AST ASSETSERVICINGTIMES

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BNY Mellon's billion-dollar Q3

BNY Mellon earned almost $1 billion in asset servicing fees during Q3 2014, an impressive 6 percent higher than 2013.

The year-over-year increase to $998 million in asset servicing, which covers global custody, broker-dealer services and global collateral services, primarily reflects organic growth, increased market values, net new business and higher collateral management fees in its global collateral services business.

Last year, BNY Mellon earned $939 million in asset servicing fees.

Q3 2014 asset servicing fees were also higher than the previous quarter, when the bank earned $993 million, thanks to organic growth, although they were partially offset by seasonally lower securities lending revenue, which contributed $37 million this quarter.

The bank also earned $337 million in clearing services fees in Q3 2014, beating 2013 by 7 percent and the previous quarter by 3 percent.

Both increases were driven by growth in clearing accounts and mutual fund positions, and higher asset levels, reported BNY Mellon. The sequential increase also reflects higher DARTS volume.

FICC stakes claim for central clearing of triparty repo

The Fixed Income Clearing Corporation, a subsidiary of the Depository Trust and Clearing Corporation, wants to provide central clearing for the more than $1.6 trillion institutional triparty repo market.

It will submit a rule filing with the Securities Exchange Commission (SEC), and an Advance Notice filing to both the SEC and the Federal Reserve, to outline its plans.

The rule filing will outline FICC's proposal to leverage its existing risk management and trade guarantee services for the institutional triparty repo market in the US.

By implementing FICC's central counterparty (CCP) services for these transactions, it argues there would be an increase in operational efficiencies, the completion of eligible trades would be guaranteed, and the risk of a liquidity drain in the event of a dealer failure would be lowered by extending netting services.

Murray Pozmanter, DTCC managing director and head of clearing agency services, said centralising the clearing and settlement of triparty repo transactions through FICC could potentially "help to prevent another squeeze in triparty funding such as the one observed in 2008 when funds sharply reduced their lending during the run up to the Lehman failure".

He added: "It would also provide regulators with a broader and more comprehensive view of the repo market for the monitoring and management of systemic risk as well as mitigate risks associated with a fire-dale in the tri-party marketplace."

FICC provides the only central clearing function for triparty repo trades in the US.

Northern Trust receires boost from Parisian fund

BlueHive Capital has enlisted Northern Trust to handle hedge fund administration services and middle-office outsourcing for its newly launched fund.

Founded in March 2013 by the Natixis CIB global team, Parisian alternative investment firm BlueHive introduced the new fund to invest in event-driven strategies with a multi-asset approach.

Northern Trust specialises in middle office and administration services, with a particular focus on trade processing, valuation and cash management. It will also be providing depository and data management services to BlueHive.

Sebastian Boucher, chief investment officer and founder of BlueHive Capital, said: "Whether it's providing more transparency to investors or complying with regulatory requirements, the demand for data is growing and Northern Trust's technology solutions help us to meet those demands."

This is the latest success in a recent growth spurt for Northern Trust. Since acquiring Omnium in 2011, it has secured 75 additional client mandates, including the world's largest hedge fund, Bridgewater Associates.

Peter Sanchez, head of the Northern Trust's hedge fund services, said: "With an industry that's increasingly data-driven, we find many managers are looking for a partner to help them not only manage their data, but also turn that information into insights that benefit the fund and its investors."

Based in Chicago, Northern Trust now has offices in 19 international locations and brings 125 years of industry experience to the table.

Sanchez added: "We're pleased to support BlueHive, helping them to remove the administrative burden of fund management and enabling them to focus on their core business of managing money."

CHAPS crash sparks Bank of England investigation

The Bank of England has launched an official investigation in to the failing of the CHAPS system that halted payments to thousands of customers.

The electronic payment system was affected by the bank's Real-Time Gross Settlement system (RTGS), which struggled to restart on 20 October after maintenance at the weekend.

ASTINBRIEF

AST ASSETSERVICINGTIMES

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
Tel: +44 (0)20 8663 9620

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)20 8663 9629

Reporter: Stephen Durham
stephendurham@assetservicingtimes.com
Tel: +44 (0)20 8663 9622

Editorial assistant: Tammy Facey
tammyfacey@blackknightmedialtd.com
Tel: +44 (0)20 8663 9649

Account manager: Serena Franklin
serenafranklin@assetservicingtimes.com
Tel: +44 (0)20 8663 9626

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
Tel: +44 (0)20 8663 9628

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK

By value, about 80 percent of CHAPS payments are wholesale financial transactions, and it is often used by solicitors in the final stages of property purchases. The fault meant many of these transactions could not be finalised, leaving customers stranded at the last minute, unable to move home.

Mark Carney, governor of the Bank of England, has launched an independent review in to the causes of the failure, the effectiveness of the response, and lessons learned for future contingency plans.

Findings will be presented to a court and a full report published.

CHAPS usually runs from 6am to 4pm on weekdays, but as the service was resumed at about 4pm on 20 October, the operating time was extended until 7.40pm.

By 8pm, a total of 142,759 payments had been processed, a number in line with the average volumes for a Monday.

Phil Kenworthy, managing director of CHAPS Co, said in a statement: "Following the operational incident at the Bank of England … CHAPS would like to apologise for any delays customers may have experienced with their payments and would ask that anyone impacted by this contact their bank or building society for assistance."

Moscow Exchange expands Chinese relations

Moscow Exchange has pledged to strengthen its relationships with two of China's state-owned banks, the Bank of China and the Industrial and Commercial Bank of China (ICBC).

Alexander Afanasiev, CEO of Moscow Exchange, met with the president of the Bank of China, Chen Siqing, on 13 October, during an official meeting between the Russian and Chinese prime ministers.

Afanasiev met ICBC chairman Jiang Jianqing to discuss strengthening the relationship between the two markets, with the aim of creating an increase in Russian rubles (RUB) and Chinese yuen (CNY) used in settlements in both countries, and in the global market.

Moscow and China began working together in 2010 when RUB/CNY trading was launched on the Moscow Exchange. A large increase in the first nine months of 2014 led to CNY trading volumes reaching $1.15 billion in September.

Jianqing said: "Our joint goal is the active use of our national currencies for settlement of trade between our countries. We continue to work to expand the line of instruments denominated in these currencies to meet the demands of clients of the bank and the exchange."

The ICBC also expressed an interest in being a liquidity provider for the upcoming currency pairing between Russian rubles and Hong Kong dollars.

Afanasiev said: "We plan to expand our cooperation going forward, which will benefit both organisations, strengthen Russo-Chinese trade relations and boost development of the financial markets of both countries."

Fundsquare and Confluence partner up for AIFMD

Confluence is teaming up with market infrastructure specialist Fundsquare to work towards a simplified system for transparency reporting under the Alternative Investment Fund Management Directive (AIFMD).

AIFMD was designed to create a harmonised, EU-wide framework to monitor the risks of alternative investment funds, and brought in new rules applying to their managers.

New rules include a transparency reporting system, meaning that managers must provide an accurate and detailed account of their assets, strategies and transactions, reporting the data to their relevant jurisdictions.

This requires collection of more than 400 data points from internal and third-party systems, and has proven to be a challenge.

Atlassian's Confluence software provides data management solutions for asset and investment managers, allowing users to consolidate and share data across platforms. Fundsquare specialises in international market infrastructure, facilitating cross-border fund distribution and establishing relationships between investors and fund managers.

Combining the Confluence Unity NXT AIFMD Transparency Reporting fund administration application with Fundsquare's cross-border facilities, the partners intend to simplify the process of transparency reporting for all national competent authorities (NCAs) throughout the EU.

By incorporating Fundsquare into the solution, asset managers need only upload files once for them to be disseminated to multiple NCAs in the format required by each to ensure accuracy and timeliness of filings to each regulator, according to Confluence.

Melvin Jayawardana, European marketing manager at Confluence, said: "As regulatory reporting pressures continue to increase, we view Fundsquare as a resource we can leverage to develop and bring to the market additional regulatory solutions."

Fundsquare completed its first passporting request under the new directive on 4 March, helping Luxembourg Investment Solutions to advertise fund services in the German market. This is its first permanent collaboration under the directive.

Fundsquare's chief commercial officer, Olivier Portenseigne, said: "Working with Confluence will considerably increase efficiency for our respective clients."

"We believe a collaborative model with the best providers will make funds servicing easier at a time where coping with regulation is increasingly high up on asset managers' agendas."

Seoul office for Northern Trust

Northern Trust is to open a representative office in Seoul, following regulatory approval from the Financial Services Commission.

Leading the office will be Byun Jai Yung, chief representative for Northern Trust in South Korea.

Frederick Waddell, Northern Trust chairman and CEO, said: "South Korea is one of the world's fastest growing economies and we are pleased to establish a local presence in this important and dynamic market."

"We see significant opportunity to offer our range of solutions to the sophisticated institutional investors in the country and deepen our relationships in South Korea."

Yung has worked as a consultant for Northern Trust since mid-2013. With more than 30 years at the Bank of Korea, Yung has worked in a variety of roles across compliance, international finance and foreign exchange policy planning in South Korea.

"Yung's extensive knowledge and experience will be instrumental to growing our business and deepening our relationships in this strategic market," said William Mak, head of Asia-Pacific for Northern Trust.

"We are pleased to open this office under Yung's leadership as we continue to expand our footprint across Asia-Pacific."

Industry committee to help US transition to T+2

An industry steering committee and an industry working group has been formed by the Depository Trust and Clearing Corporation (DTCC) to facilitate the move to a shortened settlement cycle in the US.

The move from T+3 to T+2 will reduce operational and systemic risk by limiting exposure and creating greater efficiencies in trade processing for trades in equities, corporate and municipal bonds and unit investment trusts.

Aimed to be the 'voice of the industry', the steering committee will be responsible for overseeing the US move to T+2, driving deliverables of the industry, providing guidance and support to address technological and process building blocks, and communicating changes.

The committee will be co-chaired by Kathleen Joaquin, chief industry operations officer at the Investment Company Institute, and Tom Price, marketing director for operations, technology and business continuity planning at the Securities Industry and Financial Markets Association, and comprises of senior-level representatives from associations and firms representing stake-

holders, including buy-side and sell-side firms. Under guidance from the committee, the working group is responsible for identifying and executing a tactical plan to implement the business and rule changes required to shorten the US settlement cycle to T+2 in a timeframe that is acceptable for the industry.

Price commented: "Shortening the settlement cycle will foster greater certainty, safety and soundness in the US capital markets by substantially reducing risk across the industry and for the individual investor."

"The formation of the steering committee and working group is key to ensuring that perspectives from across the industry are heard and taken into consideration as these groups move toward determining the best approach and the implementation timeline for reaching a T+2 cycle."

Joaquin added: "The voluntary move to a T+2 settlement cycle for securities currently settling at T+3 will result in a meaningful reduction in liquidity and operational risks, will promote better use of capital, and will create significant process efficiencies for market participants—all changes that will benefit investors."

European countries moved to T+2 on 6 October.

Northern Trust secures west London councils for LGPS

Westminster City Council and the London Borough of Hammersmith and Fulham has asked Northern Trust to provide global custody, investment accounting and performance measurement for £1.9 billion in pension fund assets.

These appointments mark the fourth and fifth wins for Northern Trust under the National Local Government Pension Scheme (LGPS) Framework, introduced in November 2013.

The framework is designed to ensure a streamlined and efficient process for local government pension schemes selecting a global custody provider.

Northern Trust already supports The Royal Borough of Kensington and Chelsea, and with the appointments from Westminster and Hammersmith and Fulham, the bank will provide custody for the tri-borough councils in West London.

Penelope Biggs, head of the institutional investor group for Europe, Middle East and Africa at Northern Trust, said: "We are proud to have been appointed by Westminster City Council and are delighted to extend our relationship with the London Borough of Hammersmith and Fulham."

"This is a pivotal time for local government pension schemes, whose members are increasingly looking to become more efficient and cost effective."

"Our dedicated LGPS team, coupled with our institutional governance services, ensures our clients are best placed to meet and exceed their unique requirements."

Green light for Gibraltar's first stock exchange

Gibraltar's first ever regulated stock exchange has been given authorisation by the Financial Services Commission of Gibraltar (FSC) to start operations.

GSX Limited will open in two phases. The initial 'soft launch' commencing 1 November 2014 will see firms be invited to apply for membership as listing members.

The full opening for listings will begin during Q1 2015.

Nick Cowan, managing director of GSX, said this was an "exciting moment" for the financial industry in Gibraltar.

He said: "We have been working closely with the FSC and undergoing intensive scrutiny from them as we have developed to ensure that we have an attractive exchange that meets their high standards."

"We are grateful for their approval and look forward to welcoming our first listing members in the coming weeks."

Chapman's Eye on the market

It's the way you tell 'em

For many years, the Sunday Times Magazine has run an excellent piece called 'Relative Values', whereby two related people are questioned as to their thoughts on the other. A little while ago they ran a spoof article with the two people in question being Bart and Homer Simpson, in which Bart came out with the classic statement: "'Failure' was not in my father's vocabulary. Then again, 'success' was not in my father's vocabulary'. Come to think of it, 'vocabulary' was not in my father's vocabulary…"

Good communication skills, be they written or verbal, are tremendously important in today's business world. The ability to effectively convey an idea, a message or an instruction, or to ask the right questions, can be the difference between the success or failure of a project, role or indeed a successful or unsuccessful career in the long-run. Depending on the seniority of the role and the relative strengths and importance of other skills, some people can partially mask communication limitations—or 'opportunities', to use the politically correct vernacular—but it is staff, firms and clients that ultimately suffer.

Communication faults can take many forms. It can be through the use of complicated and unnecessarily obfuscatory language (see what I did there?) or being aggressive or patronising. But the main, connected faults that I see and hear about are that of being on 'transmit' rather than 'receive' and of not fully appreciating that what is being said is not necessarily the same as that which is being received.

Non-verbal communication, ie, body language, can also play a role, as tests have shown that a man usually nods his head to indicate acceptance of an argument, point or proposition, whereas a woman tends to nod her head to covey that while she understands why the person is making such a point, she doesn't necessarily agree with what is being said.

The 'alphabet soup' of acronyms, 'Three Letter Abbreviations' and arcane concepts inherent in our industry doesn't help matters, and too many people hide behind such terms, especially when speaking in a regulatory context or environment, to mask deficiencies in grammar or linguistic ability. While from a practical point of view there are aids such as Webster's New World Finance and Investment Dictionary to help you with jargon, the best option is to simply remember the KISS principle, 'Keep It Simple, Stupid', whenever communicating.

English, and I focus on that as the main language of business at present (all bets are off on Mandarin being the next), is a rich and colourful tool that should be mastered, used widely but also enjoyed. If ever you find yourself with a spare moment, I'd encourage you to browse The Urban Dictionary (www.urbandictionary.com). Just looking at the definition of words such as 'Muesdays' and 'abeerance' will make you smile, even if you can't necessarily use them in your next meeting with your head of compliance. BTW, the site is NSFW, as the kids on the street say.

As ever, do let me know your thoughts. Drop me a line at paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

Make yourself at home

Cian Burke of HSBC discusses the opening of China's doors to its capital market through the Shanghai-Hong Kong Stock Connect initiative

What is the Shanghai-Hong Kong Stock Connect, and what does it mean for trading in mainland China?

The Shanghai-Hong Kong Stock Connect Initiative is an exciting development. It is part and parcel of how the Chinese are looking to open up two-way capital flows. What the Shanghai-Hong Kong Stock Connect is doing is really cementing for mainland China and Hong Kong the ability to be on each other's exchanges. So for Hong Kong and overseas investors, it is giving an access point directly through to the $4 trillion market of China-A shares.

It is an exciting development as we've gone through the qualified foreign institutional investor (QFII) in 2003, where QFII started to build up and grow and then renminbi (RMB) QFII (RQFII) was launched, a much more flexible regime designed to give asset managers and financial institutions access to the domestic market in China, including A-shares and the broader China inter-bank bond market (CIBM).

Shanghai-Hong Kong Stock Connect is another stage in that evolution of how China is opening up its capital markets. It is quota driven (aggregate quota of $48 billion plus daily quota of $2.1 billion), so there is a limit in terms of how much cross-border trade flows north, how much flows south and how much trades in the day. Effectively, there is a liquidity constraint as well as a total cap on investment. It's not a panacea; it is not full, unrestricted access, but it is another major step in the right direction of a clearly stated policy for China to open up its capital markets as part of a two-way process.

In China, they are as keen to ensure that the growing mass affluent population can access the global markets as they are to ensure that overseas investors, both institutional and retail, can access China from Hong Kong. They want to ensure that capital account is balanced.

The RMB is a growing currency. With Hong Kong trading predominantly in US dollars, is there a set currency for trade in the initiative?

It will be connected in RMB. The whole process is intent to internationalise the RMB currency. There are stages to this. If you go back to RMB as a trade currency there are increasing policy and trade processes put in place to encourage the use of RMB as an exchange mechanism for trade. Still, a lot of the trade that China has done is in RMB and, as it is the largest trading partner in the world, much more of that is now being settled in RMB.

Historically, you would have traded or exchanged in US dollars. China is very keen to make sure that process changes, and that increasingly more trade is settled in RMB. What you will see as a consequence of that, is the RMB hubs building up around the world—London and Singapore, for example—are having to find a mechanism for that RMB to be invested back in to mainland China, which is what the RQFII was all about. The RQFII was about giving you access to invest in the stock markets and the CIBM in China, through remitting the offshore RMB back to China. All of this are steps on the way to a fully convertible RMB, which we believe will be in the next two or three years.

> "It is a great opportunity to partner with our colleagues in global markets, because we can offer clients the execution capabilities of the market and then effectively feed that through into the custody of those assets, too"

But it is all part and parcel of a very clear and structured plan for the internationalisation of the currency that will ultimately end up with RMB being a reserve currency, which we're already seeing to an extent. Central banks and reserve managers around the world are now deploying reserves and having a reserve in RMB. In South Africa, a massive trading nation with China, they have a clear policy around having RMB reserves. Nigeria and Australia are also deploying reserves, and these are commodities countries. In September, the UK Treasury announced it would issue the world's first non-Chinese sovereign offshore renminbi bond. The proceeds will be used to finance the UK government's reserves of foreign currency. This further signifies the important trend of RMB as a potential future reserve currency.

We're also seeing a lot of central banks and reserve managers start to manage RMB reserves and that is the ultimate end-game. As it becomes a fully convertible reserve currency, the level of investment will undoubtedly increase.

You look at China—there is $4 trillion in the A-shares market, $4.5 trillion in the bond market—that is a more than $8 trillion market. The bond market is the third largest bond market in the world, if you include the eurozone as one market.

What will the Shanghai-Hong Kong Stock Connect bring to HSBC?

Access to China is very carefully structured. The Shanghai-Hong Kong Stock Connect is another mechanism, but a really interesting one for HSBC. It is a great opportunity to partner with our colleagues in global markets, because we can offer clients the execution capabilities of the market and then effectively feed that through into the custody of those assets, too. Not many banks will have this combined brokerage and custody capability available to clients ready for the launch.

It's an exciting time for HSBC. We are in a unique position to advise institutional and retail clients on how to access this vast investment opportunity because we have a depth of expertise on the ground in China and across our entire network. Whether you're talking QFII or RQFII, where we already have a dominant market share, or whether you're looking more broadly at the internationalisation of RMB and the opening up of the market, we have a lot to offer our clients. **AST**

Cian Burke
Head of securities services
HSBC

Transfer agency in Asia: what next?

What will Asia's much-mooted fund passports mean for transfer agents? Experts discuss the possibilities

Etienne Carmon
Senior business analyst
CACEIS

Kelly Ashe
Sales and marketing director
Riva Financial Systems

Remi Toucheboeuf
Head of product management
BNP Paribas Securities Services

Chee Seng Lok
Manager, client and business development
Multifonds

How is Asia shaping up for transfer agents?

Etienne Carmon: The type of services that transfer agents are offering in Asia is changing. Traditionally, transfer agents such as Caceis have helped foreign managers to distribute products into local Asian (or European) markets, but as the number of market harmonisation or cooperation initiatives in Asia increases, transfer agents will increasingly be driven to offer services that cater to foreign asset managers, which create local law products for distribution in the same local market.

However, this new transfer agency trend is not simply a new market opportunity for the foreign transfer agent, it will become a necessity as initiatives such as the Asian passports and mutual fund recognition between Hong Kong and China will not include UCITS (not certain yet for the mutual fund recognition, and even doubtful for UCITS master-feeder structures).

Nevertheless, with a steady growth in pension fund numbers and sizes, the market for local-to-local distribution is a growth segment and transfer agents such as CACEIS are keen to enter it and bring their experience and expertise gained in Europe.

Remi Toucheboeuf: Asia is offering new opportunities for transfer agents. Transfer agency is no longer just an administrator role (handling subscription, redemption and sending investor reports), it has transformed into a fund distribution support role in recent years as more fund management companies are interested in setting up presences in Asia or taking their UCITS products to Asia.

Fund management companies require insights on the distribution landscape, regulatory requirements and infrastructure to support their fund distribution strategy. Transfer agents are playing an important role in sharing the information with fund management companies. The service they offer affects the investor experience directly, too. Local representative services are required to support clients, for example, BNP Paribas Securities Services have ground support in Hong Kong and Singapore, same time-zone and language support, and is able to offer cross-border fund distribution.

Kelly Ashe: Asia continues to be a strong and important area of growth for many transfer agents, both local and global. As expected, 2014 has seen momentum towards automation continue to accelerate, with transfer agents stepping up their efforts to motivate and incentivise industry participants to embrace automation. Alongside the improving infrastructure available with the various clearing, settlement and order routing organisations, these efforts have resulted in increased straight-through processing (STP) rates across the region, especially in Hong Kong, Singapore and Taiwan. The predicted trade automation revolution is certainly underway.

We also see potential opportunities for transfer agents emerging from the opening up of the Chinese market and RMB internationalisation, alongside the continued efforts on the Asia Region Funds Passport, Association of Southeast Asian Nations (ASEAN) Collective Investment Scheme (CIS) and Hong Kong-Mainland China mutual recognition cross–border fund 'passporting' initiatives.

Chee Seng Lok: Considering the number of ongoing cross-border initiatives underway in Asia, including ASEAN CIS, ARFP, StockConnect, China Hong Kong mutual recognition and renminbi qualified foreign institutional investor (RQFII), we predict that the region will be centre stage for attracting investment inflows over the coming years and that Asian fund managers will emerge as worldwide leaders in fund management.

The fund passporting schemes in particular will contribute to this growth and provide an 'alternative' option for managers that historically did not want to deal with the challenges of establishing a physical presence or manufacturing local funds. From an operational perspective, we expect to see an emergence of local centers of expertise, such as Luxembourg or Dublin in Europe.

This growth presents many opportunities for transfer agents to partner with fund managers, helping them to access the global market and manage their new scale. At the same time, the continued interest in shariah-compliant products is a big opportunity for specialist support, while efficiency, risk management and innovation will be important differentiators to attract business.

UCITS will continue to be a strong brand for cross-border distribution in Asia and transfer agents coming from Europe will already have this expertise, but to be successful in the future they will need to add a localised 'Asian touch'.

This 'local' aspect is becoming increasingly important. Asian regulators have already become more cautious towards developed market products in the wake of the financial crisis. Recently, Lieven Debruyne, chairman of the Hong Kong Investment Funds Association, warned of a disconnection between European efforts to structure UCITS products and their plans for global distribution. Some UCITS developments in particular (for example, derivatives as a permissible asset class) have made Asian regulators uncomfortable and so they may start to place greater scrutiny on UCITS products.

This, coupled with Asian regulators' desire to develop domestic funds, means that fund managers with more complex products are currently experiencing longer delays for authorisation.

What are the remaining challenges to overcome in Asia?

Carmon: Harmonisation in all forms remains the biggest challenge for transfer agents in the region. Asia has no one voice, in terms of a political voice and language and cultural diversity, like the EU, although there is no Asian Union, nor really any initiative to create one. Asia is not a block and is likely to stay this way for some time. The lack of harmonisation makes for a complex situation from the transfer agent's perspective due to country-to-country differences in factors such as operational processes and account opening documents and procedures.

The aim of the various fund passport initiatives is to provide a level playing field where funds domiciled in one country could be marketed in another more easily, although tax and other regulations would remain very local. Asia a long-way off achieving the levels of harmonisation seen in the EU and transfer agents will have to take this into account for some years to come.

Toucheboeuf: The mutual recognition and fund passporting initiatives happening in Asia pose challenges on the transfer agent's capability to operate in multiple jurisdictions, support regulatory reporting and communicate with clients using local languages, all and in the local time zone. Regulations are also very complex and are changing globally and locally, so transfer agency services need to adapt quickly in order to support fund distribution strategies.

Seng Lok: Economically and politically, Asia is even more diverse and fragmented than Europe. Each country has its own investment goals, taxation rules, regulations, language and culture. The growth of the funds industry has similarly differed from country-to-country, with each market taking on its own distinctive characteristics. This means that standardisation of regulation and market practice between the countries is a big challenge. On the one hand, you have Hong Kong and Singapore, which are mature markets with sophisticated investors. On the other hand, there is Thailand and Malaysia, which are emergent economies (Malaysia is attractive from an Islamic finance perspective, while fund managers in Thailand generally charge lower management fees).

This lack of standardisation means that automation is a bigger challenge to overcome, especially for administrators seeking to drive efficiency, keep costs competitive and retain margin. In our view, automation and technology is a priority for efficiency.

Ashe: The diversification of Asia continues to present challenges for transfer agents as it is still a fragmented and heterogeneous market with a mixture of third-party service providers and asset managers performing the transfer agency function for both local and regional products. All transfer agents are affected by the increasing impact of transnational regulations and face the same difficulties in deciphering the evolving regulatory framework in the region.

These challenges are not completely dissimilar to those that have been faced in other markets around the world but most have disappeared or lessened over time as products, models, regulations and processes have standardised. The lack of unification between countries presents transfer agents with difficulties when service providers start to try and automate processes and overall low levels of STP remains a real factor, with many fund distributors still relying on manual processes and fax communications.

There is also a lack of proven global transfer agency system solutions available to local transfer agents that are able to cater to the myriad complicated local regulations, and that will be able to accommodate the newer passport cross-border distribution arrangements. The more traditional systems available can be expensive to maintain, limited to one market and quickly become obsolete in such an environment of regulatory change without significant investment.

What effect will the various Asian fund passports have on transfer agents' business?

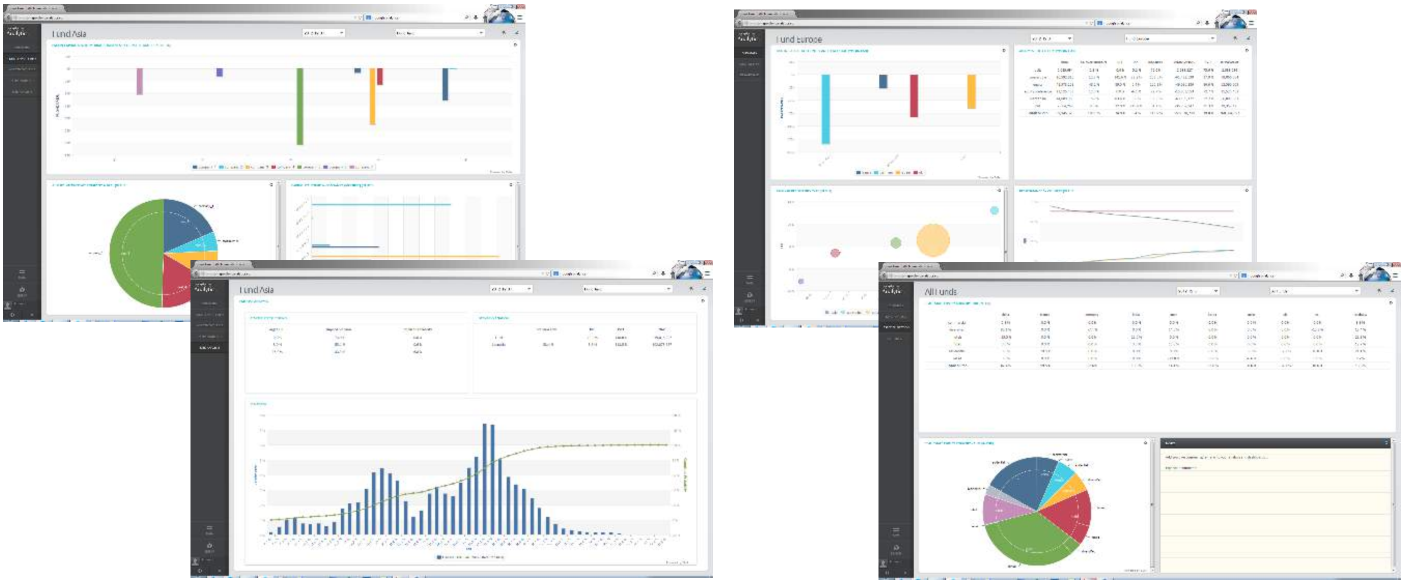
Carmon: The passport, whether it's the ASEAN CIS or ARFP, would favour the jurisdiction of Singapore as the location of choice for a transfer agent. Singapore, which has a large concentration of asset managers, would benefit from facilitated, harmonised distribution that the passports would permit between Australia, South Korea and New Zealand (APEC) on the one hand, and Thailand and Malaysia (ARFP), on the other. Facilitated fund distribution into these major markets could see Singapore rival Hong Kong as an international fund distribution hub.

For Hong Kong-based transfer agents, growth in the number and scope of mutual fund recognition initiatives (like that which is under discussion between Hong Kong and China), would be a very positive development. Hong Kong has great experience in selling and dealing with distributing funds internationally and has the systems to deal with distributing foreign funds in foreign markets. And Hong Kong acting as the entry point for asset managers to access the Chinese market (via Chinese RQFII structures) would be a major development for the autonomous region.

Seng Lok: Under the various Asian fund passport initiatives, asset managers will be able to distribute their funds regionally without a local operation, which will mean fund managers will find it much easier to tap into new markets. For example, the China Hong Kong mutual recognition scheme is expected to give fund managers exposure to more than $7.5 trillion of Chinese household savings.

However, as fund managers move into new markets, they will require support from their transfer agent, which will need to have strong pan-regional capabilities established. The smaller transfer agents that only focus on two or three Asian countries may struggle to get up-to-speed. As a result, we may see consolidation of some of these local transfer agents so that they can pool their capabilities.

From a systems perspective, transfer agents must ensure that their systems cater to the different local market requirements and regulations, and have the ability to handle multiple currencies, asset classes and languages. At Multifonds we have been watching all these schemes closely and are working with our clients to identify the impacts, as we did with UCITS and the Alternative Investment Fund Managers Directive.



AIFMD

BMA Portfolio Analytics

Private Equity, Credit, Real Estate, Infrastructure

Who is it for?
Portfolio Managers, Risk Managers, AIFM Conducting Officers and Institutional Investors focusing on Private Equity, Credit, Real Estate and Infrastructure.

What is Portfolio Analytics?

Portfolio Analytics is a Web platform designed to support illiquid alternative investment funds in their day-to-day portfolio analysis, performance analysis and risk management tasks.

When Technology Meets Expertise

Design, update, share risk reports and smart dashboards in one click.

Be AIFMD ready with Portfolio Analytics.

Put our services to the test, contact us for a free trial:

Email: contact@bmarisk.com
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Ashe: The progressing development of the regional passport schemes is a step forward but they all currently have major shortcomings that will need to be resolved in order to make these products attractive, whether it be in their tax and distribution rules, restrictions on foreign investment, or rules on omnibus accounts. We believe that there is a still a long journey ahead before the UCITS product's domination is realistically challenged.

However, there is a real requirement for policymakers to offer asset managers an investment vehicle structure that offers the flexibility required to ease cross-border fund sales, marketing and servicing with streamlined fund approval and registration procedures.

How will passports challenge transfer agents' way of doing things, and what must they do to modernise their operations?

Seng Lok: The fund passports will bring together countries across the region, separated by geography and fund management practices. Transfer agents will need to be equipped to provide quality services and remain flexible and innovative in supporting changing client requirements.

It will be important that providers offer one single point of entry to all funds belonging to the same promoter. A footprint spanning the key financial hubs with multi-lingual staff will ensure that providers are able to give excellent client service to fund houses, distributors and shareholders.

They will also need an operating model and the technology to manage complex requirements, for example, seasonal trailer fees schedules and a single platform that can service all the countries all the time. In particular, providers will need an excellent two-way web front-end and transparent reporting across locations, including regulatory reporting when needed, and automated order-routing, receipt, trailer and commission functionality.

Toucheboeuf: Transfer agents need to be prepared to be able to operate in multiple jurisdictions and, at the same time, on the same infrastructure to support the fund distribution activities of the fund in multiple jurisdictions. Depending on the distribution strategies and network of the fund management companies, transfer agents should be able to work with multiple counterparties. The BNP Paribas Securities Services transfer agent has an open architecture and is able to work with different sub-transfer agents and we see a demand of our expertise as a European bank to support fund managers in Asia in their cross-border fund distribution.

Ashe: The full impact of how the fund passport initiatives will challenge transfer agents existing way of operating cannot be fully assessed until the outstanding questions on the initiatives themselves are answered. However, based on the information known at present it is clear that the transfer agency systems available to transfer agents must be able to service the products distributed via these schemes, and most importantly, they must be able to accommodate the myriad complicated regulations and taxation treatment of investors.

Asia is not like Europe with one set of harmonised rules at a regional level alongside domestic law and this will present unique administrative challenges, particularly when looking at countries such as Singapore, which are common to more than one passport regime.

Where is Asia in terms of automation? Is manual dealing still the norm?

Carmon: The lack of harmonisation (or the diversity of the individual nations that make up Asia) means that each country has a different way of doing things. Factors including language, tax, business culture, payments and reporting to financial authorities and for tax purposes all differ between counties and this lack of harmonisation does not lend itself to automation.

Recent statistics (SWIFT/EFAMA Fund Processing Standardisation annual report published in 2014) show that in Asia, the average STP rate was 43.4 percent in 2012, but rose to 50.8 percent at the end of 2013. Singapore, for example, despite being one of the leading centres for funds in the region, still heavily relies on fax. SWIFT have been actively courting the market, which has been hard to crack as manual labour is cheap and readily available, and even the attempts to bring a less costly solution to market to compete better with manual labour (known as Swift Light) has not seen a particularly strong uptake across the region.

Interestingly, one company, Calastone, has seen some success in raising the automation rate, stepping in between the asset manager and the transfer agent. Calastone enables companies to keep their manual methods, and transmit faxes through its middleware software, which translates faxes into SWIFT messages, which are then automatically transmitted to the transfer agent. Asian STP rates remain low by European and US standards, but are showing signs of rising.

Toucheboeuf: Transfer agent operation in Asia for cross-border funds primarily relies on fax, phone calls or proprietary formats in communicating with fund investors. The level of standardisation is quite low despite the various automation initiatives underway in countries such as Taiwan and South Korea.

It was reported that the percentages of cross-border fund orders sent by APAC for Luxembourg and Ireland domiciled funds using ISO automation are 19.6 and 21.8 percent, respectively, according to the Annual Report on Automation and Standardisation of Cross-Border Funds Orders in 2013 by EFAMA and SWIFT. BNP Paribas Securities Services provides a one-stop shop, including a comprehensive reporting, risk analytics and performance platform.

Ashe: We see real progress in STP volumes in the region now thanks to the involvement of regulatory bodies and the availability of various industry utilities and clearing services. Unsurprisingly, the more mature markets of Hong Kong, Singapore and Taiwan have made more progress than others. However, the improvement in STP rates is region-wide in general, with distributors, local banks, asset managers and service providers all processing more trades via electronic means than ever before.

Seng Lok: Fund management is greatly focused on achieving greater STP and automation. Obviously, cost is a driver but this is not the only one. Risk and speed are now considered a priority by market players. Fund managers, solutions providers (such as Omgeo and SWIFT) and securities servicers are working together to achieve greater STP in the market. The tools and processes already exist, so the growing volume in Asian markets expected in the coming years is now a catalyst to accelerate investment in automation.

That said, as far as distribution is concerned, trade processing is still dominated by fax due to the lack of a common infrastructure in the region. It appears that distributors give little consideration to the operational risk, inefficiency and processing cost from non-automated channels and are not incentivised to transmit instructions electronically.

Transfer agents are keen to automate in order to reduce operational overheads, but conversely this drive for automation can erode the revenue gained from charging higher rates for processing non-automated transactions. As a result, the cost of manual processing is born by fund promoters, which ultimately pass it onto investors. AST

Quantum leapfrogging

The Asian market is taking evolution to the next step. Donal O'Brien of GBST explains the latest trend in the industry

As firms in the US and Europe have adapted systems to automate the trade lifecycle and grapple with fast-changing markets, the buzzword has been 'evolution'. But many firms in Asia are using a different word: 'leapfrogging'.

Taking a leaf out of the playbook of sectors such as the telecom industry, Asia's financial firms have recognised that new technologies can let them jump straight to best-practice as they embrace techniques such as real-time processing, functionally aligned operations and outsourcing.

The net result is extremely high rates of straight-through processing (STP), lower costs and reduced operational risk. Asian markets are on the march again, and scalability is vital. Meanwhile, regulatory regimes in such a disparate region require firms to handle constant flux. In fact, many companies find themselves pedalling full-speed just to stay abreast of all the change. But those firms that adopt the 'leapfrog' mentality can gain a decisive edge.

"Tax authorities are increasingly imposing operational tax compliance obligations on the financial sector, and this trend is only set to increase," says Martin Walker, head of securities tax at Deloitte.

"Examples include the imposition of common reporting standards for automatic information exchange and new taxes such as financial transaction taxes, both of which are expected to be introduced in the next few years. Ensuring that operational systems are ready for such developments could enable organisations to "leapfrog" those which are playing catch up."

For anyone wondering whether Asia is still the world's hotspot for market growth, the region's equity and fixed income markets show an unambiguous trend. In the first nine months of the year, Asia Pacific stock markets have already risen 18 percent in dollar terms, according to the World Federation of Exchanges. Meanwhile, outstanding international debt securities issued in Asia have jumped 43 percent to more than $890 billion in the latest 12-month period, reports the Bank for International Settlements. Numbers such as these offer testimony to the strength of demand for Asian securities.

The clock never stops

One way companies in Asia are leapfrogging rivals is by moving to 24-hour operations. This has posed formidable challenges because back-office operations feature processes that require stable, or quiescent, data. Mark-to-market and corporate actions are two areas where quiescent data is critical. The traditional response has been to bring a system down for a batch run so nothing changes while a process is run. But new systems allow for snapshotting of data and moving it around a system, letting firms run processes in parallel.

Companies are also able to achieve efficiencies by aligning operations by function rather than asset class. The idea is simple: one group of people handles settlement regardless of asset class, another looks after confirmation processing, and so on. While many firms in the US and Europe have different operations for fixed income, derivatives or equity, it has long been recognised that aligning tasks by function offers scope for big savings.

But it can be easier said than done. In fact, unless your company has a consolidated infrastructure across asset classes, it's almost impossible. Some have tried to retro-engineer operations by adding systems to existing silo-based solutions, but the cost is high and results invariably disappoint. Yet for those companies that move to 24-hour global platforms, there is the opportunity to switch to new workflow techniques with role-based activities.

Typically, these will be environments with 95 percent or more STP. In traditional operations, to address exceptions has required lists to be pulled and manual identification of fixes. But functionally aligned operations within high-STP environments can adopt a 'push' rather than 'pull' approach. Relevant issues are pushed at the right groups based on roles. What is more, those operations are frequently in different locations. Think of it in the same way that social media creates virtual communities. Instead of departments being defined by physical spaces where colleagues sit cheek by jowl, they are defined by expertise, where employees work together from far-flung locations.

Fine-grained outsourcing

Another part of the leapfrogging story is outsourcing. The concept has been around for years and the benefits are well known, with reduced costs and greater focus on core competencies among them. But some firms are going beyond custodial outsourcing. Brokers are learning they can outsource entire middle offices. It's being talked about elsewhere, but it's happening in Asia.

By reusing another firm's infrastructure, a company can do more than just lower operational costs and risks. It can reduce capital requirements for clearing houses and exchanges, and that spells enormous benefits in Asia's fragmented markets. Firms can also better cope with the regulatory change that has become a staple of market activity in Asia. Such change can be draining, adding mostly cost with few benefits. But if regulatory requirements can be pushed downstream to outsourced operations, companies can free up resources to focus on what matters: their business.

The downside to outsourcing—loss of operational control—is well known. But new technologies feature the possibility of fine-grained outsourcing. Firms in Asia are at the forefront of this trend. They can retain a view of certain parts of the production lifecycle, where they want to keep control, and outsource parts where they don't.

Leading the charge

A good example of the new approach paying dividends is multi-contract booking, in which multiple entities are associated with a trade. A client in one country buying a stock in another may involve the trade being booked in different entities of the broker, potentially for legal or tax reasons. Settlement of such transactions needs to be as efficient as possible. By employing new infrastructures, firms in Asia are leading the way.

This is important as major markets move to T+2. Consolidated, rule-driven processing across different assets and markets allows for varying settlement regimes handled in one environment. This is a necessity in Asia and a good example of Asian infrastructure being ready for the challenges faster settlement timeframes represent in maintaining customer service and reducing market fail fees.

Markets never stop getting faster, more complex or more demanding. In such an environment, evolution may not be enough. To be in the game now requires a different mindset: a leapfrogging mindset. **AST**

"The downside to outsourcing—loss of operational control—is well known. But new technologies feature the possibility of fine-grained outsourcing. Firms in Asia are at the forefront of this trend. They can retain a view of certain parts of the production lifecycle, where they want to keep control, and outsource parts where they don't"

Donal O'Brien
CEO Asia, capital markets
GBST

A whole new world

Financial firms and corporations are being challenged to find new ways to manage risk. At the same time, cutting costs remains a priority. Patricia Rosch of Broadridge explains the innovative new strategies for a new world

CATHERINE VAN DE STOUWE REPORTS

How would you characterise the 'new world' in which your clients are now operating?

The process of buying and selling stock across borders is becoming harmonised. In capital markets regions such as the EU, we see that most dramatically, where, given the number of jurisdictions involved, it's imperative to have synchronised and seamless systems and processes in place to support both domestic and foreign investment.

As a natural outcome, the proxy process that underlies securities systems must also be harmonised. That demands a complex data infrastructure to ensure transparency, accuracy, and local market compliance, which is in turn driving operational performance in global capital markets.

What are the most significant regulatory changes affecting you and your clients?

The highly regulated landscape has become the 'new normal' for securities-related companies—both on the buy- and sell-side. They are re-evaluating their business models in response to the demands of intensified regulation and governance, growing globalisation

and changes in market structure. We see these as the key forces driving business transformation right now.

Broadridge and the Economist Intelligence Unit recently published the results of a survey of global business leaders within the financial industry. What we found was that the heightened volume and complexity of regulation and extensive industry restructuring have forced firms to rethink their business models on an unprecedented scale. Firms that are more adaptable at creating a proactive response to the changing market needs are more likely to differentiate themselves and outperform.

Look at new regulations like Target2-Securities (T2S). This fundamental regulatory change is putting significant pressure on securities firms. The move to T2S is intended to improve market efficiency and the transparency of cross-border transactions. But the implementation of systems to support compliance with the new rule is complicated and extends to every participant in the capital markets, not just banks and brokers.

The kinds of operational overhauls these new regulations necessitate must represent a huge investment. How are firms managing costs?

The aftermath of the 2008 financial crisis is still being felt. Certainly, the focus on taking cost out of operations is the result of the significant belt-tightening that was required post-2008. But cost-cutting can't be undertaken at the expense of good corporate governance. Just as securities buying and selling is being harmonised across jurisdictions, the provision of proxy process services is being mutualised through a shared services model based on outsourcing. This is fundamental to doing business in the new world—leveraging economies of scale to drive efficiency and cost effectiveness.

How are issuers responding to new governance standards?

Here again, we're seeing the importance of operations in a broader business transformation mandate. For the past four years, end-to-end vote confirmation has been at the centre of many governance conversations globally. Broadridge has been actively engaged in end-to-end vote confirmation initiatives in the US since the first program was piloted in 2011.

The end-to-end vote confirmation programme for the 2014 proxy season in the US was the largest and most inclusive to-date. Five of the major US tabulators each agreed to provide five issuers to the 2014 programme.

Building on the US experience, Broadridge is examining opportunities to introduce end-to-end vote confirmation in other markets. A pilot programme of end-to-end vote confirmation for institutional investors was conducted in cooperation with a registrar in Spain in 2013. This initiative was expanded in 2014 to include more issuers.

> "Just as securities buying and selling is being harmonised across jurisdictions, the provision of proxy process services is being mutualised through a shared services model based on outsourcing. This is fundamental to doing business in the new world—leveraging economies of scale to drive efficiency and cost effectiveness"

Also in 2014, two issuers in Taiwan offered end-to-end vote confirmation to their investors. The prominence of vote transparency as an important aspect of corporate governance for issuers continues to grow and there is ongoing dialogue with market participants in other countries such as the UK and Canada.

What kinds of operational changes need to be made in order to support best practices in governance and regulatory compliance?

Our recent work with the Taiwan Depository and Clearing Corporation (TDCC) is a great example of how data infrastructures and operations are at the heart of business transformation that supports both improved efficiency and a better process.

The initiative between Broadridge and TDCC establishes direct links with StockVote, the TDCC's new electronic voting system for Taiwanese shareholder meetings. For companies that elect to use the StockVote system, direct voting into the system by Broadridge will enhance the level of straight-through processing and will improve voting deadlines for overseas investors, eliminating the many manual processes that before had to be undertaken by local sub-custodian banks. We work with sub-custodians and global custodians to send overseas voting directly to StockVote through our secure electronic voting platform.

The TDCC initiative was in response to concerns raised by investors about shareholder voting in Taiwan. This is a great example of participants working together—in this case, the depository, the regulator, and Broadridge, to enable improvements to the process for both domestic and foreign investors.

Looking ahead, what will be the most significant change that firm will have to undertake to be successful?

It is a new world. Nothing is as it was pre-2008. We understand that moving forward, there needs to be a greater focus on innovative strategies that acknowledge both the business requirement to operate efficiently and cost effectively, as well as the responsibility to comply with forward-thinking regulations and governance best practices.

Findings from the Economist Intelligence Unit survey point to the growing importance of operations in the implementation of these kinds of strategies. The survey reports that the majority of business leaders appreciate the transformative power of operations and are eager to have the chief operating officer play a leading role in driving business model change.

In today's connected, global business environment, COOs have greater visibility on regulation, changes in market structure and shifting client needs. There is no doubt that the new world will be built on a foundation of operational excellence. AST

Patricia Rosch
President, investor communication solutions international
Broadridge

AIFMD risk management oversight: a real challenge

The risk management oversight in the context of AIFMD for illiquid and real assets requires a significant effort, at least for its initial set-up, says Norddine Bennani of BMA

The re-engineering of the risk management function under the Alternative Investment Fund Managers Directive (AIFMD) brings its share of challenges, especially in the case of real assets. With strong requirements but little concrete guidance, alternative investment fund managers are facing multiple implementation issues at each step of the risk management process. Innovative solutions and best practices are starting to emerge, one construction site at a time.

Risk management oversight in the context of AIFMD is complex because of the very nature of the asset classes and strategies it aims to regulate. This is particularly true for illiquid and real assets such as private equity, real estate, infrastructure and securitisation. A one-size-fits-all approach fails to capture the specific characteristics of these asset classes, while there is a definite lack of principles and guidelines for a concrete implementation.

So, where to start? AIFMD is rather clear in its fundamental requirements. Alternative investment fund managers have to set up an independent and permanent risk management function. The risk profile of each underlying manger has to be precisely assessed and monitored.

In the absence of definitive guidelines, shortcuts and misunderstandings are common. One of them is linked to the regulatory filing of the AIFMD Annex IV Report. This particular element has drawn the attention in the fund industry recently, not necessarily because of its novelty or relative complexity, but mainly because it represents one of the few well-defined requirements. However, this periodic filing, at best on a quarterly basis, can hardly cater for the permanent nature of the risk management function.

Another issue is the actual information available in the report, which will only provide limited insights on the actual risk profile of the alternative investment fund , and none when it comes to illiquid assets. This is essentially because the Annex IV report is at the crossroad of risk and compliance requirements.

The blurred line between compliance and risk is a recurring theme when it comes to real assets. This is often caused by the absence of specific risk measures, which are sometimes limited to investment policy compliance checks. While this is not advisable from a pure risk management perspective, it also raises a number of issues from a governance standpoint. In this respect, second level measures provide clear guidelines at Article 61(3(c)): the risk management function has to be distinct and separated from the compliance function.

This clearly implies that specific risk measures and reports will have to be implemented, in order for the risk manager to demonstrate ongoing, independent monitoring of the alternative investment fund. Of course the regulation provides a number of exceptions, especially for small structures where the proportionality principle should be applicable. While this provides useful flexibility to regroup compliance and risk under the same umbrella for practical and cost efficiency reasons, the principle of two distinct functional requirements remains clear.

As requirements are clarified, and common shortcuts and misunderstandings put aside, it is time to turn to concrete implementation solutions.

The first challenge is the independence of the risk management function. In the context of real assets, data is sparse and difficult to obtain. In practice, a significant part of the information will come from third parties and portfolio man-

agement, potentially under the form of already shaped reports. It is therefore key to identify and document the relationships between the various stakeholders including portfolio management, fund administration and custodian, to prevent conflicts of interests.

Potential solutions could also come from using dedicated technology, with innovative data-centric platforms to ensure that the different functions within the alternative investment fund manager can all access and share the same fundamental data for the various funds.

The second idea is that the risk management process of real assets is definitely more efficient when it evolves and follows the lifecycle of the investments. This implies that the risk manager of the alternative investment fund manager should enter into a round of discussions with the portfolio managers as soon as business plans or investment strategies are drafted, and prior to their approval.

The idea is that the risk manager of the alternative investment fund manager should be in the position to intervene before it is already too late, which in the context of illiquid assets sometimes means before the investments are committed. A typical control point would be to verify that the investment considered is in line with the policy and risk profile of the alternative investment fund.

After operational workflow and governance, the third pillar would be the risk measurement itself. The endless debate between qualitative and quantitative approaches seems rather pointless, as common sense dictates that both should be used in the most appropriate way. Illiquid and real assets as an asset class covers a wide variety of strategies, but they all share in common the fact that they are so-called cash-flow assets.

The pitfall is precisely to place too much attention on NAV. The standard risk management approach, as developed for UCITS, is anchored in a world where the price of the asset conveys the most useful information. It is important to keep in mind that NAV and price are two different things. Using NAV as a proxy for asset price requires a leap of faith. Illiquid and real assets are in turn better characterised by the statistical properties of their cash-flows, the uncertainty on their amount and their timing. Of course, this means that specific risk measures and risk frameworks are required to monitor cash-flow assets.

The risk management oversight in the context of AIFMD for illiquid and real assets requires a significant effort, at least for its initial set-up. With the right skills and technology, this does not necessarily translate into heavy costs. The benefits could go well beyond the simple compliance with the latest regulatory requirements. It could be the opportunity for many alternative investment fund managers to demonstrate a more robust and transparent process, with concrete structure and controls in place. This should be relevant to all investors, also because it will make their due diligence process more efficient and less expensive.

And if common sense is not enough, one can always count on other regulations affecting institutional investors, from Basel III to Solvency II, to be the definitive driver. AST

Norddine Bennani
Managing director
BMA

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A statement of intent

Africa's financial markets have come a long way, and intend to go further still

Kemi Adewole
Director, securities country manager
Citibank Nigeria Limited

Duncan Smith
Head of business development, Africa
Societe Generale Securities Services

Charmaine Artman
Head of Africa custody
Rand Merchant Bank

Rajesh Ramsundhar
Head of product management and investor services Africa, TPS investor services
Standard Bank

How strong is the central securities depository network in Africa?

Kemi Adewole: African markets currently operating with a central securities depository (CSD) have varying degree of sophistication and service models. The countries are at various stages of development and infrastructural dissimilarities can make the consistency of the most basic settlement and safekeeping processes a challenge.

The continent needs to address this lack of uniformity by building a consistent framework closely aligned with global standards. The creation of a single currency and common trading platform are also deemed necessary to eradicate operating and regulatory challenges inherent with cross-border execution, settlement and custody.

Duncan Smith: Societe Generale Securities Services (SGSS), as a member of the African Middle East Depositary Association (AMEDA), has been able to see over the years considerable awareness and moves from all members to reach international standards from the governance and operational point of view (think of CPSS-IOSCO, for example).

With the exception of Malawi and Swaziland, the longer established securities markets in Africa all have well-established CSDs. In fact, many have adopted a common settlement system, provided by central provider Millenium IT, including Botswana, Kenya, Ghana, Tanzania, Uganda and Zambia, among others.

Our experience of CSDs across the continent has on the whole been a very positive one, particularly in Ghana where SGSS, using its foundation as a leading bank in the market, became a participant in 2013.

A good example of the flexibility and progressive nature that we see from the CSDs in Africa was from the CSD in Mauritius with which we worked closely to become the first remote participant in the market to provide sub-custody services from Johannesburg.

In our view, the CSD landscape will continue to develop. As an example, the initiative by the East African Securities Exchange Association (EASEA) to integrate the capital markets of Kenya, Uganda, Rwanda and Tanzania (Burundi does not have a stock market currently) into a regional stock exchange is continuing to gather momentum. EASEA has adopted Kenya's automated broker back-office system as a way of developing an inter-depository transfer mechanism for cross-listed stocks.

This will surely be followed in time by an initiative to establish a regional CSD following the West Western African Bourse Regionale Valeurs Mobiliers (BRVM), based in Abidjan, Ivory Coast, which was established in 1998, and the Bourse des Valeurs Mobilières d'Afrique Centrale (BVMAC), based in Libreville, Gabon, which was established in 2008.

Charmaine Artman: The CSD network within African jurisdictions varies from country to country. Botswana and South Africa have CSD capabilities but rules, regulations and market infrastructure differ substantially between these countries. South Africa's Strate and JSE Exchange has recently been rated as one of the top settlement authorities globally, with strong oversight, enforcement and minimal failed trades.

> "Ramsundhar: You can have a well-established and strong CSD in South Africa and then go a few hundred kilometres to Zimbabwe where we have launched a CSD that is currently establishing itself in the market and in the region"

On the other hand, our experiences in Botswana are somewhat different, with CSD rules seemingly lightly enforced and sometimes agreed to between regulators and participants outside of a standardised regulatory framework. The Botswana equities market has electronic settlement capabilities and functions reasonably well, with certain pre-settlement risk mitigation funding for purchases adding to market security.

Government bonds are issued and settled in electronic format by the Bank of Botswana. All dealing and settlement in government bonds generally conform to well-designed rules and regulations as stipulated by the Bank of Botswana.

Namibia has no CSD, resulting in the direct settlement of paper-based trades between participants, which adds substantial operational and settlement risk to custodians. Thankfully, our experiences gleaned from the previous South African paper-based settlement system have allowed us to apply a number of risk mitigating controls to the Namibian market to counter the manual settlement processes.

However, we are encouraged that the Bank of Namibia has requested technical assistance from the World Bank in identifying the best approach to establishing a CSD in Namibia. We look forward to assisting this market in applying best practices.

Rajesh Ramsundhar: The region is made up of multiple countries and each country on its own is different in terms of the level of development of the capital market and the institutions within the market. The same view can be taken on CSDs in the region. You can have a well-established and strong CSD in South Africa, for example, and then go a few hundred kilometres further to Zimbabwe where we have a recently launched a CSD that is on the path of development and establishing itself in the market and in the region. Related to this, you have CSDs in large markets such as Nigeria and Kenya who have been in existence for 10 years or more and are developing and getting stronger by the day.

There is no formal network of CSDs in the region to our knowledge and this is perhaps a forum that CSDs in the region need to consider. There is certainly much to be gained with CSDs across the region sharing experiences, ideas and learnings, which will expedite the development timeline and process and get African CSDs to the levels and standards that the greater world expects.

If there were to be a lack of settlement infrastructure, how much risk would there be in the market?

Artman: Substantial risk does exist in certain jurisdiction, which then needs to be mitigated by additional operational and process controls. In addition, certain jurisdictions have minimal or unreliable communication infrastructure.

Adewole: There would be varying levels of risk consideration affecting asset servicing, settlement (cash and securities), registration, and counterparties. As an example, true delivery versus payment (DVP) and at what point settlement finality takes place.

Ramsundhar: Settlement infrastructure is generally in place to ensure efficient and safe settlement of securities and cash transactions. Naturally a lack of settlement infrastructure would


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imply inefficiencies, operational challenges, settlement and other forms of risk in the process and will result in higher risk overall. This would be the case in any market let alone Africa.

The saving grace for Africa though is that volumes and values tend to be lower than other parts of the globe and one could argue that while a lack of settlement infrastructure would naturally increase risk, it would probably be more manageable in the African markets given the small size and activity. It will, however, limit the growth of the securities market.

> "Smith: We have seen a marked increase in African bias by investment management firms establishing new funds in frontier markets"

Smith: We have seen a marked increase in African bias by investment management companies establishing new funds in frontier markets, particularly given the returns that these markets have been producing of late.

With our global presence and experience in dealing with CSD eligible and physical markets, SGSS is able to seamlessly replicate our platforms and operational and risk management processes into those markets where physical settlement is still a reality. However, this is no doubt that a formal settlement infrastructure and confidence in the functioning of these markets, particularly in light of the thin liquidity inherent in some of these markets, is essential for this trend to continue.

A lack of settlement infrastructure generally removes the certainty of contractual settlement, increases the risk of forged, tainted or lost certificates and raises questions on certainty of ownership and timely payment of corporate action entitlements. As a general global rule of thumb, markets with a lack of settlement infrastructure tend to be more expensive to investors, which could serve as an additional detractor to investment when the manager and investors consider the total expense ratio of the fund.

With few CSDs, how are custodians across Africa coping?

Artman: Where there is no CSD, custodians, along with other market participants, formulate certain market practices to govern the settlement processes that are mutually enforced between themselves. For example, in both the Botswana and Namibia markets there is an agreement that payment has to be effected by a receiving party prior to delivery of the physical securities taking place.

The real concern for custodians is that the manual nature of most activities results in cost inefficiencies and the potential to suffer operational and settlement losses.

Ramsundhar: In the 15 markets we cover there are only two markets without a CSD and they are Malawi and Namibia. The reality though is that custodians have coped without CSDs prior to the introduction of CSDs in the African markets, but the markets were small and inactive back then. There were certainly more challenges in the certificated environment, but with low volumes it was manageable.

If we have to put this in context, we could easily manage 20 to 30 trades per day in the early 2000s in a market like Nigeria without a CSD, but if we bring this forward to the current day, it will be extremely difficult to manage 300 to 400 trades per day without a CSD.

The challenge for custodians in the current day is not the lack of CSDs but the lack integration and automation with CSDs (excluding South Africa) and this is proving to be more difficult to deal with as volume and activity increases in the region.

Adewole: With few CSDs in Africa, the largest custodians operate in the countries where they have a proprietary branch. Alternatively, the smaller players can appoint a sub-custodian. There currently is limited cross-border settlement activity except for the Francophone region, which combines nine countries operating as a single region in spite of the lack of a CSD in these markets.

What can African countries do catch up with the rest of the world in this respect?

Smith: AMEDA continually seeks to achieve this objective by sharing its experience and expertise. Given our long heritage in North Africa and the sub-Saharan region as well as our global knowledge of the rest of the world, we of course actively engage with CSDs in these markets to continue the adoption of global best practice.

As such, over the past few years there have been significant moves in Africa with CSD networks growing from strength to strength, with the Ghana Stock Exchange and CSD implementing a new system, and the Nairobi Stock Exchange's implementation of the common platform to enable greater surveillance on stockbroker activities in the market.

Zimbabwe is a good example of a current initiative in moving the market forward with the implementation of The Chengetedzai Depository Company and its intended T+3 settlement cycle replacing the old certificated environment's T+7 settlement cycle.

In our view, this trend will continue as liquidity and presence of international investors in the market increase.

Adewole: The first step would be to harmonise the domestic financial systems and national regulatory frameworks. This would be followed by the implementation of consistent taxation and accounting practices across the region. Finally, the creation of regional exchanges would complete the alignment of Africa with global operating standards.

> "Adewole: The first step would be to harmonise the domestic financial systems and national regulatory frameworks, followed by the implementation of consistent taxation and accounting practices"

Artman: The effective functioning of any market would depend on the legal framework, governance and comprehensive risk management policies. This can be done by aligning with global best practices and standards such as the International Organization of Securities Commissions (IOSCO) Principles & Methodology, and participation in global forums such as AMEDA and other similar bodies.

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It would be helpful if market participants, regulators and policymakers could be better aligned in driving the creation of local markets. The frustration is experienced through extended delays in policy application, weak systems and improved risk management policies.

Another area that would aid the African markets to grow would be the creation of derivative markets in certain jurisdictions, to allow investors to dynamically hedge themselves against underlying exposures. A simple securities lending market would substantially improve liquidity, for example.

Ramsundhar: As we have pointed out, most of the countries in the region have CSDs, so establishing CSDs is not the requirement. The requirement is more around CSDs pursuing automation and integration with market participants to support a larger market more efficiently.

The challenge, though, is that most markets are not big enough to pursue automation and integration to the levels suggested. This is where we need collaboration between countries and the CSDs in the region. A single country on its own may not have the scale and capacity to get its CSD infrastructure up to global standards, but if two, three or more countries get together and look to develop a single CSD operating a single technology platform and rules, they would have the scale to undertake the necessary development and catch up with the rest of the world in a short space of time.

It's not only about catching up with the world though, it's also about contributing towards a safe and efficient capital market where the seekers and providers of capital can meet and transact, and thereby get the capital engine flowing to help Africa realise its potential.

Further to this, and beyond safekeeping settlements, CSDs in the region need to look corporate actions, income collection and proxy voting. Outside of South Africa, CSDs in the region have little to no involvement in these functions within the market. It is generally dealt with between the custodian and the transfer secretary and is mostly an inefficient and challenging process for custodians to contend with, let alone the underlying clients. There is an opportunity for CSDs to get involved in this process and bring about the experiences that custodians and their underlying clients are used to in the rest of the world.

What others areas of risk mitigation are in need of most work in Africa, and why?

Artman: From an investor point of view, the ability to hedge currency exposures would substantially improve the underlying security of investment. The JSE has recently launched currency derivatives against the Nigerian naira, Kenyan shilling and Zambian kwacha. These products will aid both the primary and secondary markets in these countries, albeit that the products trade on the South African markets and generally settle in ZAR.

Another area for consideration is to ensure that engagement between key stakeholders and/or custodians continuously takes place with a view to agreeing principles and procedures to manage liquidity and counterparty risk associated with the settlement process (across all financial instruments). Risk arbitrage is not healthy for any market so a commonality of approach to remove core risks will substantially improve investor confidence in the long run. Factors that can be included in these discussions include counterparty/credit management through the reserving of funds and pre-settlement margining.

Ramsundhar: In any market you can have a state of the art infrastructure and system, but this needs to be backed with the appropriate rules and regulations to manage activity in the market. It's not that rules and regulations don't exist in the African markets, it's more about how comprehensive and clear the rules and regulations are in the market to support and enable the activity that takes place. Rules and regulations generally aim to provide safety and security in the market, which in turn instills investor confidence and more activity.

Related to this is the need for proper regulatory inspection and oversight on market players including CSDs and custodians. There is a need for regulatory to be properly skilled on the CSD and custody functions and for them to be more active in terms of overseeing these participants and enforcing regulations.

Adewole: The underlying factor driving risk across Africa is the lack of uniformity in policies across the continent. The absence of standard policies on taxes, corporate governance, and foreign exchange, coupled with the changing political landscape, still leave room for significant settlement risk. The establishment of robust and integrated custody networks coupled with the collaboration of all market participants will be key to build and deliver a robust securities environment in Africa.

Smith: While settlement cycles have reduced considerably over the past 20 years, mainly through introduction of CSDs and technological innovation permitting higher automation levels, as a continent Africa still arguably has the longest settlement cycles in the global context.

Swaziland, Tanzania, Namibia, and Malawi are still operating on a T+5 settlement cycle. From our global experience, these longer settlement cycles, by their nature, result in a prolonged potential exposure to a failed trade. With the liquidity constraints and buy-in procedures in some markets, and non-settlement in central bank funds in others, we have seen the finality of settlement for an investor being at risk for a longer time period, despite the existence of an established and robust local or regional CSD network.

> “Artman: The JSE has launched currency derivatives against the Nigerian naira, Kenyan shilling and Zambian kwacha. These products will aid both the primary and secondary markets in these countries”

Inter-country payments are another potential risk area that has been identified and is receiving focus. The launch of a common platform allowing traders in East Africa to receive payment in real time and in local currency markets is a positive step following the integration of Real Time Gross Settlement systems by commercial banks in Kenya, Uganda and Tanzania.

In this regard, SGSS is an active participant in the recent Southern African Development Community Integrated Regional Electronic Payment System (SIRESS) initiative to settle regional transactions among banks in the SADC countries on a real-time gross basis, reducing the settlement and payment risk.

Lastly, enhanced market surveillance by exchanges in markets experiencing fast growing liquidity will become increasingly important, particularly as internet-based trading and potentially direct market access accompany the increased trading volumes.

The Nairobi Stock Exchange implementing a common trading platform across its members in 2012 to allow the exchange, the CSD and the regulator to automatically track trades in securities improving surveillance and the capability to identify market abuse.

We expect this trend to continue in other markets, in turn boosting liquidity and potentially attracting new listings to market. **AST**

Returning what's yours

Investors are increasingly adopting an international investment strategy to maximise earnings from securities, says Vicky Dean of Goal Group

Investor confidence in equity markets is increasing, with some arguing: "If 2013 was the year of returning hope, 2014 is set to be the year of returning growth opportunities." Since the financial markets crisis, equities have certainly recovered strongly and in November 2013 the total value of equities in the 58 major stock markets reached $63.4 trillion, higher than it has ever been.

Moreover, it is not just equities that are back in fashion. Interest in cross-border investing is also on the rise. According to statistics from the International Monetary Fund and from global stock exchanges, the market capitalisation of global equities rose 81 percent between 2003 and 2012, and the value of cross-border equities investments rose 141 percent over the same period.

As a result of these increases, more and more companies are now paying a dividend, with those that have historically done so also looking to increase their dividend payouts year-on-year. Fund managers are also steadily increasing the proportion of their portfolio made up of foreign shares, with the average proportion of a portfolio held in foreign shares tallying up to 24.9 percent in 2003, and rising to 33.1 percent in 2012.

In all events, dividends on cross-border shares and yield from foreign bonds are subject to withholding tax. This is a tax on earnings that a country's tax office (the country in which the share or bond was issued) deducts at the source, a proportion of which can be reclaimed by the owner of the shares or bonds.

Although this tax is reclaimable, research by withholding tax reclamation and class actions recoveries specialists, Goal Group, has revealed that £13.2 billion of investors' rightful returns from foreign shares and bonds were lost in the latest financial year because withholding tax on dividends and income is not being reclaimed. This represents an increase of nearly 30 percent in the annual amount lost since 2011. UK investors also chalked up the second highest losses, at £680 million, just behind the US, which forfeited £1.63 billion.

These reclamation rates on withholding tax have seen a marginal improvement since Goal Group last examined the situation in 2011, with just under 24 percent now being left unclaimed. However, major increases in market capitalisation and dividend distribution since the last Goal Group study has meant that worldwide unclaimed withholding tax has still seen a substantial net increase.

This rising proportion of portfolio investment devoted to foreign securities means that the lack of tax recovery needs urgent attention from fund managers and custodians. Investors are becoming increasingly rigorous in their scrutiny of investments and are putting pressure on fund managers to provide greater transparency. In fact, some fund managers are even making this fiduciary duty to maximise returns compulsory clauses within the contracts they hold with investors.

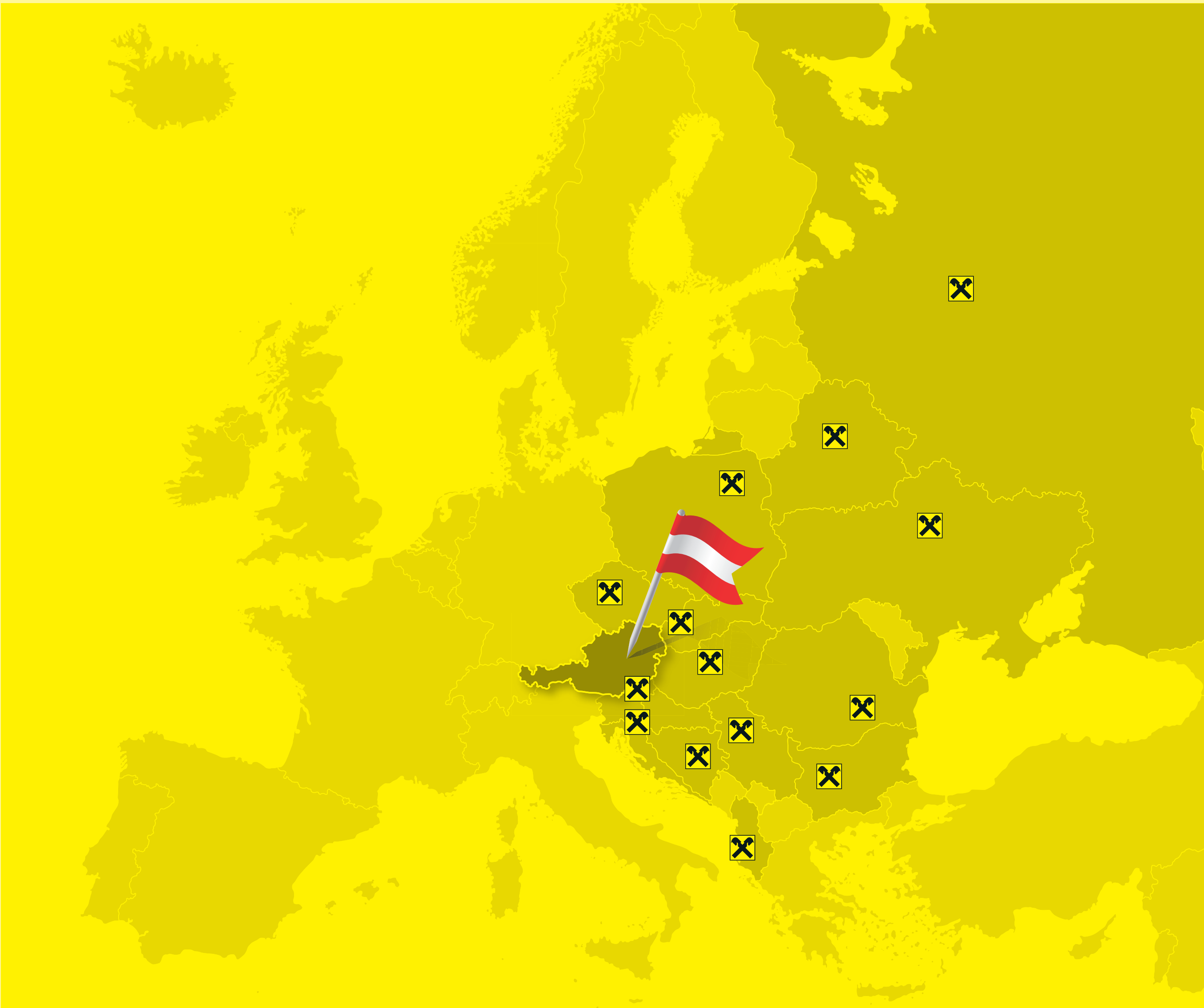
As a result of these factors, dividend yields have therefore become a far more highly examined element of the investor's portfolio, with increased weight being placed on fund managers to devote greater attention to maximise this element of returns. The significance of unclaimed withholding tax on cross-border securities holdings has therefore risen to a prominence it has not enjoyed since the 1990s or early 2000s.

With tax recuperation rates, rules and timings varying widely around the globe, the retrieval method is often described by many as complex. However, this is no longer the case as technology solutions are now more widely available to automate the process, making it a profitable procedure for custodians and fund managers under pressure from their investor clients.

It is clear that as the global economy continues to recover, investors are increasingly adopting an international investment strategy to maximise earnings from securities. Ultimately, all of those in fund management should take the issue seriously and make every endeavour to enhance investors' returns. A number of leading custodians have already recognised the market opening and effectively utilised tax recovery services, both for their clients and as an inter-bank services opportunity.

However, with 24 percent of recoverable withholding tax lying unclaimed in foreign tax systems every year, there is still a clear opportunity to increase the scope and efficiency of reclamation services. AST

Vicky Dean
Sales and relationship manager EMEA
Goal Group



Industry appointments

Guernsey Finance is to appoint **Dominic Wheatley** as chief executive with effect from 1 December 2014. Wheatley will replace Fiona Le Poidevin, whose resignation was announced in July.

Wheatley has more than 25 years of experience in the international financial services market in the UK and Guernsey.

He most recently as managing director of Willis Management and chief marketing officer of Willis's international insurance management businesses.

He also served as chairman of the Guernsey International Business Association (GIBA), the representative body of the financial services industry in Guernsey, from 2011 to 2013, a position which saw him serve ex officio as a director of Guernsey Finance.

Prior to becoming GIBA chairman, he was chairman of the Guernsey International Insurance Association (GIIA) from 2009 to 2011.

Jim Gilligan, the chairman of Guernsey Finance, said: "Wheatley has a wealth of knowledge and expertise within the financial services industry both locally and internationally and a strong record of international marketing."

He continued: "The board wishes to place on record our sincere thanks for, and appreciation of, the tremendous job Le Poidevin has done for Guernsey Finance during her tenure as chief executive."

TMF Custom House Fund Services has appointed **Kevin Walsh** as COO for fund services.

Walsh started his career in the funds industry in 1995 at the Bank of Bermuda and is focused on operational, regulatory and product management, as well as experience in banking and fund services.

He joins TMF Custom House from HSBC Securities Services, which acquired Bank of Bermuda in 2004, where he was responsible for the global product development of core accounting services across the range of alternative asset classes.

"Walsh brings over 20 years of experience in the funds industry to TMF Custom House and will play a pivotal role in the company as we are positioned for further growth and expansion of our fund administration services following the finalisation of our acquisition by the TMF Group," said Mark Hedderman, CEO of TMF Custom House.

"Walsh will oversee our global operating model and is responsible for the oversight of our eight fund service locations in Europe, Asia and North America, as well as product development and business planning for fund administration and client services."

Peter Hugh Smith is to join Capita Asset Services as managing director of Capita Financial Managers Limited in November 2014.

Smith joins from Way Fund Managers where he has held the position of CEO since August 2012.

Chris Addenbrooke, chief executive of Capita Asset Services's fund solutions arm, said: "Smith brings with him a depth and breadth of management, distribution and investment industry experience which makes him the ideal candidate to take Capita Financial Managers Limited forward."

Smith's previous roles include managing director of Russell Investments's whole sale distribution business, as well as fund manager at Capel Cure Myers and with Seapower Asset Management in Hong Kong.

Smith commented: "The industry is seeing continued interest in the opportunities afforded by the UK and wider European market from overseas asset managers launching funds."

"There are many factors that will result in the growth of the authorised fund manager and alternative investment fund manager sectors in the coming years."

He stated that these factors include margin pressure on small- and medium-sized asset management businesses, constant regulatory change and the increasing complexities, challenges and costs of fund compliance, oversight and governance.

Smith will report to Chris Addenbrooke and his appointment is subject to Financial Conduct Authority approval.

The European Fund and Asset Management Association (EFAMA) has hired **Gabriela Diezhandino**, the former head of public affairs for Insurance Europe, to lead its newly created public policy department.

The new department will work closely alongside the EFAMA's other two specialist divisions—economics and research, directed by Bernard Delbecque, and regulatory policy, directed by Vincent Ingham.

Its primary focus will be on engaging policy and decision makers to promote the EFAMA's legislative agenda and the views of its members.

As director of public policy, Diezhandino will take responsibility for strengthening political and public support for the EFAMA's issues and priorities, ensuring that the industry retains a strong voice and positive representation.

Diezhandino will also be responsible for developing the framework within which EFAMA's members operate, working in collaboration with the director general, the other two directors, association members and industry representatives to identify, pinpoint and develop industry priorities and policies.

A 14-year Brussels and EU affairs veteran, Diezhandino joins EFAMA from Insurance Europe.

At Insurance Europe, she was head of public affairs for seven years, responsible for devising and implementing the policy communication and engagement strategies, and promoting the policy messages of the association. **AST**