asset servicing times
The primary source of global asset servicing news and analysis
SIBOS Special 2023

Ability and agility

SmartStream's Robin Hasson outlines the company's unique reconciliation offerings and its plans for the future

A sense of community

AccessFintech's Roy Saadon discusses how the company has grown since 2016

You can NAV it all

FundGuard's contingency NAV solution

The next generation

Broadridge's Michael McPolin on the new trends in pass-through voting

Broadridge

Ready for Next

Drive forward. With Broadridge.

Next-generation proxy and corporate actions solutions.

Technology is changing the business world at a rapid pace – and with it, client expectations continually rise. We're committed to helping you drive your business forward, enhancing the client experience, accelerating digital adoption, reducing costs and gaining actionable insights – all while enabling you to satisfy your regulatory obligations.

You can count on us to anticipate your evolving needs and prepare for the opportunity around every curve, using innovation and advanced technology with the rigorous attention to security we bring to every solution.

WINNER 2022 assetservicingtimes INDUSTRY EXCELLENCE AWARDS

Corporate Actions Technology Award Of The Year

WINNER 2022 assetservicingtimes INDUSTRY EXCELLENCE AWARDS

Best Asset Servicing Technology Product Of The Year

CONNECT WITH US

+44 020 7551 3000

Global@Broadridge.com

Broadridge.com

Trade associations publish statement on EMIR 3.0

EFAMA, AIMA, ICI Global, and ISDA have published a joint statement on the European Commission's proposed active account requirement under the European Market Infrastructure Regulation (EMIR 3.0).

The associations, alongside FIA, BFPI Ireland, EACB, FIA EPTA, Federation of the Dutch Pension Funds, Finance Denmark and the Nordic Securities Association, have urged EU policymakers to delete the proposed active account requirement.

They have instead asked the European Commission to focus efforts on streamlining the supervisory framework for EU CCPs across member states while making the EU CCPs' offering for clearing in the EU more attractive and innovative.

Encouraging measures would provide a path to the sustainable growth of EU CCPs while maintaining competitive and open markets.

The statement highlights the implications the proposed active account requirement would have on EU capital markets by introducing fragmentation, loss of netting benefits, and making the EU less resilient to market stresses with no benefit to EU financial stability.

The statement also asserts that this requirement will create a competitive disadvantage for EU firms compared to third-country firms, who will remain able to transact in global markets without restrictions. EU clients that are required to clear at an EU CCP to comply with an active account threshold could be forced to accept an uncompetitive price wherever the price available as an EU CCP is higher than what is available at a Tier 2 CCP. ■

asset servicing times

Bob Currie
Group Editor
bobcurrie@blackknightmedialtd.com
+44 (0) 208 075 0928

Jenna Lomax
Deputy Editor
jennalomax@blackknightmedialtd.com
+44 (0)208 075 0936

Carmella Haswell
Senior Reporter
carmellahaswell@securitiesfinancetimes.com

Lucy Carter
Reporter
lucycarter@blackknightmedialtd.com

Klea Neza & Jamie Richards
Contributors

James Hickman
Lead Designer
jameshickman@blackknightmedialtd.com

John Savage
Associate Publisher
johnsavage@assetservicingtimes.com
+44 (0) 208 075 0931

Simon Holloway
Deputy Publisher
simonholloway@assetservicingtimes.com
+44 (0) 7917 734919

Justin Lawson
Publisher
justinlawson@blackknightmedialtd.com
+44 (0)208 075 0929

published by Black Knight Media Ltd

Contents

IQ-EQ France completes integration with Equitis rebrand

Multinational investor services group IQ-EQ has rebranded its French subsidiary fund management and fiduciary business Equitis as IQ-EQ.

The rebrand follows similar action with two French businesses IQ-EQ acquired in 2022, completing the firm's integration plan in France.

IQ-EQ maintains a team of 100 workers in its Paris office, with its French fund and asset management (including AIFM), debt and capital markets, corporate services and wealth management services now consolidated under a single name.

The group also maintains a third-party AIFM platform as part of its offering in France.

SIX launches Corporate Action Calendar

SIX has launched its fully automated Corporate Action Calendar to allow clients to track and process upcoming corporate action events.

The platform has been designed in response to surging client demand for more automated corporate action solutions.

The new functionality is displayed to clients through SIX iD, a data display tool.

The Corporate Action Calendar imports clients' investment portfolio. The platform then automatically flags any relevant changes to upcoming corporate actions impacting the securities in the portfolio. This helps clients to prioritise their workload and enhance operational efficiency, says SIX.

Though monitoring corporate actions is a labour-intensive process, costing the back-office significant time and money, 78 per cent of global market participants, spanning Europe, North America and APAC, still process part of their corporate actions manually.

SIX's Corporate Action Calendar tracks and processes mergers and acquisitions, dividends and stock buybacks across all their portfolio companies.

Shai Popat, managing director of product and commercial strategy, financial information at SIX, says: "This solution is yet further evidence of the unwavering dedication to client service and innovation of SIX. With this user-friendly visualisation of a complex data set we are confident of helping to transform the way corporate actions are dealt with across the industry."

Legacy technology preventing FMI development, Nasdaq report finds

Legacy technology remains a major issue among financial institutions, and is the most costly element of the majority of financial market infrastructure (FMI) investment budgets, a recent Nasdaq study has found.

The study, conducted in partnership with the ValueExchange, found that 78 per cent of FMI budgets are dominated by the maintenance and upgrading of legacy technology platforms. Just keeping current systems running requires 44 per cent of FMI investment budgets, while 34 per cent is allocated to the transition and replacement of systems.

Operating models are also subject to considerable regulatory oversight and mandated change, prompting conflicting directions of travel for systems. As a result

of these combined factors, the Nasdaq report states that firms have little budget for growth initiatives.

Almost two-thirds of participants in the study stated that mandatory regulatory change is their central concern going forwards, with growing complexities of upcoming regulations, such as the T+1 transition in North America, adding to the as of yet unresolved pressures of mandates including the Shareholder Rights Directive II and the Central Securities Depositories Regulation.

Looking ahead, 37 per cent of participants in the survey are preparing for a major system overhaul over the next five years. This is a particular priority in the post-trade space, with close to half of clearing firms expecting to trigger an update and 44 per cent of firms expecting a systems transition in the settlements space.

Nasdaq reports that due to spending constraints and investment allocations, FMIs are falling behind market participants when it comes to new technology. The study cites AI and robotic process automation, by which core processes can be automated, as an example of FMIs' lack of investment. FMIs have only allocated 4 per cent of their budget to these technologies, compared to more than 28 per cent of market participants' budgets going the same way.

T+1 provides an opportunity for firms to evolve, SmartStream whitepaper says

The transition to T+1 provides the opportunity for market participants to improve their technology and operations, a recent whitepaper from SmartStream says.

The whitepaper, 'The race to T+1 settlement', discusses the impact that the shift to a shortened settlement cycle in North America will have on global financial services organisations and financial products.

The paper affirms that the move to T+1 in the US and Canada will have a significant influence on the technology and operational workflows that financial institutions currently have in place. There will be less time for manual intervention, processes will need to be automated and regulatory directives must be put into practical technological and operational action — something the report says can be a particular challenge for capital markets businesses.

The impacts that the shortened settlement cycle will have will be enhanced by preexisting pressures, including an industry move towards digitalisation, the need to reduce operational costs and improve margins, increased data processing obligations and demands for broader asset class coverage.

Emphasising the short amount of time that the industry has left to prepare before T+1 implementation, the whitepaper notes that firms should be "well into the planning stage", assessing the implications of the shortened settlement cycle across the trading process and identifying changes that will be required to accommodate the shift.

However, despite the pressures that the T+1 implementation date brings, the company states that it can also prompt them to look at their technology infrastructure and working practices more closely. This will allow them to improve issues of inefficiency

FUNDGUARD

CROSS ENTERPRISE INVESTMENT ACCOUNTING

One platform. Multiple books. Monolithic no more.

FUNDGUARD.COM

AFME responds to FCA's CT consultation paper

The Association for Financial Markets in Europe (AFME) has welcomed the Financial Conduct Authority's (FCA's) framework for a UK bonds consolidated tape (CT), responding to the FCA's recent consultation paper. AFME members have expressed their support for a UK CT, which the association states is a reflection of broader industry opinion. By offering timely, good quality data through a resilient and cost-effective CT, access to a common view of the UK market will be more available to investors. In turn, it says, this will improve the global competitiveness of UK retail markets.

There are a number of points that AFME highlights as important to consider during the establishment of a CT.

It states that the CT should be sold under a simple, single market data licensing framework that covers several use cases, with specific definitions of re-use and direct use of data. Additionally, a standardised user licence will encourage data access through an authorised CT provider.

The association goes on to say that a balance must be found between operational capacity and the cost to users, and that operational costs must be aligned with low cost of access and transparency.

This will ensure that useful products are available to the market, and will help to broaden access to market data.

In terms of governance, AFME advocates for a consultative committee, with a rotating membership representing users and data producers across the market.

This group would meet regularly to advise and offer recommendations to the CT provider.

Finally, pre-trade data should be real-time, continuous and available to five levels of book depth with full attribution in order to allow the CT to be commercially viable and function effectively. This will also ensure that it can perform well when compared to equivalent mechanisms in other jurisdictions. ■

or inaccuracy within their operations. Additionally, the shift has the potential to bring greater opportunities for innovation such as developments around AI and data checks, as firms will have access to real-time data and higher-quality reporting.

SmartStream also reports that market participants are expressing an interest in outsourcing their operations as they prepare for T+1. As a technology provider, the company outlines its capabilities around improvements in post-trade processing, reconciliations, cash and liquidity management, collateral management, corporate actions and reference data.

Currently, firms are at varying stages of preparation; some have projects underway, while others are yet to begin their work in the area, the paper states. Given that a later move to T+0 is likely, SmartStream advises that organisations invest in strong IT systems, take advantage of new machine learning and AI developments and embrace automation. The latter will also require an industry-wide improvement of standardisation, it adds.

Apex Group opens new office in Denver, Colorado and launches business in Korea

Apex Group has opened a new office in Denver, Colorado, continuing its US expansion.

The office will be led by James Wheatley, global head of operations for private equity and direct lending, and Jason Sauve, director of fund administration services.

Client service delivery teams are already in operation in the Denver area, with the company projecting to double its headcount in the region over the next year. Apex's US operations currently employ more than

600 people, spread across 15 local offices. In August, Frederick Shaw was appointed country head.

The company has also launched its Korea business to provide solutions to global asset management clients.

Apex Group's entry into the Korean market follows the continued growth and performance of Korea as a global financial service and regional private markets hub.

Apex says its presence in Korea will supplement its existing regional offices in China, Hong Kong, Japan and Singapore, where Apex Group employs more than 500 people.

The new local team will support both domestic and global asset managers in Korea through the utilisation of Apex Group's technological capability and client services.

The launch of Apex Group in Korea will continue to be supported by Simon Hurst, who has advised the expansion in a non-executive capacity.

Hurst brings more than three decades of financial services experience, most recently as managing director and chief accounting officer at Goldman Sachs in Korea.

Peter Hughes, founder and CEO of Apex, comments: "We are proud to announce our continued geographic expansion with the launch of our Korea business as we continue to evolve our service offering and support our clients globally."

Georges Archibald, chief innovation officer and regional managing director for the Americas, says of the Denver office opening: "We understand the importance of proximity — for both our clients and our employees."

Thurgauer Kantonalbank picks Clearstream

Switzerland-based Thurgauer Kantonalbank has chosen Clearstream to consolidate all of its fund distribution support activities.

As part of the agreement, Thurgauer Kantonalbank's distribution support and commission management services will be supported by Clearstream's Fund Centre platform.

Through this initiative, Clearstream says that Thurgauer Kantonalbank will benefit from reduced internal costs associated with the collection of trailer fees.

Clearstream Fund Centre covers a range of fund distribution support services to assist fund distributors and asset managers in their know-your-data processes.

It also helps clients with the latest regulatory challenges around fund distribution, such as MiFID II. ■

Impact of the SEC's Treasury Clearing proposal could be "significant," finds DTCC

Industry feedback and data analysis collected by DTCC has indicated that the impact of the SEC's 2022 Treasury Clearing proposal could be "significant". The global post-trade service made the prediction in its industry paper, 'Looking to the Horizon: Assessing a Potential Expansion of U.S. Treasury Central Clearing', that explores the possible impacts of the SEC's proposal. The proposal would require a significantly larger portion of the U.S. Treasury cash and repo markets to be centrally cleared through an SEC-registered central counterparty.

Based on its data analysis, DTCC projects approximately US $1.63 trillion daily in incremental indirect participant Treasury activity ($500 billion of repo, $520 billion of reverse repo, and $605 billion of cash trades) will come into central clearing.

DTCC's survey responses indicated the Fixed Income Clearing Corporation's (FICC's) various central clearing access models and available services are "not broadly understood", and a majority of FICC members remain unsure which models or services they want to use for indirect participant activity.

Specifically, 52 per cent indicated they were unsure as to how it relates to the Treasury's reverse repo and Treasury repo activity, and 58 per cent indicated they were unsure as to how it relates to indirect participant Treasury cash activity.

FICC expects that the incremental indirect participant Treasury volume could result in a corresponding increase in Value at Risk (VaR) margin, which it conservatively estimates could be approximately US $26.6 billion across the FICC/Government Securities Division membership. However, these estimates assume that all incremental indirect participant activity clears through one of FICC's gross margin access models, says DTCC.

DTCC's survey respondents suggested a variety of risk- and operations-focused enhancements to FICC's offerings and services in connection with the potential expansion of central clearing of Treasury activity, such as improved cross-margining opportunities, increasing transparency of margin and CCLF calculations. ■

Robin Hasson
Head of reconciliation solutions
SmartStream

We’ve come a long way

SmartStream remains committed to providing market-leading reconciliations solutions. And there’s more to come, explains Robin Hasson, the company’s head of reconciliations solutions

SmartStream was founded in 2000 and started life as a reconciliations solutions provider for the financial services industry.

It has grown through investment and acquisitions to become a leading provider of middle- and back-office solutions and services for buy- and sell-side institutions across the globe.

The company’s head of reconciliations solutions, Robin Hasson, takes this opportunity with Asset Servicing Times to outline its current and future reconciliations offerings — the very area of expertise the company started its journey with.

“Whether it’s data quality for accuracy or for compliance, reporting or driving automation through the business, reconciliation is no longer a siloed operation. It’s connected to so many moving parts that impact all operational elements.”

Hasson began his tenure with the company as a graduate developer 25 years ago.

Detailing his career, he explains: “Early on, I was fortunate enough to be involved in the key stages of our flagship reconciliations solution, which was a game changer for the industry.”

Hasson has since worked in development and system design for the company. In recent years, he has moved into product management and has become the driving force in its future roadmap for reconciliations.

“I have recently taken on the task of heading up the whole of the reconciliations business at SmartStream. My focus has changed slightly, but the goal is clear: to take the company in one, single direction.”

SmartStream’s artificial intelligence strategy

At Sibos in 2019, SmartStream launched what was the first AI-enabled reconciliation platform, SmartStream Air. The solution, a cloud platform, uses AI technology to analyse, learn and identify what data needs to be compared – reducing the time this process takes from minutes to a matter of seconds. It then presents a list of unmatched records or disputes for investigation. Its latest upgrade, released in June of this year, leverages exception management capabilities to manage cash balances.

“SmartStream’s AI-enabled solution was genuinely a first-to-market solution — AI and machine learning are the central components,” says Hasson.

“From that point onward, the company has been carrying out further development to identify the value propositions across the whole reconciliation space, and across the wider SmartStream solution suite. It’s about making sure that when we introduce AI technology into a software stack, it delivers business value, with a very clear and precise purpose — helping users understand data automatically, while driving efficiency, automation and cost reduction.”

He adds: “We can help to predict data values and data points as data arrives onto the system. This fixes data quality issues, which results in accurate reporting for the business. In addition, it can assist operational control by predicting the cause of the break, or the time it would take to resolve the issue.”

Machine learning is an umbrella term, often collected under the banner of AI. Hasson explains that SmartStream has deployed something different — observational learning.

"We are well underway with plans to create the next-generation reconciliations platform"

"By utilising observational learning, the platform can learn from manual activity by users. It replicates this on a daily basis to improve accuracy," he outlines. "This removes the obstacle of human error.

"Learning how manual matching is performed by users and introducing that knowledge into the system is paramount. If a certain individual knows how to match certain data, but this has never been configured, the system can learn from this, and it remains resilient by doing so. As the system itself learns the patterns of data, reliance on key resources reduces. This promotes a more robust operation.

"When those factors are blended with existing configuration, SmartStream enables users to maximise automation, particularly when compared to how much or how little control they would have using other standard, traditional reconciliations solutions."

Hasson goes on to explain that all the above considerations should, in theory, bring SmartStream's clients additional business insight, which is then used to improve operational efficiencies and processes and creates new revenue opportunities.

How the industry has changed

During his tenure at SmartStream, Hasson has seen colossal change in the industry. He outlines how, early on in his SmartStream career, he helped to create a configurable web client, a no-code workflow capability. "This was a first in our space, and this capability led to the foundations of the reconciliations utility model we see across so many firms today," he says.

"What's been fantastic to witness is the evolution of the SmartStream reconciliations business. It used to be a point solution in the back-office, now it is a critical function used across many organisations for processing accuracy and control, regulatory compliance and driving automation."

"Broadly speaking, what is strikingly different about the way industry solutions are being developed now, compared to just 15 to 30 years ago, is the skill sets required. The industry needs to function in a way that allows it to be prepared for a global pandemic-type event, for example. Essentially, different skill sets are needed to build resilience. At SmartStream, we blend new and young talent with new skill sets and new ideas, along with our established expertise."

Hasson affirms: "The AI offerings we have are particularly unique. Our Innovation Lab, formed seven years ago, is paying dividends because of the knowledge and skills it possesses. With knowledge of industry experts, combined with the expertise of data scientists and UX designers, we deliver benefits that nobody else can offer in this space.

"The people who use our systems are not the same community that used them 15 years ago. Since COVID-19, we have seen the emergence of a new generation of users with more technical insight — they expect more, their expectations are higher. From development and building prototypes to their eventual delivery and hosting, everything has changed to meet these evolving user requirements."

He adds: "When it comes to designing a solution, SmartStream has strong UX principles. Therefore, we often interview users to understand what their problems, obstacles and requirements are. From there, we can design a system that matches against a problem to meet a requirement. We were awarded a Red Dot Award for financial application design just last year. This accolade reflects how we've changed our operating model to better accommodate our clients' needs."

ISO 20022

When asked what he thinks the prominent discussions at this year's Sibos will be, Hasson suggests the ISO 20022 standard and T+1 securities settlement. "The challenges of these changes make the headlines, not the implementations themselves."

He continues: "A firm's first consideration to meet the ISO 20022 standard is how to integrate it with the industry's current formats, as it will run in parallel with existing messages. The second should be identifying the value it will bring — it absolutely can bring value, as it enables data-rich messaging. It also has better traceability and transparency as well as the provision to provide additional information. This is in addition to faster payment processing, regulatory reporting, and the potential to improve data matching rates and straight-through processing.

"The automation of payments investigation is an area in which SmartStream sees potential for great change; we are working with our industry colleagues to show how much time can be saved through automated processing of new messages. We will be showcasing this at Sibos this year, as a taste of what is possible."

Hasson adds: "We're also working with Swift on their new message formats designed to automate investigations of payments in a timely fashion, and to remove a lot of manual steps. This will significantly lessen the time it takes clients to manage exceptions."

T+1 securities settlement

On the topic of T+1 securities settlement, Hasson does assert: "In an industry designed to run on a T+2 settlement cycle — or possibly still T+3 in parts — there is no doubt that the move to T+1 is going to trigger a huge amount of system change in the back-office – especially when more than 25 per cent of settlement systems are more than 20 years old.

"As we've seen with other landmark regulations, this mandatory change in a key area can be used as an opportunity to trigger wider and fundamental system change across the entire back office. Many of SmartStream's clients are already operating on T+0 compression time. Therefore, firms are already dealing with processing data at a greater speed, so we don't have any particular concerns about being able to work these volumes."

He adds: "SmartStream's core strategy has been to deliver on the straight-through processing concept. Our Trade Process Control module is a ready-to-go solution for those who need it — particularly smaller firms who may need to put something in place before May 2024.

"We're also seeing the benefits of leveraging reconciliations in-house, through connecting different solutions, for collateral management or corporate actions processing, for example. By using the data flow through the reconciliation system, customers can quickly understand their liquidity position, or it can feed back any breaks or issues in real time. All areas can improve when the data is well understood. We already service multiple business functions with our solution suite, which gives SmartStream a clear advantage."

What the future holds

When asked what the future holds for SmartStream's reconciliation business and the company as a whole, Hasson affirms: "Our aim for the future is to properly share data, and by that I mean: process it once, but use it many times. This will drive more knowledge into our systems.

"If transactions are going to be turned around at a faster speed, the agility of a system is equally as important as the quality of data. Having the agility and ability to connect to both internal and external platforms and tools for reporting, or for data input, is paramount. When users are satisfied, the quality of the operation is better, and the return on investment increases."

Hasson concludes: "SmartStream has a deep understanding of the industry; our suite of solutions has been, and still is, visionary. Our strategy has always been to build a back-office suite for the future, using the latest technologies to keep ahead of the curve.

"However, in today's market, there's a need to access them in one central hub — one that still houses the multiple capabilities that we are globally known and admired for.

"We are well underway with plans to create the next-generation reconciliations platform that can continue to evolve with our partners' and clients' needs in the years to come." ■

Owned by the Investment Corporation of Dubai, SmartStream has become an industry-leading provider of financial transaction management solutions that enables firms to improve operational control, reduce costs, build new revenue streams, mitigate risk and provide unparalleled regulatory accuracy.

The company's solutions and services span the transaction lifecycle and incorporate the latest artificial intelligence and machine-learning technologies. These can be accessed in a variety of ways, for example via application programming interfaces and microservices, or deployed as managed services and cloud environments.

What lies ahead?

The financial services industry is on the cusp of a major technological transformation. Arnaud Misset, chief digital officer at CACEIS, explains how this will create new opportunities for asset managers and asset owners alike

Changing everything

The tokenisation of assets involves the digital representation of physical assets on distributed ledgers, or the issuance of traditional asset classes in tokenised forms. It means you can manage and exchange assets globally in real time, increasing operational efficiency.

Currently, trade settlement and cash payments involve verification by a central body, which can be a time consuming process. The decentralised nature of blockchain changes that, creating efficiencies in record keeping and the delivery of funds for asset managers and asset owners alike. We are also seeing the emergence of tokenised bonds, which improve accessibility and liquidity through potentially lower fees and quicker settlement times. It's still early days, but the impetus is already there. Additionally, tokenisation enables fractional ownership, which can improve liquidity and open up access to private markets and illiquid investments. Fractional ownership is increasingly in demand as asset owners continue to look for alternative sources of return but want more liquidity, given the geopolitical and global economic backdrop.

Inside blockchain

Blockchain is an information technology protocol that facilitates the process of recording transactions and tracking assets. Every transaction is logged into a data block and validated.

These blocks are all linked to each other, and the validation mechanism makes it almost impossible to break the chain. The longer the chain, the stronger it is; this is why blockchain is considered tamper-proof. It represents a shared record of the truth, and no participant can change or tamper with the transaction.

Utilising blockchain and digital asset technologies to drive operational efficiencies is not new. For example, Carrefour, the European food supermarket group, has gradually integrated blockchain technology to store information about a product, its origin, where it was farmed, how it was produced and where the product was sold.

Today, this is giving consumers more transparency about some of the products they buy.

Tokenisation is the process of converting any underlying asset into a digital token – this means the ownership of the asset is digitalised. The different types of tokens are:

- **Stable coins:** Cryptocurrency with a fixed price, often pegged or tied to government-issued currency.
- **Securities tokens:** Digital-assets for financing or investment. They represent a digital form of financial instruments or cash certificates. These should bring operational efficiency to the market.
- **Non-fungible tokens NFTs:** This is a growing area of interest in wealth management. An NFT is a cryptographic token — a digital identifier that might be linked to ownership of a piece of art or music.
- **Central bank digital currency (CBDC):** A digital currency issued, controlled and regulated by a central bank. A CBDC has the same functions as traditional currency

A protocol called a consensus mechanism is used to validate the authenticity of transactions on the blockchain. This means that if you purchase a tokenised security and transfer it into your wallet, everyone must agree that you own that security. This forms the governance structure of the blockchain.

'Proof of work' and 'proof of stake' are the two major consensus mechanisms used to verify transactions in the blockchain. 'Proof of stake' is the younger of the two and uses much less computing power and energy consumption. This concept is more environmentally friendly than the 'proof of work' model.

"The longer the chain, the stronger it is; this is why blockchain is considered tamper-proof"

Arnaud Misset
Chief digital officer
CACEIS

"Digital assets education is going to be key across core functional areas such as compliance and risk"

The important role of custodians

In the digital asset space, asset security and the ease of transacting will reinforce the value of custodians.

Custodians play an important role in determining the adoption of digital assets. They help manage the use of digital assets by harnessing their existing expertise, building clearly defined controls and procedures for the safekeeping of assets — similar to how they approach traditional assets today.

In the digital space, a custodian's role will evolve to the safekeeping of a private key that provides access to the underlying assets. This is an important distinction. Controlling access to private keys will be paramount for the security of the underlying assets, ensuring that they cannot be accessed by another party while providing the same level of security that applies to traditional assets.

Practical considerations also need to be embedded into the tokenisation of financial instruments, such as the ability to facilitate corporate actions. This is likely to be in the form of 'smart contracts' – programmes stored in the blockchain that run when predetermined conditions are met. It means custodians need to develop a strong network of partners that can replicate what is done in the traditional space, such as corporate actions and income, in the digital assets space.

In the longer term, the very nature of digital assets will reinforce the value of custodians as guardians of asset security.

Central bank digital currencies will change everything, along with regulation

The emergence of CBDCs is a really important step. The Bank of England, for example, is looking at the case for a CBDC, as are other central banks around the world. This will drive greater adoption of blockchain.

Today, there is still a difference between delivery of assets and payment, with cash still managed traditionally in the blockchain.

A CBDC will change this, as everything will be able to be managed on the blockchain.

Regulatory activity around digital assets is also intensifying, and will potentially become less fragmented. Not surprisingly, regulators are focused on consumer and investor protections, along with risk policies, procedures and controls.

A limiting factor is the secondary market, which is restricting the expansion of digital assets. However, in Europe, the European Union DLT Pilot Regime is being developed and will lead to a trading facility. Through the facility, tokenised fund shares will be bought and sold in the secondary market.

Building awareness and becoming prepared

There are many paths ahead, and the financial services industry will have to grapple with the introduction of blockchain technology over the coming years. It's clear that the speed of digital assets development will largely be in the hands of regulators and the creators of CBDCs. Developments in this area are quick to progress.

We might also see behavioural changes with institutional investors, which will drive demand for digital assets.

How do we grapple as an industry with this innovative evolution?

Digital assets education is going to be key across core functional areas such as compliance and risk. It will also be fundamental for those who control other oversight functions, such as fund boards and pension scheme trustee boards.

CACEIS is a major player in the fast-evolving asset servicing sector, building a digital assets ecosystem to meet clients' growing demand for digital assets. ■

Michael McPolin
Managing director for market advocacy and business change
Broadridge

The new generation

Broadridge's Michael McPolin talks to Lucy Carter about the new trends in pass-through voting ahead of this year's Sibos

Michael McPolin has been a managing director for market advocacy and business change at Broadridge since 2020 and began working in the securities services industry more than 30 years ago.

With such a wealth of experience, his assertion that "the markets have never been more accessible to retail investors" is one to take notice of.

Traditional and online brokers alike have tailored their online platforms to appeal to a new generation of retail investors, McPolin says, creating "a world where we can access and run portfolios effectively via a smartphone. For the new generation, that's the standard."

While ease of access has certainly drawn in a new retail investor demographic, these participants are also expressing a greater interest in governance and are more actively engaged with their investments.

Catalysts for change

"I attribute this drive toward governance to a number of things," McPolin says. "Regulation, the global pandemic and social media have all been catalysts for change, with a view to making voting more accessible and enhancing society's focus on ESG aspects of investing." From a regulatory point of view, "the Shareholder Rights Directive (SRD II) and the Capital Markets Union (CMU) have both driven the expansion of corporate governance to the retail investor, providing a platform for the retail investor voice."

"One of SRD II's primary objectives was to enhance shareholder participation in corporate governance, encouraging investors to take more of an interest in the companies that they invest in." This was achieved through mandating the provision of proxy voting services by intermediaries to shareholders both institutional and retail, "opening the door to retail investors who historically weren't given voting opportunities" and finally giving them a say in the governance of the companies they're invested in.

The CMU, he explains, "is focused upon supporting market resiliency and making financing more available for European companies." Working towards this goal, the EU sees the retail investor as "a good source of liquidity" and is therefore pushing for the availability of corporate governance among this group. "There's a lot of momentum around the CMU and a multi-point action plan," McPolin says, "which is driving engagement."

Although shareholder disclosure requirements are not new, "SRD II has provided a more defined and automated process for issuers to establish who their investors are, and to ensure that firms have a strategy to manage effective engagement with them." This isn't something that regulation can do alone: McPolin highlights the importance of digital communication and engagement tools, "an area that Broadridge is focused on", as issuers adapt to the new climate.

"The global pandemic is never something you really want to remind people about, but it was influential in driving change," he says. On an individual level, enforced working from home prompted many people to look at trading and "a lot of people decided to have a dabble and start trading to create their own portfolio," McPolin explains.

"Gen Z are looking to leverage technology to access corporate governance. They want easy access, quick responses and easy-to-understand data. They're something of an activist generation, looking for an opportunity to influence change"

On an institutional level, "the pandemic forged changes in legacy market practices," he says. "We witnessed advances in adoption of the digital agenda probably more through necessity than choice, but the industry had to find a way to work around some of the historic challenges of wet signature processing to digital vote processing."

At this juncture, social media was key to shaping public opinion "on what's fair, right and just", with online forums being used to spread ideas, engage the investor community and influence markets. Inevitably, discussions around moral and ethical rights tie into investors' growing interest in ESG topics.

ESG covers a "broad scope of objectives" but McPolin explains that retail investors are particularly interested in topics such as sustainability, climate change and board diversity; "and they are actively using their voting capability to try to influence a company's performance across the ESG agenda". In the retail sector, he adds, ESG-related topics attract far more interest and participation than general agenda issues.

The next generation

Generation Z is having a considerable impact on the retail investment landscape as they begin to enter the market, and "they're looking to leverage technology to access corporate governance." McPolin states, "they want easy access, quick responses and easy-to-understand data."

Just as their approach to the practical side of investing differs from their predecessors, so does their attitude towards investment. "They're something of an activist generation, looking for an opportunity to influence change," McPolin adds.

Although social media has shown itself to be an important presence across generations when it comes to investing, this is especially true when it comes to Gen Z.

"They can navigate social media quickly and use it to create social awareness, responding to news and events far more quickly than ever before," McPolin says.

For issuers and asset managers, this has "really changed the dynamic about how important it is to communicate and manage your investors," McPolin comments. "This generation is an important part of the industry going forward," he adds, something that may be daunting to asset managers and issuers, who know that "an influencer with a negative Tweet can do significant damage to a company's reputation and balance sheet."

Pass-through voting perks

An increased use of pass-through voting "can bring corporate governance to the significant number of indirect investors", something that was historically not available to this group. "It was out there, but they could never really get any influence over it," McPolin explains. "They were dependent on whoever was managing the fund or the asset to do the right thing and invest to their benefit."

While the benefits for the retail investor are clear, "pass-through voting has no real benefit to the investment manager" — other than giving them a competitive edge in the market as clients seek out more opportunities to engage with their investments. Whether managers are giving investors votes on key issues or are just taking their preferences into consideration, "being able to influence things is key for investors to feel valued in that community."

Despite a strongly expressed desire to vote and have their voices heard, “this doesn’t mean that they’ll always vote,” McPolin warns — something that several managers have come to understand.

They’ve realised that they “need to catch investor interest” in order to encourage their engagement, and that “generic agenda items do not attract a lot of attention.”

Educating the investor

“The education of investors is really important,” McPolin affirms. While new regulations have given retail investors the opportunity to vote, there’s often a lack of information provided on why participating is important. As a result, “there will probably be less of a take up. Implementation, support and education around proxy voting is key to its ongoing development and enhanced usage.”

“A better understanding of corporate governance and the importance of the impact of voting, in conjunction with a convenience of voting, are all key to retail investors’ increased participation,” he adds.

Broadridge has taken a number of steps to improve awareness and education around corporate governance, McPolin mentions, including industry thought leadership, the publication of whitepapers, along with webinars and client presentations and engagement with industry bodies.

One factor that could be limiting the participation in proxy voting may be a lack of encouragement from the intermediaries under the remit of SRD II, he suggests. In these regions, “voting generates a cost for them.”

“The dynamics of that need to be thought about and understood during the development process,” he advises.

Technology and trust

As in most areas of the industry, technology has a key facilitation role to play. The number of indirect retail investors participating in votes will increase once investment managers can provide pass-through voting “in a simple and convenient way.”

Broadridge has developed technology-based solutions in response to the retail demand that allows retail investors to vote via their mobile device, either from home or on the go. This ease of access encourages voting — it’s “a lot easier to pick up my phone and vote than it is to fill out a proxy card, go to the post office, and post it back.”

"Sibos brings the whole industry together and is a great opportunity to see how the industry is evolving. It gives us an opportunity to talk to our clients and industry peers about their challenges, market opportunities and our respective business strategies"

A subtheme at this year’s Sibos conference is ‘merging technology and trust’, a task that increases in difficulty year on year as the industry continues its race towards the next innovation.

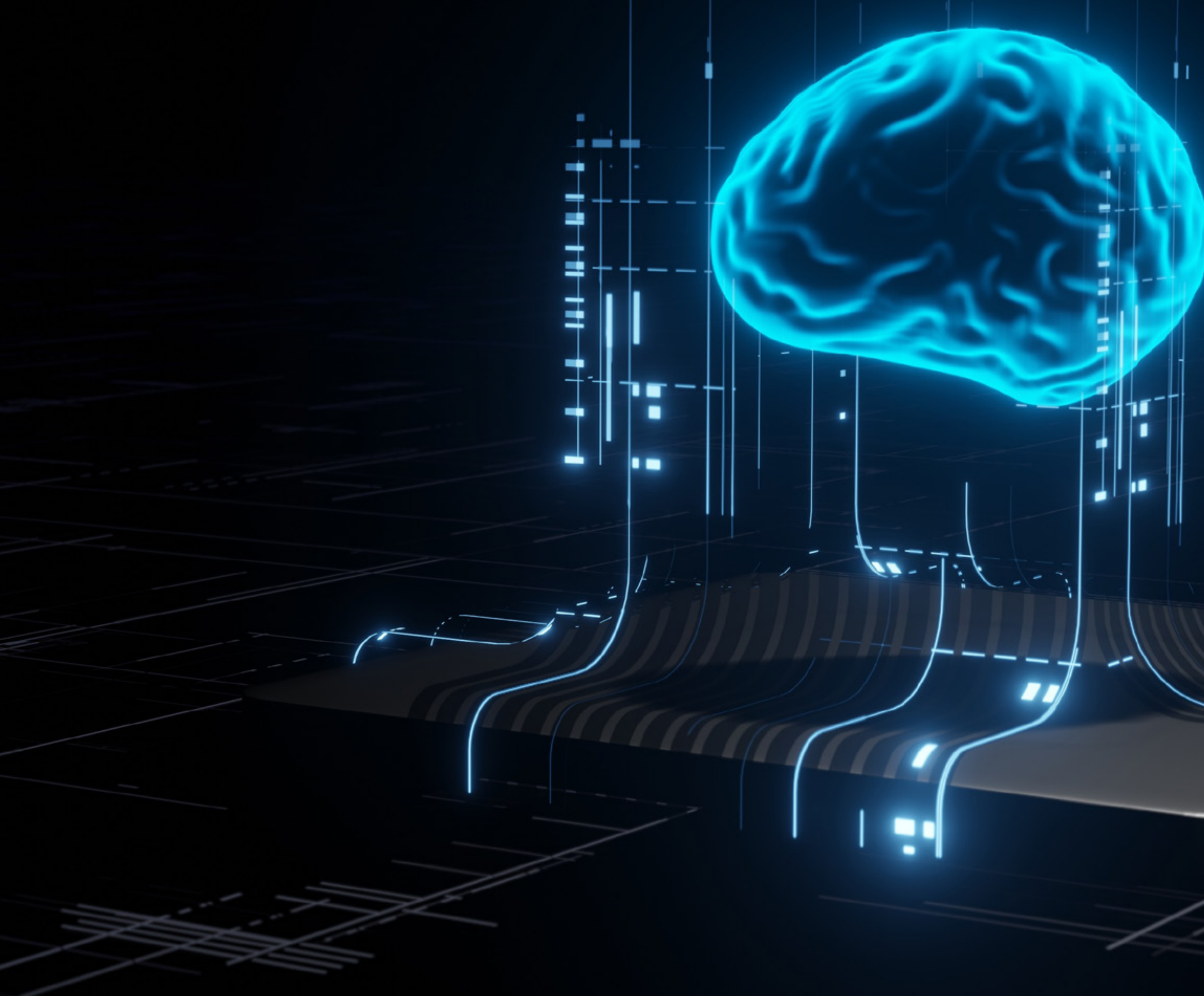
McPolin is enthusiastic about this year’s Sibos conference, to be held in Toronto. “It brings the whole industry together and is a great opportunity to see how the industry is evolving,” he says.

“It gives us an opportunity to talk to our clients and industry peers about their challenges, market opportunities, and our respective business strategies.”

“Sibos is a fantastic opportunity to communicate but also to learn,” he concludes, “bringing the industry together and providing the forum to promote new products, forge new collaborations and explore new solutions.” ■

Fitting square pegs into round holes

Jacob Ullman, associate product manager at Acadia, outlines how AI and chatbots are reshaping derivatives knowledge



In the world of technological evolution, one force undeniably stands out: AI. This formidable field of innovation has captivated global industries with its transformative potential.

The complex domain of financial derivatives, filled with its intricate terminologies and sophisticated mathematical models, is more than ready to utilise AI as a potent tool for shaping the future.

Imagine a world where it is effortless to ask a chatbot to 'clarify the Bachelier Model,' or 'show the net present value formula for a European swap', eliminating the necessity to consult quantitative researchers.

This paradigm shift in knowledge dissemination is nothing short of exhilarating. Nonetheless, challenges persist. How can we flawlessly integrate such cutting-edge AI solutions into the labyrinthine legacy systems of established banks that cover a broad spectrum of operations?

Like fitting square pegs into round holes, integrating advanced AI into the traditional financial landscape presents its own unique set of challenges and opportunities.

While most financial firms possess the essential data to address such complex inquiries, their infrastructure often lacks connectedness. Over the years, these institutions have experienced myriad acquisitions, cumbersome database migrations and an array of organisational changes.

Amidst this complex backdrop, Acadia has managed to carve a distinctive niche. Our suite of products, which operate within a unified, web-based architecture and data model, facilitates accessibility across all applications.

In doing so, this unique vantage point empowers us to focus on AI knowledge distribution and dispute management, while emphasising a responsible, human-centric approach to AI integration.

AI and finance:
a dynamic duo

With its unparalleled ability to analyse colossal volumes of data, detect patterns and generate actionable insights, AI represents an unmatched opportunity to streamline operations, fortify risk management and enrich customer experiences.

The ceaseless progression in AI technology, evident in the creation of Bloomberg's proprietary model, FinGPT, and numerous open-source models on platforms such as Hugging Face, is both awe-inspiring and invigorating.

From lending platforms like C3.ai aiming to help lenders approve more borrowers while lowering default rates, to investment apps such as Magnifi implementing a ChatGPT-style co-pilot to give personalised investment advice, AI is weaving its way through the fabric of many new companies.

Where AI might be seen as a cure-all for SaaS companies seeking innovation, Acadia has adopted a more balanced perspective. We view AI as an enabler to enhance human capability rather than a substitute. Recognising that responsible AI adoption needs to be human-centric, we should aim to uplift expertise, stimulate collaboration and foster a culture of continuous learning among our employees, instead of nurturing a generation that is already extremely reliant on AI.

Despite the intimidating challenge of integrating AI technologies into the vast legacy systems of banks, Acadia is optimally positioned. Our products cover the entire post-trade derivatives lifecycle and are built for firms subject to the uncleared margin rules (UMR). We provide a suite of services, including sensitivity pricing, exposure calculation, margin call generation, collateral eligibility determination and the orchestration of SWIFT messaging for settlement.

Acknowledging our unique standing, we're exploring the untapped possibilities that AI can offer within our infrastructure.

Amplifying Acadia's expertise with AI: *a new era of knowledge dissemination*

The centerpiece of Acadia's AI-driven vision is the Acadia Expert ChatGPT-style application. This tool is set to improve knowledge transfer within our organisation. By training our AI-powered chatbot on a comprehensive suite of documents — spanning products, pricing, data formatting and FAQs — Acadia has created an intelligent repository of expertise. This innovation democratises access to crucial information and facilitates informed decision making.

Consider a scenario where a question is raised by a collateral team to our support line. In such a case, Acadia's support team could leverage an AI-trained bot as the first line of response. This does not merely yield a pre-formatted response; it delivers a profound understanding of pricing models, data formats and exposure calculation methodologies.

In the long run, we aim to extend this democratisation of knowledge to our clients, empowering them to independently navigate through intricate protocols, thereby fostering a culture of continuous learning.

Revolutionising dispute management with AI

Acadia's exploration into AI-driven solutions extends into the pivotal realm of margin call dispute management. This domain requires speed and accuracy — two areas where well-trained AI shines.

When a margin call dispute arises, our AI system will delve into historical data and discern patterns to propose potential resolutions. Equipped with AI-generated insights, human experts can apply their industry knowledge and judgment to validate and implement the optimal resolution, marrying AI efficiency with human wisdom.

When a collateral operations person interacts with a counterparty, using real-time Acadia AI, we see a more unified resolution process. This not only standardises communication in the industry but also shortens time to settlement for a margin call.

Promoting responsible AI adoption

It is essential that Acadia carries out responsible AI adoption. Upholding this commitment requires the following:

- **Robust training and education:** Adhering to comprehensive AI ethics and best practice training to ensure employees understand the potential and limitations of AI and use it responsibly.
- **AI oversight and governance:** Establishing an internal governance framework to monitor AI models continually, promoting transparency, reducing biases and ensuring accountability.
- **Human oversight and judgment:** Emphasising the importance of human judgment in conjunction with AI-generated insights to maintain an active role in decision making. Using reinforcement learning as a feedback loop helps improve the model's accuracy.

Beyond Acadia:
The broader impact of AI solutions

As we navigate through the rapidly evolving technological landscape, Acadia is determined to lead the way in responsibly leveraging AI's transformative potential. While the financial industry grapples with the daunting task of integrating AI into entrenched legacy systems, Acadia is already making strides to apply this technology in a meaningful and beneficial way. Our unique approach extends beyond mere technology integration; we emphasise the crucial role of human insight and expertise at every stage.

Our AI-powered solutions, already reshaping the way we understand and manage client queries, are the result of thoughtful integration. They are designed not just to automate tasks, but to augment human capabilities and improve decision making. This fosters a human-centric approach, continuous learning and collaboration. But our journey does not stop here. As we continue to explore the possibilities of AI, we also understand the imperative of promoting a broader understanding and acceptance of its presence within the financial sector. Therefore, we invite our peers, partners and clients to join us in embracing this AI-led revolution.

"While the financial industry grapples with the daunting task of integrating AI into entrenched legacy systems, Acadia is already making strides to apply this technology in a meaningful and beneficial way"

Let us collectively harness this technology to enhance our services and streamline operations to shape the financial industry's future in a way that is both progressive and sustainable.

Together, we can fit the square peg of AI into the round hole of legacy systems to reshape the world of finance for the better. ■

"Acknowledging our unique standing, we're exploring the untapped possibilities that AI can offer within our infrastructure"

Jacob Ullman
Associate product manager
Acadia

Mal Cullen
CEO
CIBC Mellon

Cracking the code

CIBC Mellon's Mal Cullen discusses how leveraging advanced data analytics and cloud-native platforms for enhanced investment strategies is reshaping Canada's asset servicing landscape

In a world driven by data, where information is the currency of innovation, the industry is faced with unprecedented opportunities to transform operations, empower their teams and shape the future. Canadian institutional investors have evolving needs and, in turn, have looked to data as a critical asset.

Leveraging advanced data analytics, AI and machine learning has become a game-changer for the industry, providing valuable insights to optimise investment strategies and risk management.

As we have seen over the past few years, market disruptions, longstanding challenges and emerging unknowns continue to increase the demands on institutional investors, even as innovative data solutions and strategies have the potential to equip them to rise to meet the current moment.

During critical events, organisations depend on immediate access to timely and relevant data in order to thoroughly screen influencing factors and respond to urgent needs.

Canada boasts abundant natural resources, a diverse economy, and robust financial stability.

As an emerging force behind the country's innovative nature and growing appeal to global investors, data transformation has come to the forefront.

Canadian pension plans and asset managers are harnessing data's power to make well-informed decisions, identify emerging trends, and seize opportunities in the market.

Clients are at various stages of their transformation journeys, but the consensus is clear — data is increasingly in focus, and there is a growing need to do more with it.

Optimising efficiency: Leveraging the right tools and talent

Delivering data is only a starting point. With increasing stakeholder demands and new external risks, organisations must move faster and make defensible decisions. The challenge lies in surfacing data quickly to capitalise on opportunities and address market volatility. Firms are also facing additional pressures and expectations around modelling unique securities, dissecting performance results to distinguish exposures to high-risk sectors, and more.

There's a delicate balance between making data accessible and keeping it secure. Our clients are seeking the ability to access, analyse and connect data to drive informed decisions. At the same time, they must ensure that only authorised personnel can access sensitive information while confidently verifying its sources to maintain data integrity. They recognise that they must work through a vast array of sources to get there, including through public and private vendor sources. To aid clients in this evolution, we help them understand their data supply chain and strike a new balance. With the aid of modern tools, we enable greater sophistication in data security, selective sharing and seamless integration.

As the workforce landscape evolves, the rising influence of Gen Z and millennial workers equipped with strong native technology skills continues to shake up the workforce. Top performing digital natives have the potential to drive powerful outcomes, and bringing in skilled professionals, whether internally or from trusted providers, is vital to developing high-quality solutions.An open architecture strategy focusing on flexibility and connectivity with new systems and partners is at the forefront of meeting these demands. While new technologies and cloud computing capabilities offer promising solutions, they require careful implementation and integration.

"As the workforce landscape evolves, the rising influence of Gen Z and millennial workers, equipped with strong native technology skills, continues to shake up the workforce. Top performing digital natives have the potential to drive powerful outcomes, and bringing in skilled professionals, whether internally or from trusted providers, is vital to developing high-quality solutions"

Canada: A leader in data transformation

In the global context, Canada stands at the forefront of leading innovations. While other markets have made significant strides in cloud adoption and technical engagement, Canada stands out for its sophistication in investment strategies. For example, Canadian pension asset managers continue to set a high standard for performance, innovation and resilience, including investing into less liquid and diversified assets to enhance risk-adjusted returns.

Canada is also known for its thoughtful approach, recognising the complexity of its regulatory environment that can make any technology change more challenging. BNY Mellon conducted a global study of 200 asset managers and their views on data transformation. Pulling out a Canadian subset of respondents identified a few national differences; for example, more Canadian respondents cited challenges related to the obsolescence of their data management platforms.

In Canada and globally, respondents said they are prioritising more established proven technologies as they continue or embark upon their digitalisation initiatives. Technologies that bring additional enhancements to clients' experiences and their investment returns also rank high on the list of digital imperatives for Canadian asset managers within the next three years. These technologies include machine learning and artificial intelligence (75 per cent), predictive analytics (65 per cent) and robotic process automation (65 per cent). Effective deployment of these advanced tools will be essential for asset managers to remain competitive in an increasingly complex market.

Cloud computing has been noted to dominate today's digital imperatives. Across all regions almost all (96 per cent) respondents said they are currently leveraging cloud computing to drive digital and operational transformation. Cloud computing has become universal to the point that the role it plays is also evolving. Using specific cloud-based applications, such as customer relationship management platforms, has become a matter of course.

The industry is now using cloud as more than a way to access specific feature sets and save costs. Cloud infrastructure provides the building blocks for the adoption of advanced digital technologies, it allows managers to bring new digital services, products and experiences to clients. It delivers advantages in business agility, allowing asset managers to work more seamlessly internally as well as with service providers and other third parties.

Future-proofing with data-centric models

To position for success, future-proofing the industry requires a data-centric operating model. BNY Mellon, with its long history of innovation, and CIBC Mellon, leveraging its strategic capabilities, have been actively supporting some of Canada's largest asset managers in their transformative efforts. The key lies in empowering teams with accessible tools, self-service capabilities, and cloud-native platforms, enabling them to focus on analytics and better use their talent. A well-executed data management strategy and framework can be a game-changer for the industry. By streamlining operations, simplifying models, and providing real-time information, the industry can deliver superior client service and identify new opportunities that were previously out of reach.

Tectonic plates underpinning the business and market dynamics are indeed shifting, compounded by the impact of rising interest rates. The emergence of generative AI is reshaping how clients plan and rationalise their technology changes. While there was a surge in investment during the COVID-19 pandemic to digitise processes rapidly, businesses now face the challenge of resetting their expectations. As the pace of change intensifies, companies are recalibrating their technology strategies to align with the changing landscape.

There is an essential link between innovation and data, underscoring the need to create new products and services tailored to client's strengths and expand reach. With clients demanding greater nimbleness, we have prioritised simplifying data access, allowing teams to generate insights and capitalise on the cloud's flexibility and scalability.

Focusing on core competencies

Business strategy has to drive technology strategy. Clients must continue to optimise their human and financial resources, reinforcing and empowering core differentiators while outsourcing non-core activities to higher scale providers with greater expertise and focus. Not all vendors are equal, however.

Clients want to break free from insufficiently adaptable legacy technologies, but they must also avoid being constrained by insufficiently flexible vendors imposing monolithic technology operations that fail to account for client diversity. While institutional investors often have parallel or overlapping goals, each client has their own nuances. In many cases, clients will be best served by selecting the right offerings from a continuum of solutions and expertise rather than an 'off-the-shelf' single operating model. More open architecture provides the flexibility to choose best-in-class systems for investment activities and capture insights from a wide variety of data sources.

Unlocking operational data to accelerate analytical insights

The future of asset servicing in Canada is undergoing a transformative technology revolution, with predictive analytics, AI, machine learning and other digital tools unlocking operational data, enhanced processes and client experience enhancements. Digitisation offers a host of opportunities, such as expanding and enabling core services on a global scale, simplifying counterparty relationships and streamlining market infrastructure. For clients, the opportunities afforded by faster integration of real-time information include more seamless onboarding processes, refining the timeliness of execution, and financial optimisation opportunities such as improving cash forecasting to help reduce overdraft fees while maximising utilisation.

"The future of asset servicing in Canada is undergoing a transformative technology revolution, with predictive analytics, AI, machine learning and other digital tools unlocking operational data, enhanced processes and client experience enhancements"

AI has applications across the spectrum of these functions and enables organisations to deliver optimal experiences for their clients. While the use of AI in the financial services industry is still in its early stages, the technology in combination with traditional data sources has the potential to provide invaluable insights to inform and accelerate human decision-making and enterprise-wide growth.

CIBC Mellon and our global enterprise continue to make significant investments in technological capabilities to bring additional efficiency, flexibility and choice to our clients as they operate from and invest into Canada.

For example, as we continue to bring clients onto BNY Mellon's global custody platform, we are unlocking possibilities and enabling opportunities such as predictive trade analytics.

Our global enterprise settles upwards of 100 million trades a year. Despite best efforts, trades sometimes end up settling late. Late settlement causes problems not only for our clients but for the market as a whole; the seller's funding of securities is inefficient, buyers don't have the securities they expected to be able to utilise, and market participants can face higher costs.

"As we continue to bring clients onto BNY Mellon's global custody platform, we are unlocking possibilities and enabling opportunities"

With billions of dollars of capital locked up per day in late settling trades, our challenge was to predict the probability of a trade settling late so we could help increase market efficiency and enable our clients to save themselves time and extra expenses.

We trained our predictive AI engine to uncover patterns and settlement predictions 24 hours before the intended settlement date, so our clients have the necessary time to resolve any issues. By determining which trades are at risk, this patent-pending technology prevents loss of time and revenue and holds the potential to unlock billions of dollars of capital daily.

Digitalisation, data management and analytics lie at the heart of institutional investors' efforts to navigate operational and other complexities. The practical implication of these imperatives is that many of our clients need to focus on creating resilience and agility in their organisations. As the market continues to move quickly, we are investing to bring new technology capabilities to Canada to better support our clients' needs.

The automation and standardisation of core services and processes will deliver greater visibility, operational efficiencies and cost savings to clients, boosting service quality and enabling custodians to respond quickly to future needs.

Custody digital enhancements offer vital benefits and drive operational alpha by significantly increasing operating efficiency and streamlining processes. With a specific focus on cost takeout, automation is injected to eliminate manual tasks, saving valuable time and resources. Moreover, leveraging analytics enables the identification of operational risks that generate tangible costs, allowing businesses to make informed decisions and optimise their operations. The emphasis on operational risk and resiliency brings forth differentiated technology solutions, enabling scalable growth through data and analytics-based approaches. Adopting an agile approach to operational oversight empowers businesses to remain resilient in a constantly evolving landscape, while anomaly detection shifts the focus from reactive to proactive exception management.

Transformation across the front, middle and back office

The promise of new technologies, the value of better data management and the need for resilience gives institutions further reasons to reimagine how their front, middle and back offices operate.

For example, unlocking data can facilitate enhanced decision-making and empower front-office teams. The value of investment process intelligence lies in empowering portfolio managers with actionable insights without altering their established methodologies. Process intelligence can promote transparency and help portfolio managers deliver alpha by giving them access to data that helps them move more rapidly on market opportunities, make better-informed decisions amid disruption and drive success in an ever-changing market environment.

Asking the right questions

As organisations look to the future of technology and ask, “what next?” and “where to start?” on their digital transformation journey, having a trusted provider can act as a guiding force.

To modernise and embrace the future, organisations must address the critical question: “How can we update our systems to meet the demands of the digital age while ensuring seamless continuity?”

To begin this transformative process, it’s useful to conduct a health check to assess your current position accurately.

Engaging an outside team or a trusted consultant brings fresh eyes to the challenge. A comprehensive evaluation allows for an in-depth analysis of an organisation’s strengths and areas for improvement, in turn helping further benchmark progress against industry peers.

We encourage our clients to ask themselves questions such as:

- How can we optimise our operations to stay competitive in a fast-paced digital landscape?
- What technologies and tools will best align with our business objectives and enable us to meet the evolving needs of our clients?
- How can we ensure data security and compliance while making information accessible to authorised personnel?
- Are we focusing our internal expertise on capabilities that differentiate our business?
- How do our firm’s key priorities inform how we choose between foundational transformation, or strategically transforming components of our business model?
- The ability to implement new and transformative technologies has enabled creation of new business; how are we adapting to these business models?

“By investing in a data-centric operating model and embracing the power of data, Canada can remain a global leader in investment management and drive superior outcomes for its clients”

As Canada’s asset servicing landscape undergoes a technology revolution, data transformation emerges as a critical driver of success. With advanced data analytics, AI, and cloud-native platforms, asset managers and pension plans can unlock unprecedented opportunities for growth and innovation. By investing in a data-centric operating model and embracing the power of data, Canada can remain a global leader in investment management and drive superior outcomes for its clients.

The future is promising, and the industry’s ability to leverage data will drive its continued success. ■

Mal Cullen is CEO of CIBC Mellon, a Canadian leader in asset servicing.

He is responsible for the overall strategy and performance of CIBC Mellon. Cullen has more than 30 years of financial services and technology experience.

He was previously head of digital services at BNY Mellon, overseeing the deployment of all BNY Mellon Asset Servicing digital and data products.

Before that he was CEO of Eagle Investment Systems.

Michelle Zak
Co-founder and managing director
Qomply

Keeping up with EMIR

Qomply, a regulatory technology company that has processed billions of transaction reports for over 50 investment firms, sits firmly on the front line as it assists clients with their EMIR reporting journeys. Jenna Lomax spoke to the company's Michelle Zak to find out how the industry is responding

Hot on the heels of the Global Financial Crisis, regulators across the globe introduced the requirement for all financial firms to submit daily transaction reports on trading activity across derivative products.

Regulators were empowered with data to conduct market surveillance, monitor financial market stability and introduce mechanisms to identify systemic risk.

Transaction reporting regimes are now one of the staples of regulatory obligations for financial firms that trade over-the-counter (OTC) products. The European Market Infrastructure Regulation (EMIR), a transaction reporting regime, was first introduced in 2012 and initiated in the UK as UK EMIR in 2020.

It has undergone a significant amendment, known as the EMIR Refit, that is set to be launched in 2024.

Counterparties located in the EU and the UK are required to provide information about any OTC and exchange-traded derivative contracts they conclude, modify or terminate to a trade repository by the end of the following business day.

Firms reporting to both the EU and UK are faced with a few challenges in relation to regulative divergence as they prepare for EMIR Refit.

From your viewpoint, what are some of the biggest concerns around EMIR Refit?

Investment firms are still challenged by the expectations of regulators regarding the correct population of a few fields and counterparties' requirements to provide data.

The UK Financial Conduct Authority (FCA), with assistance from the Bank of England, is establishing a UK EMIR Reporting Industry Engagement Group which is expected to publish guidance on aspects of the UK EMIR reporting regime. Therefore, it appears there will be more clarification as we move forward.

Putting field-level expectations aside, a remaining concern for global firms is the staggered go-live dates between the UK and EU. The EMIR Refit will come into force in the UK on 30 September 2024, meaning the go-live will occur five months after Europe's EMIR introduction.

While larger firms may have the infrastructural tolerance to support the legacy EMIR report alongside the new EMIR Refit reports, some firms may struggle.

Additionally, the sheer size of the reports is daunting as the number of fields have significantly increased. The validation and standardisation in a report may present certain obstacles for firms with legacy technologies, as will the extraction of data from IT systems.

Coupled with finding resources that can help with the task of interpreting regulations and implementing the requirements, budgets may be stretched.

"The bottom line is that most firms recognise that regulatory divergence is here to stay. The UK must be able to act independently of other jurisdictions"

Firms now have in-house transaction reporting resources that can be dispatched, thereby reducing costs.

That is correct as many regulatory reporting teams are cross-functional and may be involved in the implementation of various regimes, including the Markets in Financial Instruments Regulation (MiFIR) and EMIR. While the familiarity of multiple reporting regimes may aid the understanding of requirements, there are some distinct differences between seemingly similar fields and the expectations of required data. Therefore, it is important that teams are aware of the differences when navigating the details.

The report tracking number (RTN) in EMIR should not be considered a one-to-one link with the trading venue transaction identification code (TVTIC) field in MiFID, nor should reusing the personal identifiers in EMIR that were used to populate fields in MiFID. Some aspects of trade modelling are also different. For example, FX swaps are traded as two forwards, therefore two separate transactions are concluded on the venue. In the subsequent MiFIR transaction report, FX swaps are represented in two separate transaction reports (one for the near leg, the other for the far leg) and are linked by a complex trade ID. In EMIR, they are represented as one transaction. These little details are worth noting.

Is regulatory divergence a major concern when considering EMIR Refit?

All in all, the EMIR Refit between the EU and UK is mostly in line. Apart from the staggered go-live dates, there are only a few small differences between the UK and EU versions. For example, the recognition of the index TONAR (the Tokyo Overnight Average Rate), also known as TONA, as a benchmark for Japanese yen interest rates.

Under the FCA's version of the EMIR Refit changes, the index TONA is deemed a valid entry in fields related to derivatives trading. In contrast to the FCA's policy, the EU version of the EMIR Refit changes does not recognise TONA as a valid entry in the same fields. There is also an extra field in the UK's version of EMIR Refit. However, these changes are small in comparison to the staggered go-live dates between the EU and UK.

The bottom line is that most firms recognise that regulatory divergence is here to stay. The UK must be able to act independently of other jurisdictions and ensure its financial market competitiveness.

We should expect to see changes going forward as the UK looks to refine aspects of other reporting regimes such as MiFIR.

Operational and regulatory costs have skyrocketed in the last eight to 10 years. How has this affected firms?

The 2022 Thomson Reuters' Cost of Compliance Report noted the "volume and implementation of regulatory change, a lack of budget and resources, and the availability of skilled resources" among their top concerns. The availability of skilled resources to assist in tackling regulatory obligations are especially concerning.

This has led to an industry trend towards digital transformation. Qomply sits comfortably in this space.

To this end, Qomply has seen a distinct increase in the number of firms seeking to outsource their entire transaction reporting operation. My team has worked to provide scalable and affordable solutions for firms of varying sizes. By bringing Quality Assurance and Reconciliation to Qomply's cloud-based technology, firms remove the need for manual processes, specialist knowledge, and inefficient practices.

With constrained budgets, firms are seeking cost-savings across operations, regulatory reporting and oversight.

Some firms are opting for a scalable approach towards outsourcing. First, they may utilise our cloud solutions for just Quality Assurance, then they move towards streamlining processes such as sending trades directly to the regulator themselves, rather than use an intermediary. Then, they may automate the entire process. It really depends upon their transaction volume, in-house capabilities and their strategic plan. ■

A new-found transparency

Paul Rennison of deltaconX explains why the UPI has become a driver for standardisation and enhanced risk management

The launch of UPI ignites a silent revolution

In the area of financial regulation, few changes have sparked as much transformative potential as the introduction of the unique product identifier (UPI). Its inauguration into a global set of regulation rewrites looks to support and enhance the effectiveness of the current classification of financial instruments (CFI) and international securities identification numbers (ISIN) frameworks.

Surprisingly, market feedback indicates that financial companies are underestimating the profound implications of these amendments, executed by the Association of National Numbering Agencies (ANNA) Derivatives Service Bureau (DSB), a critical institution collaborating with the regulatory arms of the Bank for International Settlements.

With all this in mind, to what extent is the UPI key to significantly improving future regulatory change, such as EMIR Refit?

Go-live

EMIR was introduced in the aftermath of the 2008 financial crisis to enhance transparency and mitigate risks in the over-the-counter (OTC) derivatives market. The go-live of the EMIR Refit next year will be the time when most European firms will first encounter the UPI.

As financial markets have evolved, so has the need for regulatory reform. In days gone by, matching rates of the registered trades and contracts did not reach the percentage to satisfy ESMA, in terms of data quality level. EMIR Refit emerged as a response to the ever-changing financial landscape. It introduced a series of measures to bolster market integrity and stability.

Headline-grabbing changes, in addition to the introduction of the UPI, included:

- Material extension of the data fields to be reported from about 120 to more than 200
- The use of the XML standard ISO 20022 as the new mandated reporting format
- The overhaul and strong improvement of the reconciliation process
- The strengthening of the clearing process between financial, non-financial and clearing house companies which redefined their duties and reporting obligations

Is the UPI the poster child for the next generation of regulations?

A central tenet of EMIR Refit's radical changes is the UPI — some would describe it as the lodestone of the drive to improve data quality.

Previously, the lack of standardised product identifiers hindered data accuracy and market oversight.

However, with ANNA DSB at the forefront, the UPI framework brings uniformity and clarity to product identification.

ANNA DSB will be the only source and, as such, the golden reference for UPI and OTC ISIN.

By providing each derivative contract with a unique and standardised UPI, ANNA DSB insists this will ensure seamless data reporting and regulatory oversight across jurisdictions.

This new-found transparency empowers regulatory bodies to monitor systemic risks more effectively, promoting financial stability and investor protection.

What is the impact of introducing the UPI?

Financial companies often misinterpret the transformative impact of the EMIR Refit's UPI, CFI and ISIN changes. They view these revisions as mere administrative adjustments, and thereby fail to grasp their potential to revolutionise the financial industrial landscape.

The UPI, in particular, is a game-changer. It lays the groundwork for enhanced risk management and market transparency.

Yet, many financial entities overlook the strategic value of this standardised identifier, neglecting the opportunities it presents for more efficient and compliant derivatives reporting.

With its provision comes a 30+ extra data point reconciliation which helps to address myriad data quality issues around OTC contracts and products.

When integrated with other financial instrument classification tools such as CFI, ISIN, FISN, LEI and MIC, the UPI will provide a comprehensive system for consistent classification, reporting and monitoring of financial instruments.

It should drive manifold potential benefits across the industry.

These include:

- **Standardisation:** the advent of a UPI creates the potential for a harmonised framework for financial instruments. This standardisation paves the way for increased interoperability among financial firms worldwide, making cross-border transactions and reporting more streamlined.
- **Enhanced risk management:** there's now a clear picture of every financial instrument's attributes, which should lead to better risk assessments. As firms better understand the nature and characteristics of the derivatives they hold, they can make more informed decisions.
- **Improved regulatory oversight:** the challenge for regulators has always been accessing accurate data to monitor market activities. With UPI, and other enhanced reporting tools, regulatory bodies will be better equipped to keep tabs on market movements, ensuring that malicious activities or significant systemic risks are detected early.
- **Operational efficiency:** with standardised identifiers, the automation of many regulatory reporting tasks becomes possible. This should lead to reduced human errors and increased operational efficiency; processes that previously took hours, if not days, should be accomplished in real time or minutes.
- **Transparency:** market participants, from institutional investors to individual traders, will benefit from enhanced transparency. If they can better understand the instruments they invest in, they should be able to carry out more informed decisions.
- **Cost efficiency:** while there will be initial costs associated with a transition to the new system, the long-term benefits of standardised reporting will lead to cost savings. Fewer discrepancies and errors mean fewer financial and reputational risks, leading to potential savings in the long run.
- **Cross-jurisdictional consistency:** having a consistent identification system such as the UPI helps to create a unified approach toward regulation and oversight across different jurisdictions, particularly when considering the global nature of the OTC derivatives market.
- **Increased trust:** there is potential for financial systems to become more transparent and standardised, resulting in greater trust from participants. This could boost liquidity and lead to increased participation in the OTC derivatives market.

Market participants could experience heady gains from the introduction of this level of standardisation. However, and as always, it won't be plain sailing.

"Financial companies often misinterpret the transformative impact of the EMIR Refit's UPI, CFI and ISIN changes"

For those firms in the middle of their regulatory change process, and for those who have yet to start, deltaconX is here to help. The company has gained its experience from engaging with a wide variety of firms on both the buy- and sell-side.

Regulatory reporting isn't going away; firms must recognise the immense potential of the coming regulatory reforms and wholeheartedly embrace them. By doing so, they will not only comply with regulatory mandates, but will also unlock new efficiencies and strategic advantages in an ever-changing financial ecosystem.

At a practical level, I will leave you with some thoughts and questions that may help your preparation:

- The UPI should be available from October 2023
- Only ANNA DSB can issue
- How will you source the UPI? Is the new process in place, as proposed by the ANNA DSB?
- Which licence profile of ANNA DSB will you need? There are seven different profiles to choose from
- Will you do this post-trade or into the source system?
- Is your source system vendor ready?
- Remember that all OTC trades, that currently have no ISIN, must be reported from 29 April 2024, with at least a valid UPI
- In its latest Q&As, ESMA indicated that it wants either an ISIN or an UPI to be reported until the UPI is established

The above list is obviously not exhaustive, but is the result of many conversations I have had on this topic. As always, firms will follow this new requirement in a way that matches their strategy or internal processes.

I wish you well. See you on the other side. ■

"Regulatory reporting isn't going away; firms must recognise the immense potential of the coming regulatory reforms and wholeheartedly embrace them"

Paul Rennison
Director of product management
deltaconX

Roy Saadon
CEO
AccessFintech

A sense of community

AccessFintech's Roy Saadon discusses the company's role as a disruptor and how it has grown a community, both in-house and across the wider industry, since its inception in 2016

Fintech companies talk a lot about 'ecosystems', but less so about the idea of 'community'. In the context of financial services, the word 'ecosystem' conveys a group of people who often have competing interests but sit in a similar practice area.

The word 'community' means something more; the sum of the parts is greater than the individual, with the consensus of a shared effort. A community is what we are trying to build at AccessFintech.

Companies that build networks have certain dynamics of their own. Critical mass is measured by the size of a community and its contributors, not just by its regular metrics, revenue or by the number of deals that it signs.

During the early days of a new 'network' company, the traditional 'value' of the network is dramatically less than other types of software companies. At this stage, the company is operating alone, yet to build a strong network. At this point in AccessFintech's story, we were looking for core entrepreneurs at our clients' firms and at various banks. We also wanted to know who had our shared, long-term vision for the network.

As we approached certain milestones, we realised we had made AccessFintech a 'disruptive' company. We were not initially looking to be a technological disruptor.

Our clients didn't see added value immediately, but they still understood that investing in us was a worthwhile exercise.

In time, we started to become more than an initial disruptor and became a critical part of their operational infrastructure.

Upon becoming a 'disruptive' company, a company's community becomes a shared entity to maintain.

When AccessFintech met this stage of its personal journey, we, as a company, started to feel that our community was operating as one, and the company was accepted as part of the wider infrastructure.

We are now at the stage where we are exponentially starting to bring products to the market.

The types of conversations that AccessFintech has with its customers no longer consist of concerns about how their data will be used, but more about what value they can derive from a shared community.

Broadly speaking, there are 'early adopters' and next in line are the 'early majority'. Following these groups are laggards who are waiting to determine if a network will be a success — they would prefer not to take too much risk upfront. Eventually, the companies that are not part of the community could be penalised for not being part of a network.

Team-based community building

The presence of a community has helped AccessFintech gain major clients and participants that have now become part of our team. There comes a point where the founding team must take a bit of a backseat from being the face of the product, and must let the senior team speak about the product with confidence and credibility.

Those senior hires should be trusted by the buying community. AccessFintech has gotten to the stage where initial risks have been replaced by a level of credibility and scale, and there's added value to be found when other industry experts are brought into the story.

We know there's always an element of risk that those entering the world of fintechs must take on, as fintechs don't have the same compensation structures and equity benefits of other sectors. Someone from within the capital markets ecosystem must have a clear vision when considering entrance into this industry. Our recent joiners, such as Chris Daur, Fabrice Carrier, and Craig Boardman certainly have this. As does our global head of buy-side customer experience Pardeep Cassells who came to the company at an early stage.

Community and scale

The best type of networks are the ones that don't have to be continually built from scratch, but have some elements of repeatability in their processes. AccessFintech is particularly good at identifying and solving financial supply chain challenges.

If an issue is impossible to fix as a single firm, but the community — either a counterparty or an agent for settlement for the beneficial owner — shares the problem, that community is driving the problem-solving activity. If data is stitched together from all of the above parties, meaningful and useful intelligence can be gathered.

When AccessFintech started out in security settlements, it was solving these types of use cases by using data collaboration. From this starting point, we moved on to areas such as standard settlement instructions (SSI). Our Synergy Network now prevents transaction issues, such as breaks and repairs, in real time. It also improves operational efficiency and prevents fails and regulatory sanctions. Other products we're now involved with include derivative payments. We are also operational in the syndicated and private credit loan space.

Data ownership and the community

We have always said, from day one, that data is the new gold. The evolution of AI is driven by a need for better quality data, more access to data and more intelligent data. It is definitely an asset. However, the ownership and responsibility for data has changed immensely. In the past, when there was less need for data, a lot of vendors were processing data that they just assumed to be theirs.

Now, we see AccessFintech as a guardian or custodian of data for the whole community. We are here to support the use of data in collaboration with others to extract value through intelligent mining that can be presented back to the community.

Although everyone understands the value of the data, and no one's willing to give it up, our business model isn't built on taking ownership of data.

On the contrary, it's built to support infrastructure and ensure security and protection, all while applying a set of tools that allow for correlation and interaction.

Managing the data of the whole community must be done safely, speedily, efficiently and securely. There's also a lot of industry effort to make data compatible, normalised and interoperable. Building data governance infrastructure allows firms to extract intelligence in a way that is seamless to them, while protecting each firm's individual data.

The future and AI

For AccessFintech, AI is another collaboration tool. There are many different models of AI, from robotics to automated scripting. It can be complementary to a manual process, or in some cases replace that manual process. There is even AI that is capable of self-improvement.

With AI, you won't always be able to type a query and get perfect answers — it's not a magic solution. However, the more you understand it, the more you'll realise how much training AI needs, and how much knowledge it already houses.

Bad data inputted into a workflow can lead to negative results, increasing the levels of course correction needed. We use AI to get from 99 per cent to 100 per cent efficiency.

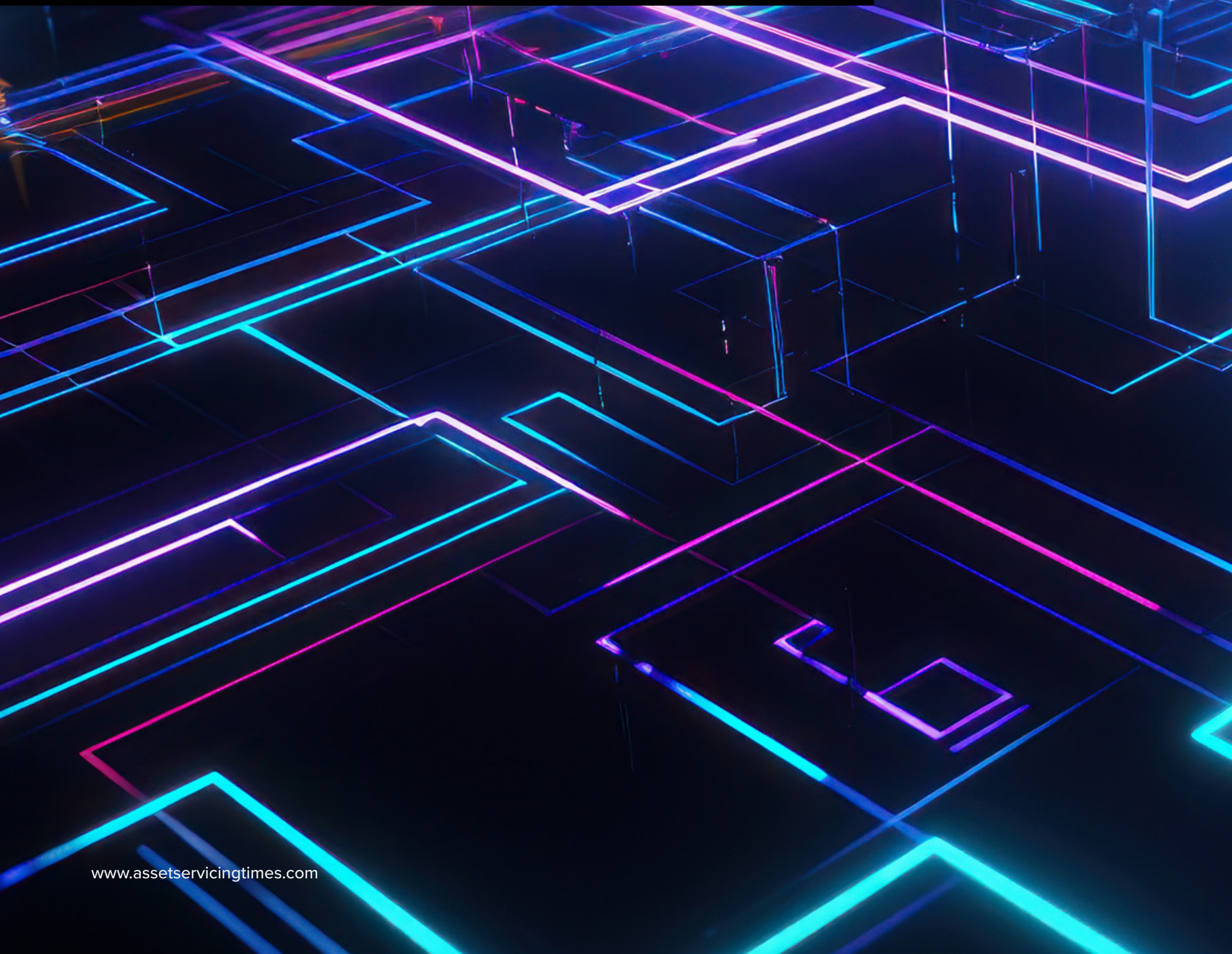
However, getting from zero to 99 per cent efficiency takes a huge amount of infrastructure perspective.

Sometimes, that last 1 per cent of efficiency takes the longest time to achieve. AI can help a company achieve this through mass processing, common knowledge, scenario testing and statistical analysis. Those models can identify cases that were much harder to identify under a human device ruleset.

At the heart of the AccessFintech community is a shared vision to solve our problems collectively, whether it concerns balance sheets, transaction costs, operational or technological capacity. AccessFintech's collective strength exceeds that of its individual members; we are independently motivated towards a shared objective. ■

You can NAV it all

FundGuard explains why Ultimus Fund Solutions selected their cloud-native Contingent NAV solution, and how their low-touch model is unique to the industry



Ultimus Fund Solutions is a leading provider of full-service fund administration, accounting, middle-office and investor solutions. It supports the servicing of mutual funds, exchange-traded funds and retail alternative funds, such as tender offer and interval funds, private funds and public plans.

Its commitment to excellence is evident in its investments in best-in-class technology, compliance programmes, organisation-wide cyber security efforts and its team of seasoned professionals.

Boutique service levels have always been a critical aspect of Ultimus' value proposition to its asset management clients. Therefore, when its clients began asking for additional daily oversight and the capabilities of an independent net asset value (NAV) contingency system, to mitigate possible risks, Ultimus needed to find a partner that could enhance its fund administration service offering while housing a technology-enhanced solution for shadow NAV monitoring.

After a careful review process, Ultimus chose FundGuard's cloud-native, AI-powered, ultra-low-touch contingent NAV solution. It offers a completely SaaS accounting-based NAV, with a fully-matching NAV accounting-based solution. It is also ready to invoke as a primary accounting system if the primary fails.

images by carballo/stock.adobe.com

"It was imperative for Ultimus to find a contingent NAV solution that could offer a very low-touch operating environment to eliminate any 'double work' by its asset servicing team and their clients"

Searching for a solution

Contingent NAVs are the most comprehensive solution to NAV resiliency, as they rely on the deployment of a second mutual fund accounting system that is separate and distinct from the primary accounting book of records (ABOR), and can be operated by the primary fund accounting service provider, the fund sponsor or another third-party service provider.

This approach requires the daily processing of all executed security trades with full income and amortisation accrual accounting, corporate actions, daily pricing, profit and loss reporting as well as an integrated general ledger to produce financial reports to fully support a contingent NAV.

It was imperative for Ultimus to find a contingent NAV solution that could offer a very low-touch operating environment to eliminate any 'double work' by its asset servicing team and their clients. It initially looked at existing indicative net asset value (iNAV) solutions that measure the intraday NAV of an investment, but none could offer a contingent NAV that could be relied upon in the case of extended outages.

Why Ultimus chose FundGuard

Ultimus saw a like-minded, innovative technology partner in FundGuard. FundGuard's innovative approach to the market offered a uniquely low-touch model that operates in real time and requires little to no manual intervention, other than the final comparison between contingent NAVs and primary ABOR NAVs. This 'autonomous' NAV approach eliminates the operational burdens for a secondary accounting team to maintain a back-up.

Ultimus' CEO Gary Tenkman describes what FundGuard brought to market as "innovative solutions and first-to-market technology that many other service providers don't have in a contingent NAV solution".

The FundGuard Contingent NAV solution allows Ultimus to offer its clients additional services to calculate real-time contingent NAVs for their registered funds. It also offers subscribing clients the option to shadow NAV monitor as an oversight to their daily NAV calculation process.

The results

When utilising this service, Ultimus operates a nearly no-touch contingent NAV operating model with a seamless daily exceptions review that requires very little day-to-day intervention. FundGuard data inputs are not reliant on any primary system data and the platform enables Ultimus to maintain a full set of data quality controls within the FundGuard platform. The controls can be switched on when FundGuard needs to assume a primary accounting role.

When invoked as a contingency, FundGuard finishes the day by reconciling its outputs to the primary system's final outputs, enabling a seamless return when the primary system is fully operational.

Ultimus and their client, Diamond Hill, recently drill tested the FundGuard contingent NAV in a live situation. Diamond Hill chose a day in the middle of the week (within normal processing hours) to 'bifurcate' and run through the calculations in real-time (not after hours). During the test, Diamond Hill compared 30 NAVs, and measured the difference between FundGuard and their actual NAVs.

According to Gary Young, Diamond Hill Capital Management's chief compliance and risk officer, the results showed that 28 of 30 NAVs were exactly the same, and the other two were only off by one penny per share due to rounding — a result of minor data differences. "This was extremely good and accurate in my opinion," he notes.

Remarking on the reliability and efficiency of the solution, Brian Lutes, senior vice president of fund accounting at Ultimus Fund Solutions, comments: "We're extremely happy with the accuracy of FundGuard's NAV calculations and the limited daily interaction from our fund accounting teams."

Sustainable and future-ready wealth

The investment industry is at a critical crossroads. From climate change and ESG considerations to geopolitical events and cybersecurity, FundGuard believes that unless operational risk is viewed from a systemic and preventative point of view, investor protection will provide little more than a band-aid.

The industry has a responsibility to ensure that wealth is both sustainable and future-ready by addressing foundational risks. Ultimus has long understood this mission and continues to offer innovative technology solutions in service options to its asset managers — particularly those who want to build resilience into their operating models. Ultimus' selection of FundGuard is indicative of this innovation.

As both FundGuard and Ultimus are proving, asset managers, or their fund administrators, have an option when it comes to NAV contingency solutions — one that takes into consideration accuracy, outage duration and affordability.

"The investment industry is at a critical crossroads. From climate change and ESG considerations to geopolitical events and cybersecurity, FundGuard believes that unless operational risk is viewed from a systemic and preventative point of view, investor protection will provide little more than a band aid"

FundGuard's investment accounting platform is a true cloud-native, reliable AI-powered operating system.

FundGuard offers one application with a code line and data model combined.

It includes three out-of-the-box configurations to address three primary use cases: contingency NAV (C-NAV), ABOR and investment books (IBOR). ■

Daniel Ginsburg
Co-founder and CEO
WTax (VAT IT)

Navigating the complex

Daniel Ginsburg, co-founder and CEO at WTax, talks to Jenna Lomax about the challenges investors face in the current withholding tax space

WTax, established in 2012 and part of the VAT IT group, is a global tax service provider. The business offers services under three umbrellas. The first is WTax Institutions, tailored to asset managers and asset owners seeking withholding (WHT) solutions.

The second is WTax Private Wealth, designed for high net-worth individuals seeking WHT services solutions, and the third is WTax Custodians, which provides tax relief solutions for custodian banks, brokers and international central securities depositories.

Though its capabilities are far reaching, Daniel Ginsburg, CEO of WTax, takes this particular opportunity with Asset Servicing Times to outline the complex field of WHT recovery. He also explains how WTax fulfils the needs of those invested in cross-border securities.

"Navigating the WHT recovery process is a complex task, necessitating a deep understanding of tax regulations across various jurisdictions and knowledge of the investment chain," he affirms.

Even regulative figures such as the European Commission agree it's a complex task, given that last year it indicated that existing mechanisms for managing WHT relief are "slow, resource-intensive and costly for both investors and tax authorities".

It added that this is the result of "complex and divergent WHT procedures that prevail across EU Member States."

Yet WTax navigates the space confidently, in Europe and beyond, by providing "comprehensive guidance on tax reclaim opportunities, as well as handling all associated administrative tasks for end investors," says Ginsburg.

There to help

Ginsburg co-founded the VAT IT group in 2000 and became CEO of WTax upon its launch more than a decade ago. As well as simplifying the tax recovery process, WTax follows the precedent set in cases heard by the European Court of Justice (ECJ) to recover WHT.

"ECJ claims may involve providing tax advice and as such, some entities in the traditional tax recovery ecosystem may not be able to pursue them," Ginsburg explains. "This limitation paves the way for WTax to step in for its clients to secure the largest possible tax refund."

He adds: "This combination of efficient process management and technology, in conjunction with expert market knowledge and local presence, emphasises WTax's commitment to advancing the WHT recovery process — enabling clients to recover their maximum entitlements, unburdened by administrative difficulties.

"One such administrative difficulty arises when tax authorities request supplementary information or paperwork to verify the investor's refund eligibility. This usually manifests as a tax office rejection or query notice," Ginsburg outlines. To meet the challenge, WTax houses a dedicated, specialist queries team that offers solutions to handle rejections and queries on its clients' behalf.

"Managing rejections and queries in tax reclaims, which demands technical understanding and strict adherence to timelines, often poses significant difficulties for investors, hindering successful refunds," Ginsburg affirms.

"Maintaining efficiency, even in the face of these administrative hurdles, is essential, as WHT leakage has the potential to considerably erode investment returns. In the world of cross-border investing, every basis point matters."

Change is the one constant

In an ever-changing landscape, managing the continuous changes to treaties, forms and specific market requirements also matters. WTax's tax technical team is responsible for monitoring and analysing changes in treaties and regulations across jurisdictions.

"This ensures WTax's market knowledge remains comprehensive, accurate and current," comments Ginsburg. "By utilising horizon scanning to identify and anticipate tax changes, our speed-to-market and response to these changes provide competitive and sophisticated tax products."

The tax technical team is also entrusted with the role of examining WHT-related cases adjudicated by the ECJ, "thereby staying informed of precedents set," Ginsburg highlights. "Such meticulous monitoring is crucial in strengthening the effectiveness and successful outcome of reclaims presented to the ECJ."

In addition, systematically integrated information, gathered by the tax technical team into WTax's processing technology, allows for a fully-automated reclaim generation process which Ginsburg affirms "ensures the most favourable and accurate WHT rates are pursued."

Technology and people

The phrase ‘technology is key’ has undoubtedly become overused in asset servicing in recent years. However, in the WHT space specifically, technology and people are both deemed as keys to success.

“Historically, within a fully manual, paper-based process, people were imperative to manage the WHT reclaim process end-to-end,” says Ginsburg. “Today, as the industry undergoes digital transformation, the integration of technology within tax processes has become an integral asset.”

Ginsburg uses German tax authorities as a key example, as they have recently digitised their WHT reclaim process. “From July 2023 the new portal will become mandatory, replacing paper-based submissions,” says Ginsburg.

However, despite this innovation, some creases are still being ironed out. “Challenges arise from individual registration, the inability to submit multiple reclaims simultaneously, and the portal being only available in German,” he highlights. “This poses difficulties for non-German speakers and requires additional manual work.”

“These challenges demonstrate that while technology plays an increasingly important role in the WHT space, the significance of people with expertise cannot be overlooked. People are instrumental in facilitating the integration of technology, addressing challenges in implementing new systems, providing guidance and training on its usage, conducting software demonstrations, and providing valuable feedback to industry consultations for continuous improvements. The combination of technological innovation and the expertise of skilled professionals is pivotal to achieve the best results and enhance efficiency across the global WHT industry.”

Digital assets

Arguably, the least regulated technological innovation in recent years has been digital assets. With this in mind, what will the ever-growing presence of digital assets mean for the WHT space? Giving his view, Ginsburg affirms: “The dynamic nature of the crypto asset market, coupled with the increasing regulatory attention and calls for enhanced tax compliance, suggests that the future may hold further developments in the realm of WHT for crypto assets.

“However, the precise nature and scope of these potential regulations remain uncertain at present. Continued monitoring of regulatory developments, and proactive adaptation to new tax frameworks, will be crucial for market participants and authorities alike.”

He adds: “With the ongoing efforts to strengthen and digitise WHT relief processes and combat tax fraud, it becomes intriguing to observe whether the European Union Commission will extend its attention to establish defined and harmonised WHT collection processes to the crypto asset world, or if the taxation on crypto assets will remain fragmented per jurisdiction.”

What’s ahead?

“Across jurisdictions, authorities and regulatory bodies are placing increased emphasis on identifying the true owners of assets and investments, aiming to ensure accurate and fair taxation,” deems Ginsburg, when asked how the WHT space is set to change. This is because one prominent aspect of WHT will be a greater focus on beneficial ownership — “driven by the need to ensure transparency and combat tax evasion,” he states.

Ginsburg goes on to say that as there will be a growing demand for sophisticated tax reporting support as local tax authorities evolve, the European Union Commission’s proposal for a common EU-wide tax relief system will only progress.

“Market participants will need to adapt to evolving regulations and comply with the changing expectations of tax authorities globally,” he warns. “The combined effects of the EU proposal for a common EU-wide system, the heightened focus on beneficial ownership, and the evolving demands of local tax authorities will contribute to a more intricate and demanding WHT environment.”

Ginsburg concludes: “To thrive in this changing landscape, market participants will need to remain well informed about these developments and invest in sophisticated tax technology and expertise.” ■

WTax is a global provider of WHT solutions. With an understanding of international tax laws, treaties and WHT intricacies, WTax offers a blend of tax technical knowledge and technology to help clients navigate the complex WHT landscape.

More information about WTax can be found at: wtax.co

Paul Simpson joins Broadridge GTO

Paul Simpson has been appointed vice chairman of Broadridge's global technology and operations (GTO) business.

He will report to Chris Perry, Broadridge president, and Tom Carey, GTO president.

In the advisory role, Simpson will be responsible for the enhancement of GTO's client focus and the development of go-to-market initiatives for targeted product lines.

Simpson has more than three decades of industry experience, and joins Broadridge from the Bank of America. He spent more than 10 years with the firm, most recently serving as managing director and global operations and regions executive. Prior to this, Simpson was a managing director and global head of treasury and trade solutions at Citi in New York. He has also held senior roles at both JPMorgan Chase & Co. and Deutsche Bank.

Commenting on his appointment, Simpson says: "Broadridge has the proven expertise to help financial services firms future-proof their business and manage these changes. I look forward to [bringing] best-in-class solutions to our clients."

Carey comments: "Paul's insights will be incredibly valuable as we drive both simplification and innovation in the front and back office for capital markets and deliver the wealth management platform of tomorrow. Paul brings an important understanding of the technology and operational needs of our clients." ■

The London Stock Exchange Group (LSEG) has appointed Charlie Walker as deputy CEO. Subject to regulatory non-objection, Walker will also join the company's board.

Walker will be responsible for assisting the daily running of the exchange.

He joined LSEG as head of equity and fixed income primary markets in 2018.

Prior to joining LSEG, Walker worked within J.P. Morgan Cazenove's equity capital markets team for 11 years.

As in his previous role, Walker will continue to report to Julia Hoggett, CEO of LSEG.

He retains his responsibilities in overseeing LSEG's primary markets business.

Commenting on the appointment, Hoggett says: "Charlie brings deep knowledge of capital markets having worked at the London Stock Exchange for the past six years in addition to his time working in investment banking.

"Charlie and I share a passion for ensuring that our markets provide companies with efficient access to capital across their lifecycle.

"I look forward to delivering on our plans to enhance our financial ecosystem and the global competitiveness of the UK capital markets."

Michael Findlay, chair of LSEG, adds: "I am delighted to welcome Charlie to the board of the London Stock Exchange.

"The LSEG has a unique position at the heart of global markets, and he will provide vital expertise as we continue to build on our position as the world's international exchange."

Panigrahi and De Silva join Citi TTS

Citi Treasury and Trade Solutions (TTS) has made two appointments in its APAC division. Sumanta Panigrahi (pictured) has been appointed head of the trade and working capital solutions business (TWCS), and Thus De Silva has been named head of commercial cards.

In his new role, Panigrahi will be responsible for delivering Citi's global product solutions and growing the TWCS business in the APAC region, a particular area of focus for the company. He will work with Citi's regional client, product and country business partners to achieve these goals, and is based in Hong Kong.

He reports to Chris Cox, head of TWCS, and Rajesh Mehta, APAC head of TTS.

Panigrahi has more than three decades of industry experience, and has been with Citi for 23 years. Most recently he was head of APAC export and agency finance, and also served as a senior member of Citi's Asia Trade Executive committee. Prior to this, he held a number of senior roles at the company.

Earlier in his career, Panigrahi was assistant vice president at SBI Capital Markets in Mumbai.

In the Singapore-based role, De Silva will be responsible for promoting growth across the market network with APAC clients. He will also be tasked with enhancing the travel and expense proposition and developing B2B flows.

He reports to Mehta and Gonca Latif-Schmitt, global head of commercial cards.

De Silva has almost 20 years of industry experience, and has held the head of commercial cards role on an interim basis since 2022. He has spent more than 15 years with Citi, first focusing on commercial cards in the EMEA region before shifting to APAC. ■

Financial services company Société Générale has appointed Bruno Delas as group chief information officer. He will remain a member of the group management committee.

Delas will be responsible for strengthening the security and operational efficiency of the group's platforms. He will report to Laura Mather, group chief operating officer, and replaces Carlos Gonçalves.

After starting his career at Accenture in 1992, working on several IT mergers between many regional banks of Crédit Agricole, Delas joined savings bank Caisses d'Epargne in 1997.

He joined Société Générale at the end of 2010 as chief information officer for the corporate function.

In January 2015, Delas was appointed chief operating officer and head of innovation and information technology for French retail banking.

Laurent Stricher will take over Delas's current position as head of innovation, technologies and IT. He will remain chief information officer of Société Générale's retail banking network.

In addition, Francis Donnat has been appointed as group general secretary, effective from 1 October. He will replace Gilles Briatta. Donnat will report to Philippe Aymerich, group deputy CEO. ■