Many market participants tell us that they are attracted by this opportunity to connect directly to the infrastructure for their settlement and safekeeping, while still retaining the ability to work with a local agent bank for the purposes of asset servicing. This will be facilitated by the growing emergence of account operator models that we are experiencing for asset servicing.

To quantify the potential capital efficiency banks could achieve under T2S, we actually took our own case as an example, analysing millions of

cross-border settlements in Germany, France, the Netherlands, Belgium and Italy, which showed that pooling cash settlement into a single account would reduce Clearstream's own liquidity requirements by a daily average of 15 percent. This translates into an estimated €33 billion of Tier 1 capital savings outlined in Basel III rules when transposing this to the broader settlement volumes in the Eurozone.

Finally, improved collateral mobilisation via T2S became apparent once again through our analysis. The internalisation of settlement and harmonisation of processing cycles delivered by T2S across its over 20 markets will eliminate some of the fragmentation inherent in today's post-trade environment, making collateral easier to move from place to place.

What do the findings mean for market participants?

In particular, it is good news for depositories and global custodians impacted by new liability risks for assets held in custody, as set out by the AIFMD. As explained above, T2S can lead to a more efficient custody chain by CSDs linking up more directly to one another. We see the increased efficiency this will bring about as one more good reason for participants to gear up to T2S now. The earlier they can identify such benefits, the earlier they can build this into their business planning.

Indeed, we are advising our customers that the time to prepare for T2S is now. With the first migration start date (2015) just around the corner, technical adaptations to connect to T2S will require investment budgets agreed in advance. Any project planning should also start now.

The potential capital savings T2S can enable will also be good news for our customers as they find ways to meet new, higher regulatory capital requirements. The Royal Bank of Scotland just recently found that Europe's biggest banks will have to generate some €47 billion of capital in the next five years to comply with regulations aimed at reducing systemic risk, in particular to comply with Basel III rules on capital and leverage. So the challenge is immense. T2S as a solution to help meet this challenge can only be encouraging for the market.

Similarly, as banks are under increasing pressure to collateralise their financial activities so that they are safer (something which the European Market Infrastructure Regulation (EMIR) regulation will focus on), collateral has become more and more in demand. Earlier analysis had already identified much collateral inefficiency inherent in the current, more fragmented setup—in a study for Clearstream back in 2011, Accenture identified collateral inefficiency would cost the industry some €4 billion annually. Our new study with PricewaterhouseCoopers confirms the potential for T2S to enable more efficiencies in collat-

eral management as T2S will create a pan-European liquidity pool so participants will be able to more easily move collateral from place to place.

Why is Clearstream interested in T2S in the first place?

I actually think there is good reason to be upbeat and optimistic about what T2S means for the market, so for all its participants, which includes Clearstream, our customers, our partners. Yes, there will be tough operational challenges—shifting 30 odd securities settlement systems across the Eurozone onto one centralised platform—ie, to the T2S platform—implies huge structural reform. But this project should bring about what the market or the public authorities alone could never have delivered: a single pan-European settlement system for transactions to be settled in central bank money.

We think T2S should help us collectively address the incoherence and inconsistency that currently hinders the eurozone's payment system, TARGET2, when it interfaces with the securities settlement systems. It should help knock down national barriers and inherent fragmentation, making settlement more efficient and, in the long run, less costly for the customer—at Clearstream, we have already committed to pass on the European Central Bank's (ECB) settlement fees at cost, with no additional margin. And there are the collateral management benefits too, highlighted earlier.

As a result, we concluded some three years ago that T2S should become central to what we do. We also knew it made sense to consider how our role as an international central securities depository (ICSD) and CSD would evolve in an environment characterised not only by T2S, but regulation and the wider policy agenda—be it Baron Lamfalussy's quest for a more integrated financial services market; Alberto Giovannini's pursuit of a road map to a fully harmonised European securities settlement environment; or the wave of new capital and liquidity ratio requirements designed to make the banks safer as a result of the experiences of the 2008 financial crisis.

We set out from the outset to be part of the post-crisis solution: we can offer banks (or the market) ways—in the form of our Global Liquidity Hub, which offers integrated global securities financing services—to find and make best use of their collateral to respond to these regulatory requirements, for example. And we like to play a role in highlighting ways the market can best reap the benefits of wider market reforms, such as the potential benefits of T2S (hence our new PwC study).

Also, without being too blunt, we're all investing so much time, money and resources into T2S that it makes good sense to identify ways to make it as positive as possible for all, and to make the most of what it offers.

Why did Clearstream carry out this new study?

We wanted to unearth some hidden benefits of T2S, which we'd detected through some of our internal analysis of how T2S would affect our own business processes, and to validate these benefits more widely. This follows a suite of T2S benefits we have highlighted to our customers for some time now (reduced settlement costs and better collateral management, for example).

What methodology was used for the study?

The methodology comprised a series of internal research studies, supported by in-depth focus interviews with market participants and a quantitative estimate of the effects of Basel III rules on the wider market.

To quantify the capital savings potential, Clearstream analysed the liquidity savings it could make itself (15 percent) via a pooled cash account, based on millions of cross-border settlements in Europe, then transposed this to the broader settlement volumes in the eurozone (which arrived at the €33 billion figure.)

What are you doing next as a result of the study?

Our actions are threefold. We will continue to help shape T2S itself via the various (ECB) working groups we are engaged in; do all we can to continue to help educate the market about T2S and the benefits it could bring them, as far as we can see, through customer workshops, presentations, news bulletins, etc; and continually develop our services, be it settlement, collateral management or asset services, to best reflect and serve the future T2S environment. **AST**



Philip Brown
Head of client relations in Europe and Americas
and member of the executive board
Clearstream

The black, white and grey of it

AST hears the case for both standardisation and diversity in the Middle East

GEORGINA LAVERS REPORTS

When Manifa was first discovered in 1957, the oil industry thought it had struck (figurative) gold.

Workers made their first exploration drill—known as a ‘wildcat’—in the Saudi Arabian bay, which duly coughed up heavy crude oil, notoriously tricky to extract. The project was shelved.

It took over half a century for oil company Saudi Aramco to start pumping oil from the mammoth field, but it is now expected to produce 900,000 barrels per day by the end of 2014.

‘If at first you don’t succeed...’ seems to be the unofficial mantra of the Middle East. Arindam Das of HSBC talks on page 16 about the recent upgrade of the Qatari and UAE stock markets to emerging market status by index provider MSCI, a change that his firm estimates could attract \$370 million and \$430 million in new inflows by the UAE and Qatar, respectively.

Another new development was NASDAQ Dubai’s May announcement that it was preparing for sukuk bonds.

Islamic investors wanted to balance their equity portfolios with bond-like products, and because sukuk are asset-based securities—not debt instruments—they fit the bill.

Sukuk bonds are a key part of Islamic banking, and for the last decade or so have been an important Islamic financial instrument in raising funds for long-term project financing.

Managing director of SunGard Financial Systems in the Middle East, Wissam Khoury, agrees that the last 10 years have been a defining period in the development of Islamic banking and financial instruments.

“The spectrum of Islamic financial products has matured, with offerings now covering retail financing, private equity, project finance, wealth management, capital markets and insurance. In addition, in the wake of the global financial crisis, clients and creditors have increasingly turned to Islamic banking, which they view as less risky.”

He adds that Islamic banking operations are recognising that they need to focus on three areas if they want to capitalise on the potential for growth represented by all this: regulation, risk and retail banking.

“Regulatory support and clarity are critical to the

growth of Islamic banking. Two forces are now incentivising central banks to support Islamic banking. The first is popular politics: customers, who are generally citizens of the country, want Islamic banking. The second is the momentum and network effect: as more countries and more banks turn to Islamic finance, it will be easier and cheaper for new entrants to join the market.”

Possible roadblocks

Though the spectrum of products is being enhanced, growth in the Islamic finance industry has been hampered by disagreement.

In the paper, The Standardisation Debate in Islamic Finance: A Case Study, Dr Wafica Ali Ghoul, an academic at the Lebanese International University, said that there has been a lack of consensus among the shariah scholars who belong to diverse sects or schools of thought (madahib).

“This diversity has resulted in disagreements about the acceptability of specific features of Islamic financial products,” she says.

“Opponents believe that ‘shariah harmonisation’ would inhibit innovation, emphasising that standardisation is usually driven by ‘cross-border, quasi-governmental organisations’.”

She cites Michael McMillen, a partner of law firm Curtis, Mallet-Prevost, Colt & Mosle LLP, as he proposes a flexible “codification” of shariah principles and precepts but believes that standardisation will never be achieved in an absolute sense. He argues that sufficient standardisation to allow effective interplay of Islamic markets seems a realistic and realisable goal.

But Khoury asserts that without standardised documents, the operational overhead for each Islamic transaction becomes a complex and time-consuming process that requires significant manual intervention.

“On the risk front, many banks are in the process of setting up an enterprise risk management framework.”

However, he says, lack of expertise, limitations on instruments allowed for hedging, and poor data due to disparate systems have hindered progress so far.

“Banks also need to determine how to define and segment their clients and how to create segment-specific risk models.”

“Retail banking is really the foundation for the growth of Islamic banking. However, initial growth was based on customers who wished to bank solely on religious grounds. In order to expand market share, banks must convince conventional banking users to switch. This means competing with conventional banks on customer service, product offering and price.”

The development of financial services

“The face of financial services in the Middle East is changing, bringing with it a growing population demanding greater personalisation of their banking experience and increased access to trading opportunities around the world,” says Khoury.

“The UAE is in many respects at the forefront of this, with Abu Dhabi and Dubai in particular making great efforts to develop a modern and efficient financial services industry as one way to diversify the country’s revenue base away from dependency on oil.”

Countries across the region are planning for a future after oil, using sectors such as tourism, financial services, real estate and renewable energy to reduce reliance on oil revenues, and find alternative sources of income.

A key stage in this process, says Khoury, is the proposed merger of the Dubai Financial Market and Abu Dhabi Securities Exchange.

“Such a merger would establish a wider market with more listings available to an increased set of market participants. This newly-created UAE Exchange could focus its energy on expanding and facilitating new IPOs instead of competing for listings. It could focus its resources on streamlining market procedures and creating a unified rule book for investors, simplifying market interaction. It could also channel energies towards expanding certain areas, such as the sukuk market or on-exchange fixed income trading. A merger would also be the opportunity for a new exchange to create strong branding and new products linked to this new image, such as new indices and products like ETFs. This would help create a virtuous cycle in attracting further interest from a global investor base.” **AST**

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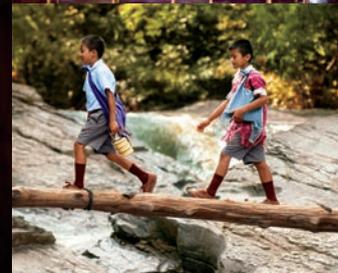
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Let me upgrade you

It took five years (and five failed reviews) for the United Arab Emirates and Qatar to be upgraded from frontier to emerging market status by MSCI. HSBC's Arindam Das tells AST where we will see change

GEORGINA LAVERS REPORTS

How do you feel about the recent upgrade of the UAE and Qatar markets into the MSCI Emerging Markets index?

It is an extremely positive development, and one that the region has been waiting for. I think it is recognition of the steps these two countries have taken so far in terms of addressing the risk issues that foreign institutional investors (FIIs) have been pointing out.

The fact that it has taken this long to get the upgrade actually vindicates that the process that is followed by MSCI is a very rigorous one. They are not under any pressure to upgrade a market just because the market wants to be upgraded, or any particular part of the investment community wants to see it upgraded.

They have their criteria and only when everything falls into place, do they upgrade the market. If critics argue that the upgrade loses some significance because it has been so many years in coming, I would challenge that; I think this is a

testament to the robustness of the process, and that makes the upgrade even more rewarding.

The upgrade is an affirmation that the key risks that FIIs have been pointing out have now been addressed, and if this was posing a bottleneck for certain funds to invest in these markets, that has now been cleared, so hopefully this should lead to new money coming into the market. Although the upgrade is effective from May 2014, we can already see reasonable amounts of new money coming in, as investors start building positions in anticipation.

The upgrades have the potential to draw \$800 million of new funds into Qatari and UAE shares, according to HSBC Global Markets Research. The figure is just from funds that follow the indices passively, but obviously we would expect active fund managers to also increase their allocation to these countries based on the upgrade, so the potential impact is actually much larger.

There are lots of other factors apart from the MSCI upgrade that influence the decision making process of FIIs, but reports suggest that if

all these contributory factors fall in place there could be as much as \$3-4 billion of new inflows. Aside from the quantum of money, I would also like to point out that there are other ancillary benefits associated with the upgrade; particularly, improved corporate governance. This is because the sort of money that this will attract is not domestic retail money—it is foreign institutional money. These FIIs do ask a lot of probing questions, so automatically in trying to respond to these questions, the corporates have to up their game in terms of governance.

Some firms have mentioned that they're not looking to rejig their client portfolios, because they think the upgrade will be slow. Do you agree?

This is true for some. There are investors who have already invested into the market because they are active managers, and they take a view irrespective of what the indices say.

But equally there are lots of funds that passively track indices, and the amount of money

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that passively tracks the MSCI emerging main- dex is significant. Although UAE and Qatar will constitute a very small portion of this index, the amount of money that will come in is still mean- ingful. The important point is that being part of the MSCI EM index puts UAE and Qatar on the radar of a number of FIIs who were not consid- ering these markets at all earlier, or were prohib- ited from investing here because their mandate allows them to invest only in emerging markets.

One must also remember that though (rather ironically), emerging markets now seem to have fallen out of favour, we must remem- ber that the dynamics of UAE and Qatar are quite different from that of many other emerg- ing markets. For example, the currencies in these two markets are pegged to the dollar, and both of these countries have large current account surpluses.

What were the reasons behind the upgrade?

The growing interest of FIIs in UAE and Qatar brought these markets under the MSCI review several years back. The main shortcomings identified at that time were in the post trade cus- tody and clearing environment, where custodian control over assets in the clients' portfolio was deemed to be inadequate, and the dual account structure of custody and trading account was considered operationally cumbersome. Another issue, specific to Qatar was the low foreign own- ership level (25 percent).

Over the last few years, the two markets have systematically taken steps to address these is- sues. On the custodian control front, the markets introduced mechanisms that allow custodians to reject trades for which they do not receive in- structions from their clients. While this would re- sult in a failed trade and hence not hugely desir- able, it would still be better than settling a trade compulsorily without express authorisation from the investor or his appointed custodian.

This was a significant improvement over the previous system. However niggling worries persisted about how to manage the failed trades. While the markets came out with a number of steps, the last recourse (if ev- erything else failed) was still to recover the shares was to debit the seller, against his wishes, and compensate him with cash. This was something that investors did not like, which prompted the markets to introduce the buyer cash compensation mechanism, where- by the buyer is compensated with cash rather than the seller. This removed the last obstacle on the custodian control issue.

As the longest serving custodian in the region, HSBC has been working closely with the regula- tors and other market participants on these is- sues and it is immensely fulfilling to see these efforts bearing fruit.

The other issue of foreign ownership in Qatar was also addressed this year by Qatar apply-

ing the limit on the total paid up capital of the listed companies rather than the free float, which created significant headroom for additional investments.

Will the upgrade put pressure on Saudi Arabia?

Saudi Arabia is the largest market in this region by far, so I doubt if any development in a spe- cific country would put pressure on them, but I think it may influence them to fast-track the opening up of the markets there.

There have been rumours for quite some time that Saudi Arabia will open up their market to foreign investors, so these sort of develop- ments in neighbouring countries where they are taking steps to attract more foreign investment might encourage their decision- making. However, Saudi Arabia is unlikely to be rushed into doing anything, they will do it only when they think the circumstances and timing are right for them. The way they open up may also be different from Qatar and UAE—the rumours in the market are that they will have some sort of qualified foreign institutional investor (QFII) regime whereby they would allow certainly types of funds with proven track record to come in, following an approval process, somewhat similar to what happens in India or China.

Saudi Arabia did have some differences with the MSCI a few years back and they were not included in MSCI's index, but these problems have been resolved, which is encouraging. Given the size and liquidity of the Saudi market, it is possible that they may even make it to the emerging markets category straightaway with- out having to go through an interim classifica- tion of frontier market.

To what extent are European and US regulations affecting the Middle East?

Local regulators do look at what the European and US regulators are doing. The specific regu- lations that are having some impact are the Al- ternative Investment Fund Managers Directive (AIFMD), UCITS and the Foreign Account Tax Compliance Act (FATCA).

AIFMD imposes the responsibility on the de- pository in terms of safety of assets—even if they are kept with a sub-custodian in another country. I don't think we have seen a direct impact of this on the Middle Eastern markets in terms of local regulations, but it does benefit HSBC as a sub-custodian. Global custo- dians are reacting to this development in one of two ways: either by setting up their own sub-custodian business in countries so they are completely in charge of the process end- to-end so that they can internalise the risk; and secondly, for example in the Middle East, where markets are not large enough to set up

on their own sub-custody, they would want a really trusted counterparty and HSBC fits the description very well.

On the other hand, UCITS seems to have taken the fancy of many local fund managers. Fund managers who used to set up funds in the re- gion, now want to attract foreign investments and hence are looking at domiciling the funds in UCITS countries.

FATCA is again something that is going to touch everybody's life. Even if a client is local, one still has to classify them appropriately. But being part of a global organisation possibly makes it easier to implement these changes than local banks, because one can leverage the global change programmes that are set up for these initiatives rather than having to set up some- thing locally from scratch.

What are the local regulatory drivers for change?

One major development in this region in the last few years is that in most countries, we now have dedicated regulators for capital markets. Earlier, it was often the central bank that used to be the de-facto regulator for all financial services. But in more recent times, as the capital markets have grown more sophisticated, specialised regulators have been set up specifically for capital markets governing activities like broking, custody, asset management, etc. That, I think, is indicative of the thinking of the poli- cy makers. They understand that the capital markets have now come of age, and devel- oped a level of sophistication.

The other point to note is that while the regula- tors here are quite keen on aligning themselves with international best practice they don't follow foreign regulations blindly. They pass legislation only if it makes sense in their country—and that is sometimes why it takes time. To summarise, change is happening, and in the right direction, but slowly, and deliberately. **AST**



Arindam Das
Regional head in Middle East and Africa
HSBC Securities Services

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A particular treatment

Automation is not a panacea to all systemic issues, and language commonality is key. Find out what else AST's industry players had to say on corporate actions





Bernard Lenelle
Senior vice president, core product management
Clearstream



Mike Foley
CEO
Peterevans



Eric de Nexon
Head of strategy for market infrastructures
Societe Generale Securities Services



Vikas Sahni
Product manager
Information Mosaic

What are some of the most important factors driving corporate action automation at the moment?

Bernard Lenelle: Both risk management and cost reductions continue to drive corporate action automation. Using an automated system for corporate actions is inherently less likely to result in errors occurring through manual processes, which are more open to human error. At the same time, automation is helpful in driving down costs by better streamlining corporate action activities. So while automation bears an up-front cost in terms of the initial investment in the required technology, this investment is quickly paid off over the time by the reduced risk automation offers and by the avoidance of errors which could otherwise have occurred.

In order to best secure the most effective form of corporate actions, it is paramount that all parties adhere to the same standards and use the same technical language and codes so that the appropriate systems can speak to one another. ISO standards play a key role in setting international standards for this reason. Clearstream takes a lead role in relevant ISO working groups to help shape these standards, address issues in external compliance with the standards and help find solutions to enable all parties to meet and keep to the common standards.

Eric de Nexon: There are two fundamental factors that currently drive corporate action automation: the Corporate Actions Joint Working Group (CAJWG) standards and TARGET2-Securities (T2S), the latter acting as a catalyst for their implementation.

The CAJWG recommends that European players comply with more than 150 standards, defining common key dates and their sequencing;

a harmonised method for processing corporate actions, categorised in two major categories: distributions (covering events distributing proceeds in cash or/and securities), reorganisations (covering events where the underlying securities are replaced with proceeds); and fostering the use of ISO standards messages all along the chain, from the issuer to the closest intermediary to the investor, or even to the investor himself (where possible).

These standards favour automation and at the same time encourage the stakeholders to engage in that move.

The definition of common processes throughout European countries allows their automation and leads global and regional players to use or develop single tools in order to benefit from better safety and scalability.

Some of these standards, such as the setting up of a unique 'market deadline', put a competitive pressure on providers. This competition will lead custodians (and all intermediaries down the chain) to offer deadlines as close as possible to the market in order to meet their customers' expectations.

T2S is clearly a catalyst for the implementation of these standards as it implies a common language for processing transactions throughout the chain.

Vikas Sahni: We consistently see three main drivers: reducing operating costs, including the ability to scale effectively; improving service quality; and mitigating operational risk. Automation can bring significant improvements to all three, but it must go deeper to ensure the right procedures and support tools are also in place to effectively manage the business operation. For example, automation may enable a bank

to extend election deadlines, but that needs to be supported by effective controls and tools to monitor workflow and risk, with the ability to intervene if need be. The need to follow industry standards providing the ability to address new types of corporate action events as and when they are released is seen as one of the factors for seeking corporate action process automation.

Mike Foley: In the US, DTTC is leading the way with its big corporate actions re-engineering initiative, aiming to replace the plethora of legacy platforms that have evolved in recent years. Currently, the transition to ISO 20022 messaging standards is fully underway, and DTCC plans to retire corporate actions proprietary file formats in 2015.

In Europe, automation of corporate actions seems to be predicated on the successful implementation of the T2S project. Scheduled to go live in 2015, it aims to provide centralised settlement in central bank funds across all European securities markets. T2S will be a platform for the cross-border and domestic settlement of securities within the EU. This is driving post-trading harmonisation across Europe, which will hopefully be a catalyst for the harmonisation of corporate actions.

Where is automation taking place in the corporate actions value chain?

Sahni: The top three areas of priority are announcement capture and validation, client notifications and voluntary instructions processing.

Immediate benefits are realised through automation of the announcement capture and validation process, especially as it is quite common to have three to five data sources for a corporate action. Automation and simplification of the

communication process tremendously improves the productivity of the corporate action staff and mitigates the risk involved in manually capturing the data through websites and faxes.

Automation of client notification process enables the timely delivery of high quality information to clients and decision makers. It provides them with more time to evaluate their options and make the most informed decisions.

By delivering notifications over the web and providing a sophisticated dashboard based interface, we've given investors a virtual corporate actions cockpit from which they can perform 'what if' scenario analysis and make decisions across multiple portfolios. This has improved both the quality of the decisions taken, as well as the cost to process them.

de Nexon: Automation is taking place at every step of the corporate actions process. At the very beginning comes the announcement. This message—sent by the issuer or its agent—will be formatted in a way that allows straight-through processing. The receiver will be able to integrate the message in his system in the most efficient way. This means the receiver has to be able to decipher the message in order to adequately qualify the corporate action event that is described and to immediately transmit the information down the chain with no loss of information (and sometimes with enriched information) and the best level of automation so as to carry out the process quickly and properly.

Each receiver is also a sender, at least when feedback is required. Each sender will properly feed his messages to consolidate and transmit the relevant information to the intermediaries. Each user in the intermediaries' chain is racing against the clock and time lags increase the level of difficulty.

Furthermore, all these processes will be shortened by one day with the new T+2 settlement cycle. With one day less, there will be more pressure put on the very last days of the corporate actions processing. This advocates more efficient and high quality treatments all along the chain. That is why SGSS's experts closely support these crucial subjects and are highly involved in all the related working groups and task forces.

Foley: Following the events of 2008/2009 and the subsequent poor market environment, corporate actions are now becoming prevalent again in the UK. Two examples are Barclays's recently announced plans for a £5.8 billion rights issue, as well as the planned Royal Mail IPO.

With the UK government loudly thinking

about more privatisations, the level of activity will further pick up in the near future. Ultimately this could mean we are moving back into the 1980s, and this has great potential for service providers.

With nearly 30 years' industry experience when it comes to messaging and corporate actions, we have been encouraging our clients for some time to step up their activity and T2S preparation. We are now part of the Equiniti Group, a major UK share registrar, which gives our clients additional access to their services and expertise. We see a huge potential for them to outsource the standardisation of corporate actions as it takes away the administrative burden for them. A number of client projects are underway, and we anticipate that automation is moving up in the value chain. As with all outsourcing projects, it is important though to be clear about the potential implications. Only established providers are able to minimise the risks for such projects.

Lenelle: The simultaneous application and implementation of common standards is core to achieving minimum error in the processing flow. Focus is key to success here: it's about applying the 80:20 rule in an effective way. Around 80 percent of corporate actions can be automated, freeing up valuable, qualified resources to carry out the remaining 20 percent for which a manual process could be used for some parts of the corporate action events, such as for monitoring and reporting. The latter would typically apply to more complex and less common corporate actions, and the freed-up resources to deal with these can be put to work to offer value-added services and more customised services.

Is risk a big enough reason for improved messaging standards, and why?

Lenelle: In a word, yes! As a service provider, we have the duty to ensure clients receive and benefit from accurate and timely market information. To achieve this goal, messaging standards play a major role in data collection, dissemination and instruction processing. Improving these messaging standards can only help in the quest to reduce any risk: the more robust the system, the less failure risk, and the messaging standards lie at the heart of all of this: all parties must be able to follow the same standards.

Sahni: Risk is one of the key factors in moving towards messaging standards. The process of dealing with corporate actions involves significant risks stemming from several factors in the process. This might be from misinterpretation and errors caused by

manual intervention and dissemination, to timing issues leading to delays in communicating the information to investors.

The impact is compounded by the ever increasing complexity and volumes of corporate actions, as well as the involvement of a long chain of intermediaries in the communication process. Although significant headway has been made on message standardisation, the biggest challenge now is adopting the standards for communicating corporate action information within and across markets, especially from issuer to investor. With current market practices often requiring the interpretation and re-keying of information gleaned from sources such as newspapers, faxes and websites, the system is burdened by a significant risk of human error and potential for loss.

de Nexon: The traditional way to assess risk in corporate actions processing is to take into account the economic impacts of the improper processing either of a given instruction dealing with high value amounts, or of a large volume of small instructions.

Using this basic approach, the level of risk to be borne results from the category of customers, for instance large institutional investors, or large retail banks dealing with a population of numerous individual clients.

Whether wholesale activities or large retail bank activities are at stake, risk is real and the economic consequences can be important if compared with the level of revenue resulting from traditional safekeeping fees.

When a securities services provider deals with both kinds of businesses on a large scale, as is the case with SGSS, which manages millions of securities accounts, mitigating and reducing these risks is compulsory.

All along a given process, treatments imply exchanges that are clearly understandable and easily integrated into highly mechanised systems of production, both for senders and receivers. The only way to achieve this is to implement a high-level quality of standards.

Foley: There is huge risk associated with corporate actions, so companies need to rely on standardised processes as well as control. The easiest way is automation, and in fact automated workflows. This can only happen and work within a standardised framework. It is therefore crucial there is a framework such as T2S, which sets clear and logical guidelines all market participants need to adhere to. The realisation of such harmonisation projects will be beneficial for everyone involved.



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How do you address disparity between regional keenness to update standards?

Sahni: Although it took a long time for institutions to fully adopt ISO 15022 standards for corporate action messaging, we can clearly see the benefits of using this standard in terms of operational efficiency and risk reduction. Today, most large and medium-sized institutions use ISO 15022 for corporate action messaging and this has grown rapidly during the last few years. However, the standard is not extendible and limits the ability to adopt the messaging for new event types.

ISO 20022 solves some of the issues encountered in ISO 15022. We have seen good progress in the US, with DTCC adopting the ISO 20022 format for communication of corporate action notifications to its participants. The next phase of the roll out is to introduce the corporate action election messages.

This is currently being tested by the DTCC and participants' members, including application vendors such as Information Mosaic, are providing input and feedback to the DTCC on the messaging content and standards. This story is not that promising for Europe, where the level of standards harmonisation is not the same as in the US, complicating the implementation of ISO 20022. We expect that with the implementation of T2S and the subsequent adoption of Central Securities Depository Regulation, that issuers and investors will be attracted to markets supporting the latest standards and technologies for communicating them.

In the Asia Pacific region, the Japanese and Australian markets are also looking to adopt ISO 20022 as standard. Both markets are closely watching the roll out in the US to learn from its success. Singapore is adopting a hybrid approach where both 15022 and 20022 will be supported. This is based on local market demand where most of the custodians are currently 15022 ready but will be able to gradually support 20022.

Lenelle: The Securities Market Practice Group (SMPG) plays a good role in helping to facilitate globally agreed harmonised market practices by bringing together broker-dealers, investment managers, custodian banks, central securities depositories and regulators from over 30 countries.

At the European level, there are also a number of working groups bringing stakeholders together along these lines. We are involved in a number of these, such as the CAJWG and the T2S Corporate Actions Sub-Group.

Another key issue these bodies help with is setting



a common time frame for adapting to new systems: synchronising adaptation to new messaging standards, for example, is fundamental to ensuring that systems can understand one another and new standards are effectively implemented across the industry.

de Nexon: SGSS can act at two different levels: as a major player working on European harmonisation, and as a key regional player in Europe.

SGSS is actively involved in the governance bodies in charge of monitoring and providing the impulse for implementing European standards.

SGSS chairs two local MIGs (market implementation groups), in Italy and France, and is proactive in eight of the major markets concerned by the reform, as identified by the European MIG, which met in Stockholm in July 2013. SGSS has been part of the CAJWG, the European body that defines the standards, for two years, with two representatives. SGSS also has a permanent representative at

the T2S CASG (which transposes the CAJWG transaction management standards within the scope of T2S platform), and another representative on request for specific questions.

Furthermore, SGSS is also part of the T2S Harmonisation Steering Group, bringing valuable input at each level of the standards implementation process in Europe, including European associations.

SGSS works closely with all these organisations and shares its recognised experience and expertise in the European securities services industry to support them in their missions and shared objective of standardisation.

Last but not least, SGSS, as a major regional player in Europe, deals on a regular basis with the discrepancies and inconsistencies between European or ISO standards local market practices.



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What will be some of the immediate benefits to automation? What are some risks to watch out for?

Lenelle: Automation should help reduce failure risk, increase efficiency and—in the long run, help bring costs down as a result.

Clearstream was the first among all financial institutions, at the end of 2012, to implement the cutting-edge new web-based tool, MyStandards, which offers our customers benefits of automation. The new web-based tool enables standards to be uploaded and shared centrally in a way which is automatically, directly then readable by respective systems which then need to use and apply those standards (new messaging formats, for example). This will make upgrading to new standards more efficient and should greatly reduce any human-error failure risk.

As always, the risks to look out for include discrepancies across the industry in implementing and complying to new standards—be it the standards themselves or the timing to meet those (new) standards; the more we can work together as an industry to minimise that risk, the more efficient a system we will achieve, to everyone's benefit.

de Nexon: We see four main immediate benefits: reducing operational risk, enhancing productivity, allowing scalability, and enhancing business continuity plans.

The immediate benefit of automation is to reduce operational risk resulting from human errors. A manual process generates a complex situation made up of stress, high volumes, short deadlines and longer processes. Automation will considerably limit these aspects and contributes to mitigating the operational risk.

The second immediate benefit lies in improving efficiency and productivity, even if highly automated systems require highly qualified resources for monitoring them. The third immediate benefit is to deal with volatility of activities: corporate actions have season peaks and automation allows scalability.

The fourth is to favour the enhancement of business continuity plans, the only requirement being to have at least two mirrored systems located in at least two different locations.

Consequently, these four benefits serve a fifth benefit, the most important one: improving the quality, safety and efficiency of services offered to clients.



Foley: A key benefit I see is the ability for companies to be able to rely on a scalable system. This prevents them from being caught out by major events affecting their corporate actions activities such as privatisations.

Strictly speaking, when it comes to corporate actions you have no control over volumes, as they are driven by external events. The risk is rather being able to control and maintain control over processes, and to be able to scale up quickly. This is becoming increasingly important in a world where privatisations are round the corner, which require companies to be prepared to execute corporate actions in the most efficient way, whilst complying with regulation. This should not be taken lightly and requires a professional approach, and professional help.

Sahni: This depends upon the nature of the organisation. For organisations receiving information from multiple data sources, the immediate

benefit can be attained by automation of the announcement capture and validation process. This could result in tremendous increase in productivity and also reduce the misinterpretation risks involved with manual capture and validation activity.

For organisations having few data sources, the focus should be on the next process in the value chain, which is client notifications and instruction management. For investors, automation can facilitate analysis and decision-making, leading to better portfolio performance.

The risk is viewing automation as a panacea to other more systemic issues that may reside in, for example, current operational processes, as well as risk measurement and control. In our client engagement process we examine the entirety of the operational ecosystem and work with the client to improve its overall transparency, strength and resiliency. **AST**



LIQUIDITY ALLIANCE

A SUSTAINABLE SOLUTION TO COMBAT THE GLOBAL COLLATERAL CHALLENGE

The Liquidity Alliance is a partnership of market infrastructures that will deliver an efficient and effective collateral management value proposition for the global industry.

The founding partners – ASX (Australia), Cetip (Brazi), Clearstream (Luxembourg), Iberclear (Spain) and Strate (South Africa) – are combining decades of market expertise with world-leading collateral management technology to provide their customers with state-of-the-art services.

The Liquidity Alliance partners look forward to integrating new members and to promoting links with international markets.

The Liquidity Alliance: a global solution to a global challenge.

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Less hocus, more focus

Philippe Ruault of BNP Paribas explains why asset servicing will continue to require a high degree of local expertise even after T2S

The processing of corporate actions is one of the most manual and risk-prone activities in the securities industry. All players are involved in the ongoing search for the best balance between processing time, quality, risk and cost. Indeed, over the next 10 years, one of the major challenges for custodians will be to provide innovative solutions to reach this delicate equilibrium.

An even more complex environment

The global economic crisis has pushed issuers to reorganise and strengthen their capital structures. As a result of these changes, there has been more than a 30 percent increase in corporate actions initiated on markets in recent years. As a local custodian in the major worldwide financial markets, BNP Paribas has witnessed a more systematic use of optional

dividends (an approximate 60 percent increase on average compared to the pre-crisis levels) and an even more spectacular increase of tender offers (more than 250 percent in France, for example).

Until today, settlement and custody services have traditionally been managed together. Things are likely to change with TARGET2-Securities (T2S) as asset servicing will affirm its status as an independent service where network managers and consultants will focus their attention. Major global custodians and investment banks may look at the possibility of insourcing the settlement of their trades as an alternative to the settlement agency model.

The crucial question is whether custodians will be able to supply innovative solutions that

ensure market participants have the flexibility required to make the strategic decisions they are confronted with.

This is the real challenge for custodians. When you consider that we are called on to manage increasingly complex corporate events and tax products against ever decreasing market deadlines—while being held liable for potentially very large claims, the rising cost of asset servicing seems more reasonable.

An opportunity for custodians to differentiate

A few securities services players will be able to cope with the required changes, but this is a unique opportunity for them to play an even more important role in the post trade

processing chain. We see local expertise and ability to innovate key success criteria. Strong understanding of issuers' local practices, presence in local market committees, ensures that the daily corporate action processing for investors will be completed in the most efficient manner possible.

Innovative T2S models will also drive the game, to cope with client requirements of unbundling settlement from custody, with good service level and at reasonable costs.

Automation and straight through processing

The risk of missing an investment opportunity or of making a decision based on erroneous or outdated information is particularly acute in the current financial environment.

The challenge for custodians is clear: in order to remain competitive and to meet the demands of the market, they must be in a position to analyse and communicate information in real-time so as to ensure that their customers can make investment decisions as close as possible to market deadlines. Quality of service is also a question of timing.

The channels of communication for corporate actions have not witnessed a breakthrough in the use of STP over the last 15 years. Market participants communicate through many channels and in various formats. The bulk of information still continues to flow across markets on paper, making communication highly difficult in an environment that demands speed and efficiency, and, as a result, increases operational risk. This situation creates significant burdens throughout the intermediation chain, since manual actions remain essential, but yet, at the same time are a source of risk and cost.

Difficulties stemming from the lack of standards in communication flows are becoming less and less acceptable and thus the need to adopt the use of straight-through processing procedures across the entire industry is of paramount importance. The business case for innovation has never been stronger.

Automation is a virtual cycle and progress derived from the sum of each and every individual investment has a positive impact on how fast and reliable the whole industry will be. Yet, significant and consistent benefits can only come with the universal adoption of standards.

Since the development of the SWIFT ISO 15022 standard in 2003, global custodians have invested heavily in developing solutions aimed at making internal processes more automated, and at increasing the overall efficiency of their operational departments. The positive results have been substantial in global custody, and have led to the automation of a significant portion of the overall process.

This is not true of local custody, however, where local agent banks have to face a wide variety of domestic standards and specific market practices. This first link of the chain is particularly delicate as it is where the source of the lack of harmonisation and automation lies.

Standardisation and SWIFT

The SWIFT market practice groups (SMPG) have conducted important work on adopting standards aimed at streamlining local market practices and publishing guidelines that support national market rules.

Nevertheless, a long road is ahead of us for establishing an international standardised process, given that the guidelines leave room for interpretation.

In order to be effective, the adoption of these standards must be implemented and applied to information flows both coming from and going back to the issuers.

This appears to be the greatest hurdle in a situation where issuers still depend upon a variety of means of communication, including postal mail, websites, the financial press, legal publications, and dedicated market infrastructures channels.

The corporate events informational prospectuses are published in the language of each home country and are often hundreds of pages long. Upon reception of these documents, local custodians must then analyse and interpret the data—a cumbersome and laborious task that must be done in order to extract the details required for subsequent corporate action messages. The local custodian is thus responsible for initiating the procedures associated with a corporate event as they are the ones who process and transform the raw information into formatted data, which is then passed along the entire chain of intermediaries. This part of the process presents a considerable risk for the local custodian and its clients since no matter how automated the link between these two parties has become, a significant part of the exchanges with issuers is still largely paper-based, often involving pre-formatted deposit forms or complex documentation information, which, in turn, is often exchanged by fax.

History repeats itself when we look at the channels by which instructions are sent to issuers.

Although issuers have yet to become fully involved in the standardisation process, some advanced initiatives have already been made—one example being the ISO 20022 standard—to connect them to the central security depositories. Europe is currently also exploring the possibility of adopting the XBRL standard, which was introduced in the US in 2010 in an attempt to harmonise corporate action announcements sent by issuers.

Efforts to standardise the flow of data are laudable, but the establishment of standards in global processes is key to the creation of a fully integrated European post-trading market.

Thanks to professional entities such as the Corporate Action Joint Working Group and the Corporate Actions Sub Group, some of the major European players have formulated standard procedures to encourage the harmonisation of information flows. These new guidelines require that all financial industry players include all relevant dates for the process (ex-date, record date, buyer protection and market deadline) and the principles related to the management of corporate events on flows.

T2S

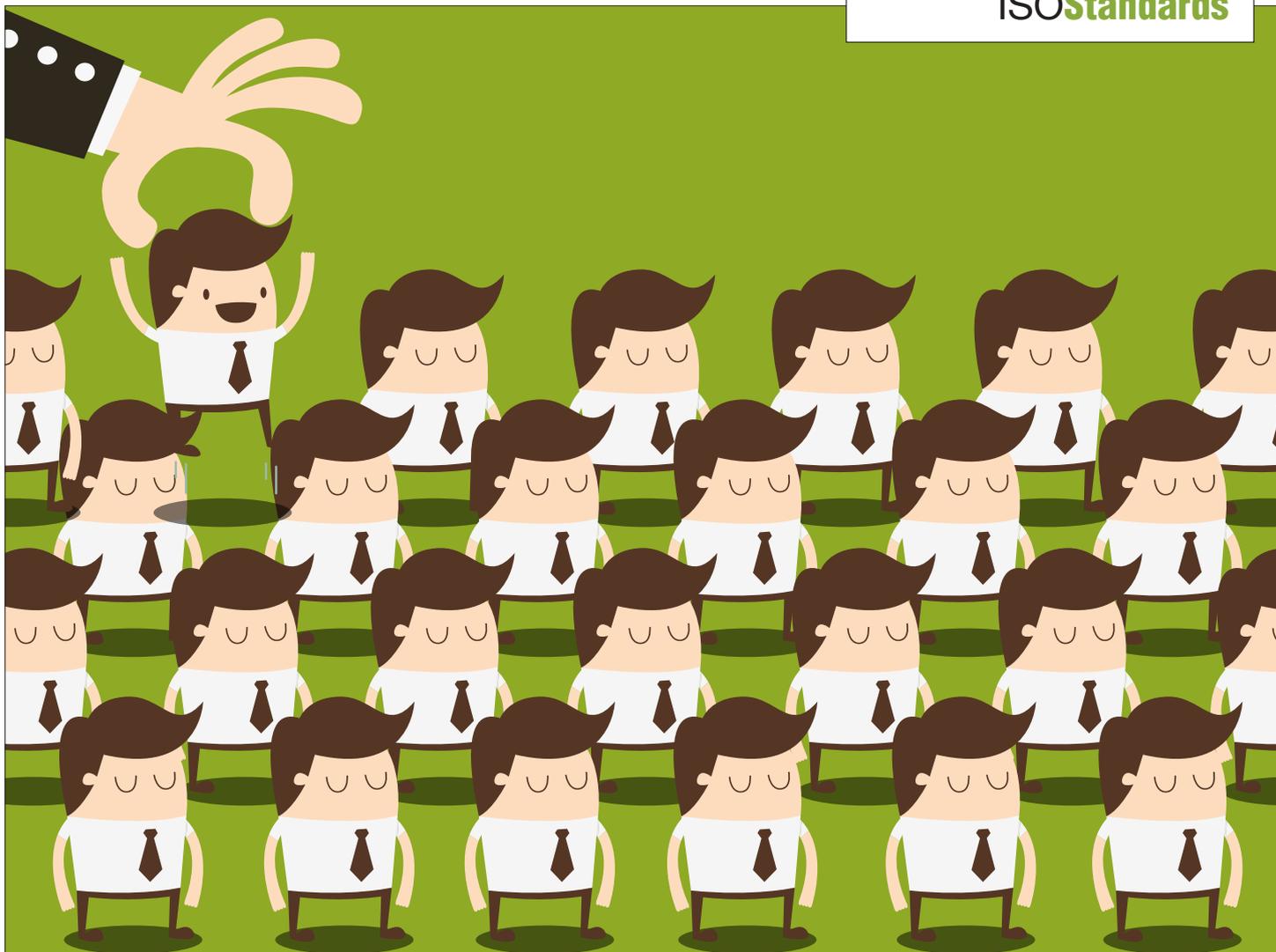
T2S will have a significant impact on the speedy and successful implementation of the new European standards. As the markets will need to adapt to T2S, convergence towards these new standards becomes a natural corollary to these efforts.

Nevertheless, despite the considerable progress that has been made on a number of financial fronts, we must be realistic about what can and cannot be achieved. The harmonisation efforts that are directed towards the various corporate action processes will continue to take some time. T2S will not cover the entire European market from the beginning stages, and even once the T2S driver is put into place, it will be difficult to implement these standards in the immediate future since some national specificities will inevitably remain.

T2S is not Merlin the wizard and there is no magic spell for a quick implementation of T2S and the full corporate action harmonisation that we are all looking for. It will certainly facilitate the harmonisation of corporate action processes and reduce operational risks, but legal and tax frameworks will remain nation specific. Asset servicing will continue to require a high degree of local expertise, which is necessary for understanding, in detail, the legal and tax framework to be applied to a given corporate action. This expertise will be even more critical as the custodian's responsibility is increasing following a number of regulations requiring custodians to maximise investor protection as a response to the crisis. **AST**



Philippe Ruault
Global head of clearing and settlement
BNP Paribas Securities Services



Picking you out in a crowd

AST speaks to BT Global Banking & Financial Markets's Chris Pickles, who takes a strong stance on the benefits of LEIs

GEORGINA LAVERS REPORTS

How have messaging standards developed into today's ISO 20022?

Messaging standards have moved from being very much a proprietary operation in the payments space, to being a far broader topic.

Back in the 1970s, when SWIFT was first created by the banks, it was to develop a cross-border payments messaging system for banks. This had a very narrow scope, which was to replace the use of telex for payment messages but keeping the same level of security.

But then there was a realisation that completing all of the cross-border payments, which honestly aren't at high volumes in today's technology terms, was fairly restricted.

As an organisation, you have to ask yourself what you can do next to grow, and this growth moved on to include securities. Ten years ago, the volume of SWIFT traffic on securities was around 35 percent and 65 percent on cross-border payments—these numbers are fairly similar today.

There were two reasons ISO 15022 came in, which was a step up from ISO 7775. Firstly, the standards needed more attention in the securities space, because SWIFT's business was growing in that area. There was another underlying reason; SWIFT needed to migrate its network of users over to its brand new IP network. One of the best ways of justifying that is framing it as a whole new set of standards. If it is called just an update in technology, customers will ask what they're getting for their

money. But by the time the users were migrated, 15022 wasn't at 100 percent. Back around that time I remember an industry conference in Amsterdam, where there was comment from a panel of central securities depositories and custodians that 15022 covered about 30 percent of what one needs in terms of automated asset servicing.

From there on, the push began towards a new ISO standard, rather than continuous updating of 15022. There has been a lot of confusion around that area ever since, because there is a natural tendency of banks to think that whatever systems they have in place achieve something already—and why can't they just build on what is already there. This reluctance stems from the fact that new technology won't generate immediate new business.

There was a story in 2003 that the industry had migrated to ISO 15022. From a regulatory side, everybody thought this was a good step forwards, but in reality, it was just a migration of the SWIFT user-base. For example, ISO payment messages are used for cross-border payments, but they haven't been used for most domestic payments, which make up more than 90 percent of all payments. So there tends to be the impression that there is an industry standard and everybody is using it, but in reality people are using it just for specific things.

The same is true for securities processing. If you look at Euroclear in UK and Ireland, it is not just using ISO standards, it is using UK-specific standards. It's not as though the industry takes one step up the ladder all together. It's extremely bitty out there.

Today, banks are going through an initiative called SEPA (Single Euro Payment Area) to get them all standardising on ISO messages. This is curious to me, because it means that for the last 40 years, they haven't been standardised.

Ultimately, I believe the idea of ISO standards being so closely associated with SWIFT can be a hindrance. People think that you can't use them if you're not using SWIFT—but ISO is actually an open and global standard.

What do you think can potentially be enhanced in ISO 20022?

There are certain areas that we are now seeing come to fruition. They make a lot of sense, but I do feel again that they have been hindered by other interests. One of the improvements that is currently very active is on legal entity identifiers (LEIs), which particularly hits the buy side, as well as custodians. Consider an investment manager; the chances are that every single fund that it manages on behalf of someone else is actually a legal entity in its own right.

For example, Fidelity may be managing thousands of different funds, each of which is a legal entity in its own right, and needs identifying separately. And currently that causes massive problems in the industry, because everyone has different identifiers. To give two examples from two large US banks: one said they had 4600 different systems for identifying the different legal entities they do business with, or for. The second bank said it had 4000 systems for identifying counterparties. That number of thousands may not be an exception—it may be a rule for major banks.

The idea of coming down to a level where you have one identifier that everyone can use—and you all know that you're talking about the same people—would be fabulous. This is an ISO standard and is probably the fastest moving standard I've seen coming out of the ISO operation, because the market regulators in the US decided this standard was needed as a result of the US Dodd-Frank Act. The US decided that it needed to be able to identify everybody

who traded in US markets, so that if it came to another 2008 crisis situation, it was known who was at risk.

Meanwhile, ISO had been working on these standards since the mid-1990s, under the title of international business entity identifier. Part of the hindrance to this initiative was the banks' belief that its introduction meant that they had to completely change what they were doing.

This meant that it got held up year after year. But finally, it got to a point where the US regulator said that there would be a standard for this, so the ISO organisation got together and issued a standard, and we now have a global initiative for LEIs that is running extremely actively. Recently, China joined the list of participating countries, adding to the US, the UK, France, Germany, as well as some of the smaller economies in Europe and the Middle East.

A further reason for this project is that identity and security go hand in hand. Sometimes, when we talk about security, people will only think about encryption. But the vital aspect to think about, is how the person knows who they are sending their message to—what is their identifier?

The idea of identification and security going hand-in-hand is probably the most critical thing that we are going to see over the next 20 years. The UK government and cabinet office are working on an approach that should be used throughout the whole financial community in the UK and beyond.

How can message volume be analysed for market instability?

Nobody has a real idea of what the total numbers of messages for the financial markets actually are—it is similar to asking how many grains of sand there are on a beach. Aside from the SWIFT environment—SWIFT charges customers by how many messages they are sending using its network, so it does actually count the messages—virtually nobody else does that. None of the pre-trade messages, for example, are counted. But high speed or high frequency trading are starting to be looked at in terms of market instability.

You start to see a frenzy arise when volumes increase dramatically over a short period. For example, imagine if word goes out that Apple files for bankruptcy. In that situation, there would be such a huge volume of messages. Once you get that huge spike in volume, that's a sign that you're about to hit instability.

It is critical for market infrastructures and regulators to analyse these spikes, but also to try and work out whether it's a good or bad thing before they make a regulatory decision.

There has been a lot of talk and a lot written about high frequency trading. Initially thought of as a bad practice, attitudes have warmed in

recent times. But there is a difference between high frequency and high speed trading. High speed trading is taking an order from an investment manager, pushing it through and executing it quickly. Meanwhile, high frequency trading is the act of trading over and over again, and potentially churning a single share.

That's where the question comes in as to why this is being done, and if it is in the interest of the market. But it will be difficult to regulate by measuring the number of messages, as it is out of the SWIFT area. Firms and trading environments use ISO data such as account numbers, but not ISO message formats or SWIFT for trading.

“ One of the improvements that is currently very active is on legal entity identifiers (LEIs), which particularly hits the buy side, as well as custodians ”

There is no central party such as SWIFT to measure the data. Therefore, regulators are realising that they need to step up their technology to be able to police a market where speed and volume is paramount. **AST**



Chris Pickles
Head of industry initiatives
BT Global Banking & Financial Markets

Leave the wheel alone

Strate's Anthony van Eden talks to AST about developing a CSD in a country often strapped for funding

GEORGINA LAVERS REPORTS

How would you sum up Strate?

Strate is South Africa's Central Securities Depository (CSD). We have been in operation for almost 15 years and provide post-trade services for equities, bonds and money market securities in South Africa. We pride ourselves on being a leading financial markets infrastructure that has aligned with global best practices and standards.

Can you discuss your recent partnership with Clearstream for collateral management services?

Since its inception, Strate has been able to create one of the most advanced and highly-rated CSDs in the world. It has been through partnering with global market experts, such as Tata Consultancy Services (TCS), SWIFT and now Clearstream, that has placed Strate and the South African financial markets where we are today. Much like many market infrastructures in other countries, Strate does not necessarily have the funding, resources or international knowledge to be developing solutions in isolation, so we have often used the mantra of 'don't re-invent the wheel'.

This partnership has enabled Strate to offer a collateral management service to financial institutions via a white-labelled solution that is not only cost-effective, but also has a faster time-to-market than traditional models. The South African market has not been immune to the collateral crunch and through this single, independent, centralised, market-wide system, Strate is able to provide an automated collateral management solution to empower the local financial institutions to efficiently manage their collateral and, in doing so, improve market liquidity and asset safety.

This project aims to meet the growing need for the greater use of collateral for financial transactions in South Africa, allowing banks to free cash on the balance sheet in order to meet Basel III requirements and improve the tracking and efficient use of collateral.

Since the financial crisis, investors want more protection—safer assets and less credit risk. Regulators have responded to heightened asset safety and have called on banks to have more liquid assets, such as cash, on their balance sheets. As a consequence, banks will have less cash to use as collateral and will have to consider using high-quality securities, such as equities and bonds, as collateral.

Currently, there is an 80:20 split of cash versus securities used as collateral. This has to move towards a greater use of securities as cash is fungible and cash will also be scarce due to the regulatory requirements from Basel III and Solvency II, which require financial institutions to hold more liquidity. The greater use of securities as collateral will free up cash and help lubricate the financial system.

“ This project aims to meet the growing need for the greater use of collateral for financial transactions in South Africa ”

Our solution will efficiently manage collateral, thereby improving market liquidity and asset safety. Its ability to track collateral movements enables the prevention of unauthorised re-use. It reduces the operational risk and the concomitant administrative burden associated with using securities as collateral, reducing costs associated with maintaining or purchasing collateral management systems.

The solution also has the ability to automatically manage the bilateral eligibility criteria of collateral, allocate the cheapest way to deliver securities against open exposures, provide regular intra-day collateral valuation and margin calls as well as automatic substitutions, optimisation, and tracking of collateral placed and received. The service will manage dematerialised bonds, equities, money market securities and facilitate cash margin calls as a last resort, should the counterparty have insufficient eligible securities to cover its open financial exposures.

Has there been much interest in the local market for the project?

Yes, a number of local market players have shown interest in the project as the adoption of

this service will help them better manage collateral internally as well as their liquidity exposures in a far more efficient manner.

What is the timing around the project?

The success of solution can already be seen, owing to the fact that it is live with Cetip in Brazil and ASX in Australia, Iberclear in Spain and Strate will go live by the end of 2013.

These countries have also formed the Liquidity Alliance. Can you discuss what this initiative is trying to do?

The Liquidity Alliance is made up of five members including the CSDs mentioned above and Clearstream. We aim to create a sustainable international industry approach to address the global collateral crunch. The alliance members believes that forging partnerships with other like-minded infrastructures is the most viable way of extending reach and enabling cross-border collateral optimisation on a short time-to-market basis in the future.

The members exchange information, identify common needs and extend global collateral solutions while encouraging the development of research, ideas and opinions.

We meet each quarter to discuss partnership plans, key developments, commercial opportunities in collateral management and to share individual market news, while also investing resources on studies and industry research. The fact that the members are from different regions of the world brings together a unique pool of global insight and expertise that is expected to be a trusted source of valuable information. **AST**



Anthony van Eden
Director of strategic projects
Strate

Reaching milestones is what we do

Milestone Group is an innovative supplier of fund processing, oversight, and distribution solutions to the funds management industry.

Milestone Group's dedication to fund-centric solutions has enabled it to develop an unparalleled understanding of the upcoming challenges that its clients will face and the technology needed to meet them transparently, robustly and efficiently.

pControl is Milestone Group's advanced technology platform designed to service today's increasingly complex fund product structures and related business processes. It supports multiple business functions in a single environment and incorporates fully integrated data management, end-to-end process control and powerful exception management capabilities. pControl delivers superior efficiency, transparency, product flexibility and control to funds market participants.

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 pControl
by Milestone Group



T2S, carving a new securities landscape: objectives, benefits and impacts of the project

The financial markets industry is evolving rapidly, affected by many regulations and operational framework changes.

TARGET2-Securities is one of the major evolutions of the post-trade value chain that will be operational in the middle of 2015.

About SLIB

Always in line with the latest changes in the European securities landscape, SLIB is a leading securities software solutions provider and a trusted partner to the financial services industry.

SLIB provides more than 50 financial institutions, with innovative software solutions to streamline their securities processing and improve their performance, whilst mitigating their risks.

The SLIB solutions support securities order and trade, clearing, settlement, custody, risk and electronic voting at general meetings.

More information on www.slib.com

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SLIB recently published a research paper on T2S, highlighting the objectives, as well as the expected benefits and potential impacts of T2S on the financial markets industry.

It has become clear that T2S is a powerful driver for the harmonisation of securities settlement practices across Europe. This research is, above all, dedicated to financial institutions that have not yet decided on a positioning neither launched their T2S project and wish to gain more insight about what T2S implies for their operations and business and what will change.

This SLIB research paper is intended to save them time by providing the objectives and the key points of the T2S Project, as well as the expected benefits and potential impacts.

It includes research elements (regulation, ECB publications, press releases, etc.) enhanced by a survey conducted by SLIB of major representative institutions in the securities industry in Europe about the potential impacts of T2S on their activities, as well as the SLIB analysis of the related main issues.

Contributors to the survey are major custodians, universal banks, or clearers and one prominent corporate trust. Contributors have their headquarters in Continental Europe, UK, North America, and run businesses worldwide. SLIB conducted interviews of experts to gather and compile visions of the potential impacts of the T2S project on the industry and of transformations that would occur.



Interested?

If you wish you gain more insight about what T2S implies for your operations and business, ask for your complimentary copy of the research on sales.contact@slib.com.



Clear the floor

The Dodd-Frank Act and EMIR will both impose confirmations, portfolio reconciliation and compression and client documentation requirements on derivatives counterparties. AST talks to three different firms about the changes

Never has an unlisted stock been so complicated. OTC derivatives are the current darling of US and European regulators, and have been subject to whole swathes of reform, with the end goal of reducing systemic risk.

Most important is Title VII of the US Dodd-Frank Act, which requires all OTC derivatives—even hedges executed by non-financial end users—to bow down to new mandates implemented by the Commodity Futures Trading Commission (CFTC).

The CFTC released dozens of rules that encompassed registration, business conduct standards, central clearing, trading, capital, margin and reporting requirements.

David Little, head of director of strategy and business development Calypso Technology, says it is unnecessary to justify this change with a historical lack of control in the OTC space. “It doesn’t really matter whether there was a lack [of control] or not. The new regulations are the new reality and the challenge is to adjust business to efficiently comply while achieving other strategic business objectives. The changes will certainly increase transparency and transform the risk profile of the affected businesses, most particularly OTC derivatives. It remains to be seen whether the new structures perform better in a severe economic crisis.”

The failure of Lehman Brothers and Bear Sterns pressed pause on the usual way that the OTC market dealt with counterparty risk: namely, through simple counterparty credit limits, margin calls and bilateral netting agreements. The regulators’ answer was to use central counterparty clearing to reduce operational risk by standardising, centralising and creating automated trade processing through a single entity.

Though this may create a headache for investment managers, there are opportunities for solutions providers.

Owing to the amount of connectivity points now needed—clearinghouses, swap data repositories, and so on—there is an increasing volume of daily reconciliations, and they are becoming more complex to carry out.

Little comments that he is seeing both large and small players changing and improving processes in all the affected areas—reconciliations, dispute management, dispute reporting and record keeping—as a result of rulings such as CFTC Rule 23.502 and the equivalent EU legislation.

Smonik Investment Systems was just one of the firms to capitalise on these new requirements, stating that new demand for straight-through reconciliation meant it had to upgrade its systems to allow for 24/7 support.

The back-office solutions provider now provides reconciliation services to five of the top

10 hedge funds in Boston. It said that this increased investment was down to hearing that investment managers were increasingly looking to streamline operations by automating middle- and back-office workflows around data management, trade reconciliation and reporting.

“ There is a huge difference between what is happening in the US and Europe, in particular when you look at the breadth of impacted organisations ”

Accenture and Broadridge Financial Solutions were two other firms to see the trend, collaborating on the launch of a new post-trade solution, signing up Societe Generale as its first client.

They stated that Accenture Post-Trade Processing could accommodate other technology to support functions such as reconciliations and corporate actions processing, which is provided by SmartStream, another partner of Accenture.

Little says that he has seen an uptick in the use of third party services and in the ability to interface from collateral systems to third-party providers.

“At Calypso we have partnered with TriResolve to provide two-way interfaces—not only sending the trade data to TriResolve, but bringing back the results of the reconciliation into Calypso so that any disputes can be managed and monitored effectively in Calypso.”

“Reconciliation has never had the glory of any of the front- or middle-office activities, but reconciliation as a function is gaining greater and greater visibility in the asset management and servicing space,” says Richard Chapman, director of reconciliations operation at SunGard.

“This can be attributed to growing emphasis on accuracy of information to support adherence to regulation, higher client reporting quality, and lower operational and market risk. Quality reporting and quality decisions can only be made based upon quality information, and quality information can only be derived through a process of validation and reconciliation.”

It follows, therefore, that the scope and remit of

reconciliation processes have expanded considerably over the past five years, he adds.

“Securities firms now look beyond the traditional trade and position reconciliations and seek to validate every and all aspects of their operational landscape including collateral, fees, pricing, and static data in addition to core cash, positions and trading data. This depth of validation spans all departments and disciplines to include OTC derivatives (centrally cleared and bilaterally agreed), listed derivatives, equities and fixed income as well as cash and foreign exchange activity. No asset class is left untouched, and no system is left un-validated.”

Little says that regular reconciliation, both of trades and collateral, is moving from best practice to a mandatory requirement.

“This, combined with the reporting requirements around disputes where all material disputes have to be reported to supervisors if not rapidly resolved (the precise definition of what is material and how long they can run varies in US and Europe)—are certainly having an effect. There is more market interest and adoption of third party reconciliation services such as TriResolve, and more reconciliations being performed by the principals.”

Compared with current practices, the number of data points being reconciled is expected to increase substantially.

“Because of the increased number of data points and frequency of reconciliations and the fact that disputes cannot be allowed to run on unattended, I expect the number of reconciliation breaks and disputes to fall rapidly to a very low level and to be maintained at that low level,” says Little.

“This trend will be further reinforced by trade repositories, which provide a common data model and representation of the underlying trades.”

Of portfolio reconciliation, Joe Halberstadt, head of FX and derivatives markets at SWIFT, says that the industry still has work to do.

“There is a clear increase in the need to confirm trades in a timely manner. We at SWIFT are already seeing the impact, with an increase in the number of particularly smaller parties moving to electronic confirmations via SWIFT and a similar increase in enquiries about confirmations and matching for vanilla and exotic products. As far as portfolio reconciliation is concerned, it does not appear that the industry has made much progress in determining how this will work in practice.”

A 1000-piece puzzle

It is clear and recognised that the process of system and data validation is more important now than ever, and that delivery of accurate and dependable information will drive customer

satisfaction, profitability and stability, says Chapman. But he points to efficiency as a troubling task to face.

“How can you aggressively expand these processes to cover such a vast array of elements without incurring significant costs and introducing inefficiency or at least operational inflexibility?”

“A centralised, automated reconciliation centre of excellence provides the key. Securities firms can now gain access to highly sophisticated solutions that were once available only to the premium tier of financial institutions.”

Chapman adds that simple cloud deployment, rapid and centralised data capture and comparison, and deep automation and workflow can introduce many benefits.

“Firstly, these firms can now achieve an incredible level of data and system confidence to support decision making and customer and external reporting requirements. Secondly, they can deliver significant operational efficiency improvements through elimination of time-consuming manual activity. Thirdly, this new consolidated source of data provides a wealth of potential information that can be used to drive long term efficiency and management reporting.”

“It may not be sexy,” he concludes, “but it is certainly a critical addition to the arsenal of

the ever-more complex operational landscape of the asset servicing and asset management community.”

Transatlantic divide

“There is a huge difference between what is happening in the US and Europe, in particular when you look at the breadth of impacted organisations,” comments Halberstadt.

“The broadest aspect of the regulation is the need to report trades to a repository. In the US, this is a single-sided requirement, meaning that it is limited to a pool of circa 100 swap dealers. But in Europe, because of the dual reporting requirements, and the fact that the classification of a derivative extends to something as simple as a foreign exchange forward, there are thousands and thousands of organisations that are impacted by the regulations.”

Halberstadt says that in the US, the large swap dealers have been ready for some time, and large corporates or investment managers in Europe are definitely starting to get ready. But, he indicates, there are undoubtedly a significant number of organisations out there that are not sure quite where they stand under the European Market Infrastructure Regulation (EMIR)—not helped by the fact that the regulations are still not entirely clear, and the deadlines keep being pushed back.

Confirming trades

In addition to the trade reporting challenges, confirmation of trades is another area that will present hurdles, says Halberstadt.

“Today, larger organisations already confirm most of their vanilla derivatives trades, but that still leaves exotic derivatives. Add to that the smaller firms who do not confirm electronically, and the challenge is significant—not least for the banks who are the counterparties to the trades.”

In the trade reporting space, the end-to-end solution that any company needs must centre around achieving access to all of the data that the regulator requires, he adds.

“Not all of these data items are necessarily available, or stored, today—so the first step is to actually get your hands on that data. The data then needs to be packaged and transmitted to a repository, and of course the company also needs to make sure that the repository has received that data correctly.”

Reporting, confirming, matching, and reconciling—it seems as though EMIR and Dodd-Frank have collectively attended to every aspect of a trade. To some, it’s a headache; to others, an opportunity. But, as Little concludes: “Regulations are the new reality.” **AST**



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Handelsbanken Capital Markets

A siesta-less day

Interactive Data's Madalene Soon discusses corporate actions in the Asia Pacific region, and the rise in demand for intra-day data

The phrase 'timely' in relation to corporate actions is problematic, given that the process is often still inconsistent and can be fraught with delays. However, in the last few years there has been an increased appetite for transforming event processing, by eliminating paper-based dissemination and the inherent risks it carries.

This has been evident particularly in Asia Pacific, as it is the first global market to open and needs to complete US market-related processing prior to the local market start, in order to ascertain positions, liquidity and market movements before the day's trading can commence.

Timeliness has also gained importance as firms wrestle with rising event volumes and increased complexity. SWIFT estimates that there are nearly one million complex corporate actions announced each year worldwide, along with a further 10 million corporate actions announcements.

Asia presents a set of unique challenges because of a lack of transparency into the different market practices in each jurisdiction, resulting in different event interpretations and differing business practices and rules regarding event notifications.

The region's multiple languages and dialects present an additional challenge. Some markets use English either as the primary language or as a translation alongside the domestic language. However, making multiple languages machine readable for processing within the bank's back office is a challenge, particularly with some of the local character sets that some downstream systems struggle to understand.

New types of corporate actions continue to emerge with a greater variety of mandatory and voluntary events. The use of sophisticated structured products and bundled instruments has made defining exposure much more complex, as each corporate action could have an impact not just on the issuer's securities, but also on the underlying constituents of the security. This creates a greater risk of error and generates challenges across the enterprise—from order management and pre-trade compliance, to clearing and settlement.

Asset servicers continually seek to improve the level of performance they offer their clients, but are under constant cost pressure themselves. Consequently, they are continually reviewing how they can automate large volumes of corporate actions quickly and efficiently.

It is clearly a competitive advantage to have data delivered in a timely, efficient and easy-to-consume manner, enabling institutions to provide their clients with up-to-date corporate actions information. But there are also operational benefits as firms can manage the events throughout the day. While the back office can clearly benefit from timely event management,

the rise in demand for intra-day delivery has also come from some surprising sources.

Catering for the masses

With heightened risk management requirements and investors seeking reassurance that the value of their portfolios are constantly being monitored for the implications of events, there has been a shift in the way that corporate actions data is used across the enterprise. While the front office has traditionally not been seen as a heavy consumer of corporate actions information, the data encompass risks found across the breadth of a financial institution.

From portfolio administration and accounting functions, through understanding and analysing risk exposure, helping to support investment strategy, to trading operations and client notifications, there is increased conversation on the formatting and use of content as firms look to develop and enhance data management functions.

Middle- and front-office functions need to incorporate timely corporate actions to enable better-informed trading, investment analysis and decision making. They help to support global investment strategies, reduce interpretation errors and enhance account and position monitoring.

For these functions the traditional batch file process is not fit for purpose; corporate actions information needs to be integrated into and across risk management, product control, investment management and trading strategies.

Corporate actions can also have a direct impact on whether trading strategies are in or out of compliance with a specific customer mandate, especially as mandates become increasingly complex. Corporate actions that affect stock prices need to be anticipated and stored for the purposes of compliance, valuation and analysis.

Therefore, timely, high-quality corporate actions data is required for the front office to make better-informed trading and investment analysis and decision making.

Event-driven operations

So while the usage requirements of corporate actions data have evolved significantly, the processes for dealing with them have not. At the same time, demands for improved risk management have increased the need for more timely information on corporate actions in order to understand the impact of events on liquidity and risk exposures.

As a result, firms that have traditionally processed corporate actions on an end-of-day basis are now looking to move to an intra-day process.

However, moving to intra-day is not a case of replacing end-of-day processes with one or two

updates; firms, driven by different pressures, are looking to receive event notifications as soon as announcements are made in the market.

Take custodian banks for example: they are under pressure to differentiate their service offering in what is a highly competitive, low-margin business. They want timelier notifications based on when an event is announced, rather than using the ex-date as a benchmark, to provide a bigger decision making window and deliver more value-added services to clients.

This requires a major shift towards a near-time, event-driven operating model and away from traditional end-of-day batch-oriented processing. Corporate actions data delivered intra-day enable firms to accelerate decision making and benefits both pre- and post-trade analysis with comprehensive global content that can be delivered on demand to end clients.

That evolution is already taking place. Exchanges in the region such as ASX will be offering an intra-day ISO 20022 service this year while the Singapore and Tokyo exchanges are looking at developing intra-day ISO-based corporate actions dissemination services.

Banks and regional custodians that have historically run end-of-day batch data processes are now moving to intra-day processing, demanding near real-time data in order to more efficiently monitor positions, gain a near-time view of exposures, and feed downstream risk management systems.

This new intra-day approach can benefit participants throughout the financial industry. Investors will benefit from faster, more accurate data enabling them to make informed decisions with a wider decision-making window, while issuers will benefit from the knowledge that their message is accurately communicated in an effective manner, improving transparency and reducing latency between issuer and investor. **AST**



Madalene Soon
Business manager, reference data
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An unsettled relationship

SunGard's Daniel Retzer examines the black, white and grey of coexisting messaging standards

Last year before SIBOS, I collaborated on what was dubbed an open letter to SWIFT regarding the coexistence of 15022 and 20022 standards for corporate actions messaging. The letter, entitled Black & White or a Hundred Shades of Grey—was a collection of thoughts, opinions and analyses that illustrated the very fact that standards' coexistence leads to fragmentation within financial services. This fragmentation can result in lost opportunities, increased expense and, in the end, declining quality and service with the corporate actions lifecycle.

I suggested in my contribution to this collaborative effort that the 15022/20022 coexistence issue was actually fairly typical when examining the evolution of any given technology. Coexistence will follow a pattern that has been observed countless times in any number of industries. The pattern emerges when you have an incumbent standard challenged by innovation. My thesis (which draws from work by Joe Bohlen, George Beal and Everett Rogers at Iowa State University and built upon earlier research conducted by Neil Gross and Bryce Ryan) focused on the fact that 20022, as with any innovation, will follow a 'technology adoption lifecycle' and, once sufficient mass and momentum were established, would render the incumbent standard obsolete. Coexistence, therefore, would end as a result of a natural continuum that featured an inflection point where the incumbent standard's adoption began to quickly decline while the new standard experienced a period of rapid adoption. In other words, if 20022 truly possesses the potential to improve corporate actions messaging—as many believe it does—then the technology adoption lifecycle will inevitably lead to the end of coexistence, with 20022 essentially replacing 15022. An artificially mandated end-of-life for 15022 is therefore not necessary.

Today, we are witnessing the gradual, global adoption of the ISO 20022 standard for corporate

actions messaging. The standard is beginning the uphill climb from the 'innovator phase' to 'early majority' phase, carefully picking its steps across the 'early adopter gap' that I described in the letter last year. Still, the general tone of the response from the banks, brokerages, asset managers and other SWIFT participants is decidedly undecided. Sentiment ranges from positive optimism to disinterest to downright hostility. Coexistence between 15022 and 20022 standards is today's reality precisely because of these wide variations in views, opinion, strategy and priority. But it's worth the while to examine where we are since last year.

The zone of uncertainty

Last year's piece indicated that coexistence was a symptom of the 'zone of uncertainty.' Coexistence leads to uncertainty for decision makers and strategists. Uncertainty is prime ground for opportunists and entrepreneurs who can capitalise on the disruption to bridge the gap between needs and wants. In the zone of uncertainty, innovation introduces an additional layer of disruption when the market is already dealing with maintaining the incumbent. In relation to SWIFT, the industry must continue maintaining 15022 updates while planning or implementing 20022. The industry must also maintain the technologies and systems required to support both standards. But this is not a new situation for financial services firms, which over time have become masters at multi-channel management out of necessity. Vendors and service providers, too, find ample opportunity providing multi-channel management solutions.

How can we gauge our position in the zone of uncertainty relative to this time last year? Is 20022, in fact, increasing in adoption while 15022 is holding steady with current implemen-

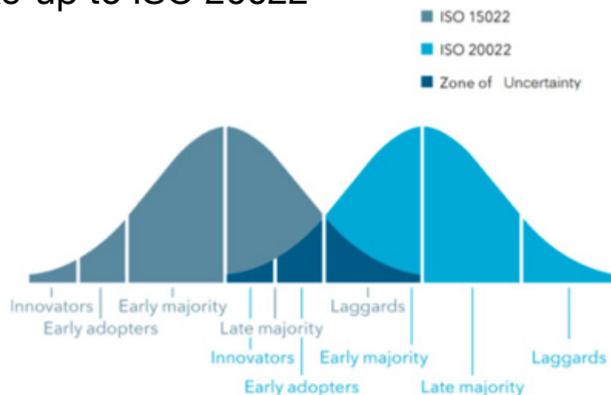
tations, but decreasing in terms of new adoption? Unfortunately, hard numbers that clearly illustrate the adoption rate for 20022 corporate actions messages are difficult to come by. We have plenty of anecdotal evidence and a number of high-profile firms making the move to 20022. But those same firms were planning or implementing solutions at this point last year.

A mountain or a mole hill?

A recent—though informal—survey conducted during a webcast entitled Corporate Actions: Off and Running illustrates what may be a shift in sentiment over the past 12 months with respect to coexistence. When asked if backers of the new ISO 20022 messaging standard will be able to convince the industry, globally, to adopt it and replace 15022, 34.4 percent responded 'yes', while 15.6 percent responded 'no'. The remaining 50 percent was split between non-committal 'maybe' and 'don't know' answers. It is notable that at this time last year, similar surveys were decidedly weighted toward the 'no'.

Such surveys do not necessarily indicate overwhelming support for an end to coexistence. But they do indicate that the industry may be recognising the potential benefits of 20022 and the relative expense of maintaining the 15022 standard going forward. Perhaps the real question we should be asking is not whether or not there should be a definite end to coexistence, but rather what firms perceive as the quantifiable value of moving to 20022. If firms cannot attach value to the 20022 standard, forcing an end to coexistence becomes moot. It is therefore critical that supporters of 20022 focus on highlighting the benefits and framing a compelling argument for the standard, rather than lobbying SWIFT to strong-arm the industry into compliance. **AST**

The take-up to ISO 20022



Daniel Retzer
Managing director and chief technology officer
SunGard's XSP



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I see the train a'comin

Broad industry agreement and some political clout mean that the Central Securities Depository Regulation is fast approaching. Omgeo's Tony Freeman says implementation could come sooner than expected

The European Commission's proposal for a Central Securities Depository Regulation (CSDR), which includes measures for the harmonisation of settlement cycles to T+2, is now in the final stages of policy making. With broad acceptance that T+2 will complete its relatively uncontested passage into legislation, it is now time for investment managers, sell-side institutions and custodians to make sure that they are ready to adhere to new settlement practices.

T+2 in Europe

The proposed CSDR is a significant piece of policy making aimed at improving the European securities settlement industry. It will introduce a common framework for the authorisation and supervision of central securities depositories (CSDs), with the objectives of increasing competition, improving efficiency and reducing cross-border settlement costs.

Specifically, the regulation will harmonise a number of key aspects of securities settlement such as market access, settlement discipline

and settlement cycles. All market participants operating or trading within the 26 member states of the EU will be required to settle their securities transactions within two days of trade date. Those that fail to do so could be subject to financial penalties and a 'naming and shaming' regime.

Today, European markets settle on divergent cycles, from T+1 to T+3, which results in inherent risk and cost. Harmonisation is therefore critical for the functioning of securities settlement since it allows for fewer trade fails and, by enforcing standards around settlement discipline, it should offer greater confidence to market participants to trade products with certain portfolio risks, such as volatility, to the benefit of the end investor.

Support among European institutions grows

There is an understanding that while the CSDR does not directly respond to the risks identified by the last crisis, it has a role to play in pre-

empting the next by contributing to the mitigation of counterparty and operational risk. This is why it is receiving broad political support.

This has become increasingly apparent of late, particularly as the regulation moves towards the implementation deadline proposed by the European Commission of 1 January 2015. At a recent industry meeting hosted by Omgeo and attended by representatives of the European Commission, the European Central Bank (ECB) and the European Securities and Markets Authority (ESMA), the message that it is a priority for the Lithuanian presidency of the Commission was loud and clear.

Moreover, it is reassuring that to date, the quality and number of amendments for CSDR is much less than for two other pieces of market infrastructure regulations under discussion, namely the Market in Financial Instruments Regulation (MiFIR) or the European Market Infrastructure Regulation (EMIR). Patrick Pearson, head of financial markets infrastructure at the European Commission, said that all parties involved in the negotiations are fully focused

on reaching an agreement and that a number of important issues—such as settlement discipline, illiquid markets, repurchase agreements and buy-ins—are being discussed in order to make the sanctioning of the regulation achievable, and the project a success.

Implementation could come sooner than expected

In light of the broad agreement and support for the CSDR, it is completely reasonable to expect that its measures will be in place before the 1 January 2015 deadline. And, importantly, there is a technical requirement for the early adoption of shorter settlement cycles: T+2 is a prerequisite for the completion of another initiative being led by the ECB—TARGET2Securities (T2S)—which will create a single European platform for securities settlement. T2S and T+2 go hand in hand, and the former cannot happen without the latter.

T2S is scheduled to go live by mid-2015, meaning that market participants may need to have their systems ready for the move to T+2 as early as mid-2014. If the policy making process around CSDR is complete by the end of the year, or by March 2014—which looks entirely possible, notwithstanding any unintended or unexpected delays—it leaves a matter of months for testing before the T+2 mandate kicks in. It is critical that market participants start to review how T+2 ready their systems and processes are as well as those of their counterparties.

Failure to adhere to T+2 will result in penalties

Market participants are largely in favour of the move to shorter settlement cycles, with research from Omgeo showing that more than 70 percent of broker/dealer, custodian bank and investment managers believe shorter settlement cycles are beneficial for the industry. Likewise, policymakers view harmonised settlement as a way to reduce trade fails that result in unnecessary cost and risk across the European securities market.

It is not surprising therefore that the CSDR proposal contains weighty measures for penalising non-compliant participants through financial penalties. Discussions around exactly how these penalties will be implemented are ongoing but the most likely outcome, however, is that counterparties that fail to deliver securities within the T+2 timeframe will incur the cost of a buy-in.

Under this system, if a trade does not settle, the market infrastructure operator would buy back the asset in the market at the prevailing market price, and then deliver it to the non-defaulting counterparty. The defaulting counterparty would incur the cost of this. If a buy-in is not possible, cash compensation would be paid instead.

Moreover, market infrastructure operators would also be required to report settlement failure

statistics to their regulators and publish annual statistics for rates of trade failure. It also proposes that participants who “consistently and systematically” fail to deliver could be suspended.

Some firms are ready for T+2, most are not

Technology is key to achieving settlement on T+2, and avoiding these penalties. In a T+2 environment, irrespective of daily transaction volumes, straight through processing, same day affirmation and management by exceptions will be critical to managing new processing requirements and meeting aggressive settlement timelines.

The tools required to achieve these processes are already in place and market structures are gearing up too. Euroclear recently confirmed the migration date of the Belgian, Dutch and French markets to the new T+2 settlement cycle: transactions with a trade date before or on Friday, 3 October 2014 will be settled according to a T+3 framework; and transactions with a trade date from Monday, 6 October 2014 will be settled according to a T+2 cycle.

However, there is a mixed picture in terms of the readiness for T+2 by individual financial market participants. Broadly speaking, large sell-side institutions are already prepared since the systems they operate are generally configurable to processing changes. Equally, their larger buy-side counterparties may already have sophisticated technology in place, enabling an efficient trade process. When the technology is right, counterparties are able to complete the trade verification process on the same day the trade is executed (same day affirmation, or SDA), which is a prerequisite for achieving T+2. Importantly, SDA rates are as high as 94 percent for firms that use central matching systems to process trades, whereas local matching processes produce SDA rates of just 36 percent in the US domestic market and up to 72 percent for cross-border and non-US domestic transactions.

In Europe and globally, market participants continue to use faxes, spreadsheets and telephone communication to confirm and process trades. Moreover, it is not uncommon for custodians or sell-side institutions not to hear back from an investment manager until five days after the transaction is supposed to settle, at which point they discover that they may disagree on the details of the trade. Indeed, 60 percent of survey respondents cited the need for counterparties to submit trades in a more timely fashion as the area requiring the most attention in terms of readiness for T+2.

All should benefit from shorter settlement cycles

There will, inevitably, be some challenges in achieving T+2 and implementation will, in some cases, require a reengineering of operational processes. However, compared to other

pieces of regulation, adhering to T+2 should be relatively straight forward, once all the internal operational building blocks are in place. Fundamentally T+2 requires a behavioural change: a commitment to adhere to best practices, more discipline in the way counterparties interact with each other, and more rapidly submitting the trade details.

“ Large sell-side institutions are already prepared since the systems they operate are generally configurable to processing changes

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The benefits will be worth it. While a reduction in counterparty risk is cited as the most important benefit of T+2, there is also a strong business case for shorter settlement cycles since reducing the amount of time that assets are tied up in the settlement process means that market participants will be able to reinvest faster, as well as manage their capital more efficiently.

Most importantly, it is critical that firms do not allow the implementation of processing changes needed for CSDR compliance to be overshadowed by other areas of regulatory reform. The move to T+2 must be well organised and well coordinated at a political, industry and individual firm level. Only then can the securities industry reap the rewards of shorter settlement cycles. **AST**



Tony Freeman
Executive director of industry relations
Omgeo



A chipped windscreen

An information deficit is making it tricky for network managers to do their jobs. MYRIAD's Simon Shepherd discusses how to overcome this obstacle

We are all familiar with bi-focal and vari-focal lenses for our spectacles. Part of the lens helps long distance viewing, and the other part allows a rapid switch to reading or looking at objects nearby. The classic example of this would be reading a map in a car and, acting as navigator, helping the driver read upcoming road signs and to follow your directions. Constantly looking up and down, someone whose sight isn't perhaps what it once was can be helped significantly by a pair of glasses which facilitate the constant switch from

looking at the detail on a map and reading a road sign which is still, perhaps, some distance away.

This driving analogy is useful: the car's windscreen is not equipped with vari-focal capabilities but affords a clear, consistent view of upcoming obstacles as well as the twists and turns in the road ahead.

Metaphorically speaking, these twists and turns in the road are what a network manager needs

to be able to navigate, whether as part of a long-term strategy and direction, or as part of short-term firefighting in response to market shocks or otherwise unanticipated events in their network. Of course, the advent of satellite navigation may help overcome the need for a visually challenged navigator, but the point remains just as valid: the satnav simply becomes the platform, which unifies the information available and provides the guidance necessary for a safe and timely arrival. The parallel with



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what a senior network manager and the driver of a car need in terms of access to quick, clean, clear information and instructions is interesting. A vari-focal windscreen, one providing a far from clear view of the road ahead, would be an active hindrance to the driver of the car. While all cars, one hopes, are equipped with a fully functioning dashboard and a proper windscreen, the network manager's view of the world, an ever-changing world, is not necessarily quite so easily or conveniently forthcoming.

The speed at which drivers have been embracing satnav technology and all the information and guidance this gives them is an encouraging pointer towards people's appetite for the adoption of new and useful tools in the network management industry. Most network managers have to confront a dirty or chipped windscreen and this is an information deficit that comes in many forms. On occasions, it can either be a complete absence of information or, perhaps much more frustratingly, an inability to access the right information quickly and cleanly because the underlying material has been organised badly or remains inaccessible.

One significant challenge is marshalling information from multiple departments in a coordinated manner; having assembled the data there is then the need to share and refine, perhaps publish the finished work internally and externally and then to store the end product as a matter of record and for possible re-use in the future. At all points in this exchange and flow of information, there is potential for there to be leakage and for a deficit to emerge. Once it is in there it is very difficult to spot and to remove the deficit. It is always better to start from as complete a position as possible, and if a process can be wrapped around the information gathering exercise which anticipates and controls the potential loss of information, so much the better.

Much has been written about risk management in connection with network management and not least the role of network managers in mitigating risk. The very process and practice of risk management has at times eclipsed a fundamental truth and that is that information is the key determining factor in risk management, not the process itself. Poor information will always compromise the risk management function. As clean and comprehensive a stable of core data, organised in a logical, accessible fashion is the only starting point for a proper risk management exercise. Anything else will always fall short, so the key question is, how well is the network management team's data organised; how comprehensive is it, and how 'connected' is it, with up- and down-stream technologies, if at all?

It is easy to trot out rather hackneyed phrases like 'you cannot manage something if you cannot measure it'. If a network management team is not managing this data properly then it

will be running at a higher risk, and unnecessarily so. The wave of inefficient, often expensive legacy systems combined with declining trading volumes over the last five years and the advent of new regulation as well, all point to higher operating costs. Putting in place the right platform now will overcome many, if not all, of these issues and will position teams to cope with higher volumes which will, at some point, come flooding back. Having a robust infrastructure in place now will provide the command, control and capacity for when it will be needed even more in the future. Indeed putting in place relatively 'future proof' systems, based on market input and industry best practice, rather than the in-house development team's somewhat idiosyncratic view of the world, can be far more cost effective than persisting with the status quo. Reputationally, some managers like the status quo, but the status quo has changed and the issue now is whether they can change as well.

This notion of persistence is important and needs to be a key feature in overcoming the information deficit. Much activity repeats what has been done before, perhaps not precisely but certainly in ways which can be automated. Reporting and management information systems (MIS) would be one area where a degree of automation or semi-automation would remove much administrative burden in repetitively digging out the same data from half-a-dozen different systems. It is these 'data silos' which are preserved by legacy systems and which represent one of the biggest blocks to progress. A single platform approach that knocks out these legacy tools and which allows consolidation of both static and dynamic data starts to address the information deficit. Single platform approaches to the problem support business line consolidation at the data level and ultimately at the level of a single business unit as well.

Indeed, many themes in the Industry come together under this topic. At a tactical level, standardisation is much talked about and little acted on; standardisation permits automation and aids aggregation, both of which underpin reporting and MIS. Both reporting and MIS address the information deficit. In the absence of standardisation, having a system in place which caters for the lack of standardisation but which simultaneously anticipates (and informs, critically) a time when there is more standardisation seems to be an intelligent approach to adopt.

At a strategic level, the question of outsourcing is front and centre of many people's minds. A key consideration remains for the bank or financial Institution turning to an outsourcer: how will you manage the outsourcer? Does the outsourcer join your network of providers and suppliers, or are they actually doing your network management for you? Both routes can be perfectly acceptable, providing the right controls are in place, and that includes technology.

“ The very process and practice of risk management has at times eclipsed a fundamental truth and that is that information is the key determining factor in risk management, not the process itself ”

The joined-up thinking in this space is starting to become apparent. Shorter review cycles generate more and more information that needs to be assessed, managed, stored and accessed in future, even if only as evidence to the regulator. Having a shared, single view of the network has never been more important and maintaining consistent, detailed and accurate static and dynamic data is the glue in all processes. Investing in modern entity reference data is one thing but having somewhere to store it and to make dynamic use of it is another. Addressing new regulations with a key focus on counterparty and risk assessment continue to be the hot topics, but addressing the information deficit is the only way to do this effectively. **AST**



Simon Shepherd
CEO
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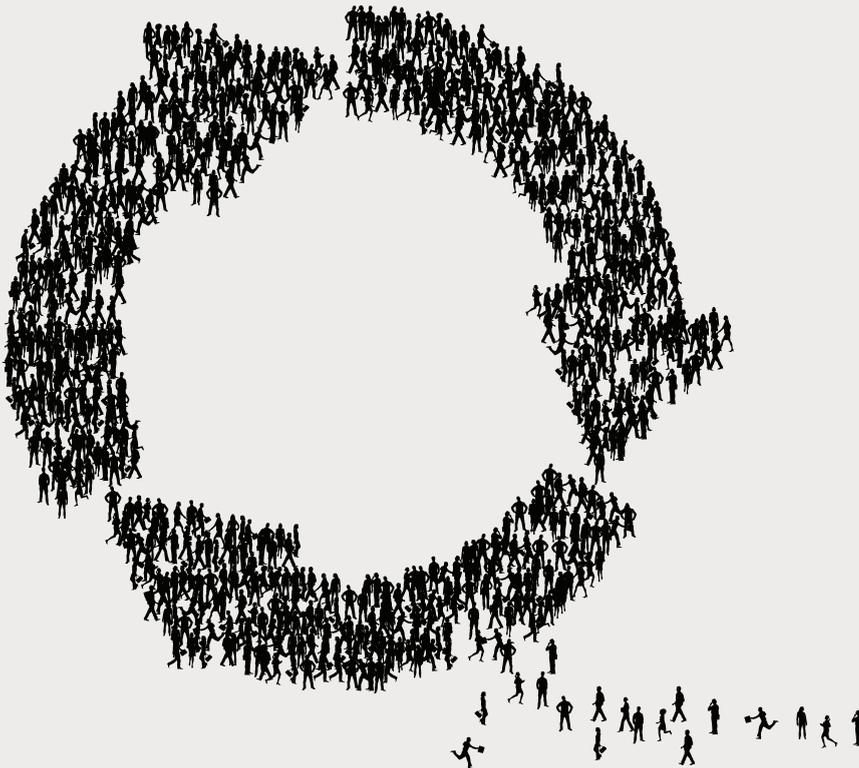
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