AST ASSETSERVICINGTIMES

Conference Special

assetservicingtimes.com

Part and Parcel
Risk is the network manager's job

CCP Worries
Central clearing concerns

Corporate Actions
A reformed Russia

T2S Express
The first wave is nigh

myriad

PROVEN. SECURE. ROBUST.
Clever technology for network management teams

Contact Rupert Booth or Simon Shepherd on +44 20 3470 0320

www.myriadgt.com

safe_keeping

Your complex investments require specialized knowledge and servicing experience. Count on personalized attention from our dedicated custody and agency team.

baml.com/custodyandagencyservices

Bank of America

Merrill Lynch

The power of global connections™

"Bank of America Merrill Lynch" is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory, and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation ("Investment Banking Affiliates"), including, in the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., both of which are registered broker-dealers and members of SIPC, and, in other jurisdictions, by locally registered entities. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp. are registered as futures commission merchants with the CFTC and are members of the NFA. Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed. THE POWER OF GLOBAL CONNECTIONS is a trademark of Bank of America Corporation, registered in the U.S. Patent and Trademark Office. ©2014 Bank of America Corporation. 08-14-0042

BNY Mellon predicts increased investment in Taiwan

The Taiwan Financial Supervisory Commission's (TFSC) decision to allow non-capital raising level one depository receipt (DR) programmes could open a door for wider foreign investment, according to BNY Mellon.

The change in legislation aims to create investor connectivity opportunities for Taiwanese companies in the US and Canada and around the world, making them more accessible to global investors.

It is hoped the changes will benefit companies by broadening shareholder base on a global scale, without the costs of listing on an overseas stock exchange.

Neil Atkinson, head of the Asia Pacific for BNY Mellon's DR business, said: "We are often asked, particularly by US investors, to establish DR programmes for Taiwanese companies, but have been restricted from doing so by regulation."

He also suggested this is an indication of a growing economy in Taiwan.

"Research suggests there is growing demand from Taiwanese companies to be able to increase their international ownership, and global investor sentiment toward Taiwan is buoyant."

"Accordingly, we may see more Taiwanese companies using DRs in 2015."

Despite the changes, qualified issuers that are listed on the Taiwan Stock Exchange and Gre-Tai securities markets will not see increased reporting requirements when trading in US OTC markets.

The bank, meanwhile, has been selected to act as depository bank for Eurasia Drilling Company's global depository receipt (GDR) programme.

The Russia-based drilling and well services contractor owns and operates a fleet of equipment for onshore and offshore drilling services, and supplies drilling in the Caspian Sea jack-up market.

Tom O'Gallagher, vice president of marketing and investor relations at Eurasia Drilling, said: "We selected BNY Mellon as our GDR provider due to its global infrastructure and capabilities and its proactive approach to facilitating innovation in regional markets."

Each GDR will represent one share and will trade on the London Stock Exchange as 'EDCL'.

Eurasia Drilling's GDRs are not registered under the US Securities Act 1933 and so cannot be offered or sold in the US without additional registration or exemption allowances.

Christopher Kearns, CEO of BNY Mellon's depository receipts business, commented: "We specialise in bringing the latest innovations to our clients to help them gain visibility and awareness in regional markets and around the world."

"With more than 200 DR successor mandates handled over the past 25 years, we have the expertise to make Eurasia Drilling's programme transition to BNY Mellon as seamless as possible."

Liquidity Alliance spots global benefits of T2S

Non-European members of the Liquidity Alliance will be able to benefit from the implementation of Target2-Securities (T2S) through their members in Germany and Spain.

ASX, operator of the Australian Securities Exchange, and central securities depositories Cetlip in Brazil and Strate in South Africa will have access to the T2S pool through Clearstream in Germany and Iberclear in Spain, extending collateral services cross-border and offering mobilisation in real-time.

The settlement will integrate assets, enabling smooth collateral transactions. The member companies will be able to consolidate European and domestic assets in to one pool of liquidity, transferring collateral between the two relatively easily.

Jesús Benito, CEO of Iberclear, said: "The Liquidity Alliance's initiative of providing worldwide collateral access to T2S is a major milestone in its history. We are proud to be a key part of this new facility, which will allow all members to tap the huge collateral resources T2S will make available."

The alliance had already developed concepts for offshore collateral used to cover domestic exposures, but T2S will allow this collateral to be accessed from EU markets.

Monica Singer, CEO of Starte said said: "While we had already been following the project with interest from a distance, we did not think we could benefit directly. Our Liquidity Alliance membership now opens up a great opportunity to access T2S and we are confident it will greatly streamline the activities of our customers in Europe."

The Liquidity Alliance has also provided an update to its customer connectivity service, intended to further enhance collateral efficiency.

Cetip will pilot the scheme, which will be rolled out to ASX in Australia, Clearstream in Germany, Iberclear in Spain and Strate in South Africa from 2015.

Cetip was also the first member to adopt the original collateral management solution.

NAB to invest in asset servicing technologies

National Australia Bank (NAB) is planning to leverage some of its key partnerships and invest in asset servicing technology to improve services for its NAB Asset Servicing (NAS) customers.

ASTINBRIEF

New markets
How are custodians responding to the current environment and is now a good time to explore new markets?

page14

T2S future
Target2-Securities and its next stages are put under the spotlight

page24

Reconciliation update
Which reconciliation solution has left legacy vendors stumped?

page32

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: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)20 8663 9621

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

Copyright © 2014 Black Knight Media Ltd.
All rights reserved.

The decision comes after an eight-month process to determine the best course of action for NAB's future, and it was confirmed that NAB will continue its global custody partnership with BNY Mellon, providing a range of investment services and management technologies.

Steve Lackey, chairman of BNY Mellon Asia Pacific, said: "For 19 years we have partnered with NAB to provide the products, technology and thought leadership customers need in the world of asset servicing, and we look forward to building on this trusted and proven relationship in the years ahead."

Christine Bartlett, NAS executive general manager, said: "Today's announcement reinforces NAB's position as the largest provider of custodial services in Australia with more than $600 billion under custody and administration."

NAB hopes to provide its NAS customers advanced performance reporting processes, with systems tailored to clients needs, as well as a new registry platform with enhanced reporting capabilities, and improved access to data and reporting tools through a client portal.

It will also offer a securities lending programme with greater flexibility on counterparty exposure and investment returns.

Antony Cahill, NAB group executive for product and markets, said: "The eight-month process reinforced to NAB that our customers value our custody services. We look forward to continuing to work closely with our partners in delivering for our asset servicing customers."

J.P. Morgan moves broker-dealers to National Financial

J.P. Morgan is winding down its broker-dealer services (BDS) clearing business after naming National Financial as the preferred provider for third-party clients.

The bank said it is winding down the clearing business due to a "strategic review". It currently provides correspondent clearing on a fully disclosed basis to third-party broker-dealers. No financial details were disclosed.

National Financial will act as clearing provider to all broker-dealers that elect to make the move.

J.P. Morgan BDS head Joe Triarsi will oversee the move before joining National Financial's senior leadership team.

The bank said it will continue to clear for its own broker-dealers, including its asset management, Chase and private banking businesses. It also reaffirmed its commitment to agency clearing and prime brokerage.

"In seeking a solution for clients of our BDS business, we approached National Financial because we share a focus on providing first class service to our clients," said Triarsi.

"We are impressed with the calibre of National Financial's service, technology platform and product line-up, and are confident that National Financial is the optimal transition destination for our clients."

Northern Trust highlights data worries

Institutional investors named data aggregation as the greatest business challenge in the move towards high standards of governance, monitoring and oversight.

In a survey at Northern Trust's Investing at a Time of Geopolitical Risk event, 45 percent of respondents cited data aggregation as their biggest challenge, while 29 percent were most concerned about costs and internal resources, and 21 percent named investment transparency as their biggest concern.

Ian Castledine, global head of Northern Trust risk and compliance product, said: "It is not surprising that obtaining the right data is the greatest challenge for investors, particularly as

safekeeping
Your complex investments require specialized knowledge and servicing experience. Count on personalized attention from our dedicated custody and agency team.
baml.com/custodyandagencyservices
For marketing disclaimer, visit bankofamerica.com/disclaimer
The power of global connections™
Bank of America Merrill Lynch

Enter
a new world of
securities software

5 software suites at your service

25 years of expertise

50 financial services providers who trust our solutions

SLIB Order & Trade
Dispatch your orders on the flow

SLIB Clearing & Settlement
Deliver your securities everywhere in the world

SLIB Position Keeping
Safekeep your resources in a changing landscape

SLIB Voting
Exchange easily with your investors

SLIB Risk
Monitor the risks related to your business

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

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

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

> Interested?
Contact us at sales.contact@slib.com
Follow us on Twitter: @SLIB_sa and LinkedIn: SLIB

www.slib.com

they are faced with changing regulatory requirements against the backdrop of global geopolitical uncertainty."

Although costs and resources did not top the list of challenges, respondents did expect capital allocation for governance and compliance to increase in the near future, as well as internal resourcing costs.

Penelope Biggs is head of institutional investors' agendas, with a particular focus on response to regulatory changes. She said: "Governance has risen markedly up institutional investors' agendas, particularly in response to increasing regulatory challenges. This has driven the need for more frequent, granular and holistic data for stress testing."

About 40 Nordic institutional investors were surveyed at the event in Stockholm in September.

Clearstream assists with China A-Shares opportunity

Clearstream began offering settlement and custody services for China A-Shares on 17 November, in response to the Shanghai-Hong Kong Connect Program, which will broadens investors' access to Chinese markets.

The joint venture of the Shanghai Stock Exchange (SSE) and the Hong Kong Stock Exchange (HKSE) aims to open up Chinese investment opportunities to non-residents, as long as they're trading in China A-Shares. That is, shares registered on the SSE and denominated in renminbi.

Previously, these investors would have to apply for qualified foreign institutional investor (QFII) status or renminbi qualified foreign institutional investor (RQFII) status.

It is hoped that the programme will allow Chinese companies to broaden their investor base, while investors should benefit from access to desirable assets.

Central clearing has a way to go, says Fed governor

The global initiative to expand use of central clearing and central counterparties (CCPs) in over-the-counter (OTC) trades is making progress but still has significant hurdles to overcome, according to Jerome Powell, governor of the US Federal Reserve.

He assessed the ongoing plans in a speech at The New International Financial System: Analysing the Cumulative Impact of Regulatory Reform annual banking conference in Chicago on 6 November.

Powell explained that the swift growth of the OTC market pre-crisis, and the light regulations at the time led to "unmeasured and underappreciated" levels of risk, and that the crisis revealed huge failures in the system as it was.

In 2009, the G20 countries introduced the new principals for financial market infrastructures (PFMI), stating that they must all be centrally cleared to reduce systemic risk. Since then, Powell stated, about 20 percent of credit derivatives are centrally cleared, along with 45 percent of interest rate derivatives.

Despite this, Powell insisted there is much more work to be done, specifically, integrating central clearing and CCPs in to the wider financial system.

He said: "Governments firmly resolved that even the largest financial institutions must be allowed to fail and be resolved without taxpayer support and without threatening the broader financial system or the economy."

"CCPs therefore need to adapt to a world in which their largest clearing members will be allowed to fail and to be resolved without taxpayer support."

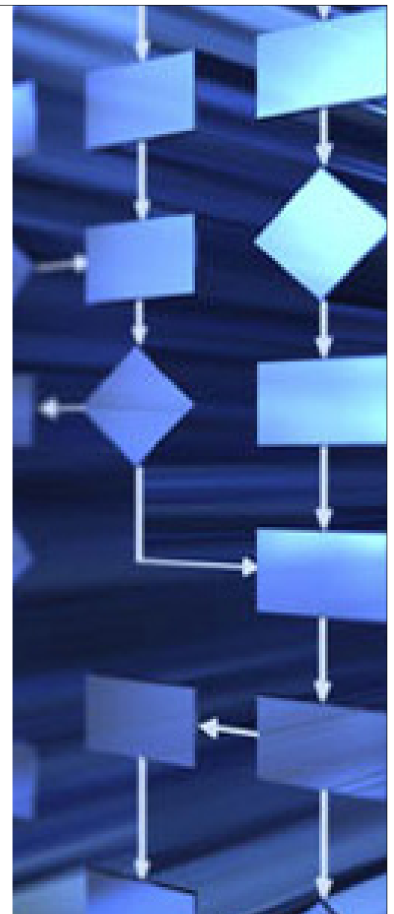
These adaptations include additional regulation and supervision, vigilance in maintaining liquidity and working towards even greater transparency, and offering clearing members access to stress test results that are comprehensive enough to produce concrete data.

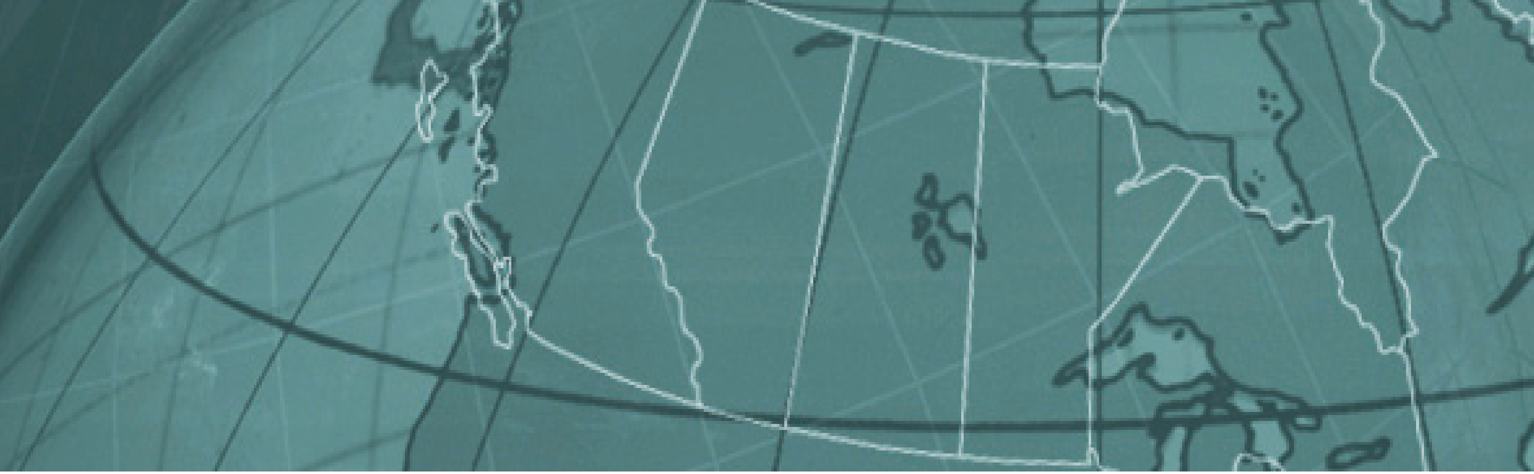
Specialists in asset servicing recruitment

If you're a senior asset servicing professional and are interested in progressing your career then please call either;

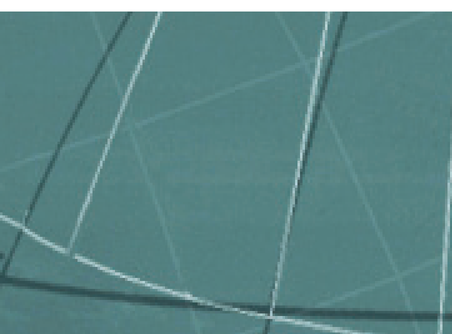
Liz Cleary in Singapore on +65 9488 9940 / email liz@hornbychapman.com
or Paul Chapman in London on +44 207 643 2298 or+44 775 374 8397
email paul@hornbychapman.com

www. hornbychapman.com I No.1 Poultry London EC2R 8JR





Global market reach. Expertise in Canada.



Powerful service platform for global financial institutions.

Whether you are a multi-national financial institution or a multi-asset investment manager, CIBC Mellon provides a powerful platform of asset servicing solutions — tailored to meet your needs.

We offer asset servicing expertise in the Canadian marketplace, scalable solutions, plus access to the global resources and products of our U.S. parent, BNY Mellon.

It's the reason why CIBC Mellon was named **Canada's Custodian of the Year** *(Custody Risk Americas Awards, 2014)*. In 2014, CIBC Mellon was recognized as the **Best Sub-Custodian in Canada** by *Global Finance magazine* for the eighth consecutive year and was named **Best Single Major Market Sub-Custodian in the Americas** *(Global Custodian magazine, 2014)*. CIBC Mellon is also the **only Canadian custodian to earn "top-rated" status** (from leading and cross-border/non-affiliated clients) in *Global Custodian Magazine's 2013 Agent Banks in Major Markets survey*. When selecting your Canadian custodian, choose CIBC Mellon.

For more information, contact:
Shane Kuros at 416-643-6365
Alistair Almeida at 416-643-5126
www.cibcmellon.com

©2014. A BNY Mellon and CIBC Joint Venture Company.
CIBC Mellon is a licensed user of the CIBC trade-mark and certain BNY Mellon trade-marks.
CIBC Mellon is the corporate brand of CIBC Mellon Trust Company and CIBC Mellon Global Securities Services Company and may be used as a generic term to reference either company or both companies collectively.

Stressing the importance of global cooperation, Powell said: “The failure of a large clearing member that is also a key service provider could disrupt the smooth and efficient operation of one or multiple CCPs, and vice versa.”

“In the event of disorderly CCP failures, the netting benefits and other efficiencies that CCPs offer would be lost at a point when the financial system is already under significant stress. Ultimately, the system as a whole is only as strong as its weakest link.”

Russia and Turkey to cooperate on CSDs

The central securities depositaries (CSDs) of Russia and Turkey have signed a memorandum of understanding, agreeing to cooperate and exchange information in the sphere of CSD services and development.

Russia’s CSD, the National Settlement Depository (NSD), and the Turkish CSD, Merkezi Kayıt Kuruluşu (MKK), will share developments on subjects like the use of e-proxy voting services during corporate actions processing.

The NSD also have CSD accounts with eight other countries including Kazakhstan and Armenia, and works with Clearstream and Euroclear Bank.

Banks fined £2 billion over FX scandal

Five international banks have been fined a total of £2 billion by the UK Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission (CFTC) over attempts to manipulate the foreign exchange market.

The Royal Bank of Scotland, HSBC, UBS, J.P. Morgan and Citigroup were collectively fined £1.1 billion by the FCA and $1.4 billion by the CFTC.

The FCA is continuing its investigation in to the role of Barclays in the scandal.

Banks formed groups of traders to place orders during the period of time that the daily rate was established, creating profit for their firms and potentially affecting the benchmark calculations that could in turn distort the daily rate.

The groups of traders conversed through online chat room, and identified themselves with codenames such as ‘the players’, ‘the 3 musketeers’ and ‘the A-team’.

An FCA investigation found that banks did not exercise effective control over their G10 spot FX trading businesses between 1 January 2008 and 15 October 2013, and acted without “proper regard for the interests of their clients, other market participants or the wider UK financial system”.

President of the ACI Financial Markets Association, Marshall Bailey, has responded to the decision, saying that lessons must be learnt for the scandal, and that regulations must be tightened to prevent unethical behaviour in the future.

“Ultimately, it came down to the behaviour of individual market participants, and the ability of their supervisors to enforce the standards required through oversight and governance,” he said.

“We must work with international regulators to strengthen and implement these internal controls and ensure they are applied across all institutions globally.”

He added, however, that the market has a collective responsibility to work with policymakers to create a fair system, and that the industry should not leap to over-zealous changes.

“Unfortunately, the actions of this relatively small unrepresentative minority has damaged the reputation of the market in the eyes of the public, but this should not be seen to reflect the broader health of the FX industry, nor should it trigger wider structural reforms,” he said.

Follow us

@ASTimes_Tweets

For richer, for poorer

The UK’s National Lottery recently celebrated its 20th anniversary, proudly declaring that it had created 3600 millionaires and raised some £32 billion since its inception. This anniversary provoked a flurry of related articles, programmes and broadcasts with various talking heads sharing their views on whether the lottery was good or bad for the UK as a whole, and its impact on those individuals who had won significant amounts. The conversation also broadened to cover the perceived growing inequality between the rich and the poor in the UK.

Irrespective of the current definition of ‘poor’ (realistically lying somewhere between the definitions of the Fabian Society and the Adam Smith Institute), one fact that stood out regarding this mismatch—this was more of a commentary on the general polarisation of wealth in the UK than the impact of the lottery—was that when the lottery began, the ‘net worth’ of the top 0.1 percent of the UK’s population equalled that of the bottom five million of the population. Twenty years later, the wealth of that top 0.1 percent now equals the bottom eight million people.

The immediate acquisition of great wealth will also shortly be a topic, in the mainstream media at least, in the run up to bonus time. Numerous stories will likely appear revealing and commenting on the creation of multiple millionaires in London’s financial centre. While we know that the remuneration structure within the City could be depicted as a pyramid shape—or possibly more accurately the Burj Khalifa—with a tiny number of folks at the top receiving significant figures packages, but with folks lower down the scale receiving relatively pedestrian figures.

However, the press cannot resist yet another blast of ‘banker bashing’ and won’t mention that financial services in the UK create the equivalent of 24 percent of GDP, or that the average salary in the City is around £65,000. While that admittedly is a multiple of the national average, a combination of London, or Southeast England, living costs and the sacrifice in terms of time and effort to achieve that level must be borne in mind. The tax paid on those bonuses and salaries is very rarely mentioned, and neither are the significant charitable efforts made by many of the 360,000+ City workers. Rarely a week goes by without a JustGiving request relating to a run, swim or other impressive charitable initiative such as the ubiquitous ‘Movember’.

As an industry we should not be permanently on the back-foot image-wise and perhaps firms—and especially industry associations—should be asking their marketing teams to be more inventive and lateral-thinking and proud to ‘shout from the rooftops’ about all of the good that the City does. Perhaps, in our own small quarter of financial services, we could gain some (long overdue) positive press by changing the format of the many very expensive black tie awards dinners to include a charity auction, as opposed to being purely self-congratulatory and internal-facing?

On a lighter note to end, I do like the response of the lottery winner, who, when asked what his thoughts were on heartrending, pitiful and persistent begging letters, responded: “Oh, I’ll definitely keep sending them.”

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

Paul Chapman, managing director, HornbyChapman Ltd

With more than 1,500 clients, including the world's top 10 banks*, we know what it takes to support the industry's leaders.

Redefining post trade operations globally

SmartStream delivers highly flexible and innovative transaction processing software that supports critical operational infrastructures: from industry-leading reconciliations and cash management solutions to reference data management.

Our TLM® Solutions and Data Management Services enable you to rapidly respond to changing market demands – where efficiency, risk, cost and compliance are the new industry watch words.

See what we can do for your organisation, contact SmartStream today:

Card Processing Controls
Cash & Liquidity Management
Client Money
Confirmations Management
Corporate Actions Processing
Data Management Services
ETD/OTC Derivatives Processing
Reconciliations
Trade Finance
Trade Process Management
Transaction Fees Invoice Management

+44 (0)800 279 5465 (UK)
+1 (866) 603-1893 (Americas)
+65 6 224 76 89 (Asia Pacific)
info@smartstream-stp.com

smartstream-stp.com

* The Banker

Unclaimed billions

Australian fiduciaries and investors must grasp all opportunities to participate in relevant securities class actions, says Andreas Costi of Goal Group

Global class actions are moving away from the singular and relatively straightforward focus of a single jurisdiction, the US, to a multiple and complex series of legal systems throughout the world. This international diversification of class actions can be recognised as a combination of restrictions on jurisdiction definitions in US federal courts, along with a growing desire to develop domestic class action procedures in many countries around the globe.

This shift was arguably prompted by the 2010 Morrison v National Australia Bank securities class-action case, in which the US Supreme Court ruled against f-cubed actions. The ruling set a precedent and has changed the global landscape of class action procedures.

Australia has firmly established itself as a hub for securities class-action cases in the Asia-Pacific region, with landmark settlements being reached. It can be argued that these settlements were stimulated by the global financial crisis. Conditions such as a failing securities market, companies finding themselves in unforeseen difficulties, and law firms focusing on securities class actions as a significant business opportunity following legislative reform to personal injury practices, provided a fertile breeding ground for securities class actions to escalate in Australia.

These landmark settlements include the Centro Retail Australia and PricewaterhouseCoopers case, where they agreed to pay AUD 200 million to shareholders. It was found that shareholders were misled by company statements in 2007 that failed to disclose debt levels. This settlement followed the 2008 Aristocrat Leisure Limited class action where the Federal Court of Australia approved a AUD 114.5 million settlement, the largest class action settlement in Australian history at the time. As these show, it is apparent that securities class actions are fast becoming entrenched in Australian litigation.

Such huge settlement figures are proving that participation in class action cases is valuable and worthwhile, particularly as there are now a number of specialist services available that will automate the process of class action participation, which in turn minimises the complexity and cost of recovery. On this basis, there becomes no real viable excuse for non-participation from fund managers and institutional investors.

Although Australia has positioned itself as a frontrunner to process class actions, it is not the only jurisdiction to have adapted to the outcome of the Morrison ruling in the US. Class action legislation is increasingly developing globally and as the procedures move to multiple legislations around the world, Australian fiduciaries are challenged with monitoring international opportunities for investors to participate in actions to recoup their rightful returns.

Greater emphasis is also now being placed on the importance of fiduciary duty and corporate governance reform where disregard or negligence can lead to a significant loss in investment value. Failure to engage in class actions leaves billions in unclaimed settlements, which not only compromises fiduciary integrity but can also present a legal risk with clients' potentially entitled to legal redress.

With Australian investors now investing $374 billion in foreign equity shares, up from $290 billion at the end of 2010 and $157 billion in 2008 (according to International Monetary Fund figures), it is clear that there is a duty to monitor and participate in securities class action and collective redress opportunities in various countries around the world. Investment in the US in 2013 from Australian investors was $167 billion, $39 billion in the UK and $18 billion in Japan. A research note from Goal Group also revealed that between 2000 and 2012, investors' non-participation in US securities class actions along has resulted in more than $194 million of Australian investors' returns being left unclaimed.

It is clear that there are still significant amounts being left unclaimed each year due to non-participation. At this point, it becomes the responsibility of fund managers and custodians to monitor and pursue opportunities to participate in securities litigation.

Furthermore, Goal Group's analysis of its class actions knowledge base predicts that by 2020, securities class action, group and collective redress settlements outside of the US will reach $8.3 billion annually. The Asia Pacific region is responsible for $3.4 billion of this figure. As a result, Australian fiduciaries and investors must grasp all opportunities to participate in relevant securities class actions, in both their own jurisdiction and elsewhere around the world. **AST**

Andreas Costi
Managing director, Australia and New Zealand
Goal Group

SOLVENCY II LOOK-THROUGH SOLUTION FOR ASSET MANAGERS

Asset manager disclosure and information dissemination as a result of the look-through principle of Solvency II will bring challenges for protecting intellectual property and increased complexity in the distribution process.

Fundsquare has teamed up with Silverfinch to provide a comprehensive solution that enables asset managers to have a secure response to requests for look-through portfolio data.

- **Facilitate internal and external look-through management**
- **Protect IP in a controlled environment**
- **A scalable data standard**

Fundsquare is a subsidiary of the Luxembourg Stock Exchange, operating as a fund market utility.

FUNDSQUARE
MARKET INFRASTRUCTURE

Give the regulators what they want

When the history of the twenty first century is written, how will transparency as a means of averting financial disaster be viewed? Simon Shepherd of MYRIAD Group Technologies examines the possibilities

It was clear from what followed the financial crisis in 2008 that no one really knew what was going on, although many were prepared to speculate about the eventual outcome. This must have caused great concern at the highest levels of public life. For the thoughtful 'man in the street', it probably led to prolonged bouts of sleeplessness, which was certainly the case in my household.

I remember attending a reception in Vienna on the Sunday evening in September 2008 when Lehman Brothers was deemed to be no longer viable as a major financial institution. I was standing next to an infrastructure provider who took a call from a senior regulator in New York. He was asked to discuss the ramifications. The person in question came off that preliminary call and announced to the assembled company what had just happened. Frankly, he probably should not have been so open so quickly, but he was visibly shocked and also concerned, because he was both unsure of just how he was going to be able to contribute to the ensuing conference call and concerned about a complete absence of a structure or agenda for the meeting he was about to join.

Clearly, there was no plan and, for a fortunately brief but alarming spell, the global financial system was genuinely under threat.

That weekend, the phrase 'shock and awe' took on a totally different meaning for regulators, central banks and politicians. The phrase 'the corridors of power' lived up to its meaning when senior bank executives were called to meetings in the offices of the UK's chancellor. Where were the war rooms? Where was the plan? What was the plan? From the little we know of the situation, it was all too hastily assembled, but it did, nonetheless, avert disaster.

The next day, the news was as much about Merrill Lynch falling into the hands Bank of America as it was about the demise of Lehman Brothers. There seemed to be widespread acceptance that this was the safest, and therefore the correct, thing to happen. No one was totally convinced or able to convince others. That fateful first week, after the seismic shock of the Lehman Brothers bankruptcy, people were called back to their offices and somehow the major institutions worked their way through to slightly calmer waters. But many institutions have subsequently paid significant fines levied by regulators and I am not convinced that all stakeholders would empathise with the term 'calmer waters'.

When the brief history of time is written, chapter 37 (or whichever it might be) will probably have politicians coming in for far greater scrutiny than that with which they have escaped so far in relation to the financial crisis—thank God for bankers, say the politicians. It is a moot point as to whether some politicians were asleep on their watch during the previous decade, or whether they simply turned a blind eye because the tax revenues were so enticing. Some banks and bankers took advantage like kids in a sweet shop, but now regulators are correcting the situation, and quite rightly so.

I say this as a former banker, a retail investor, a deposit holder and as the owner of a technology business now servicing the very largest financial institutions. Personally, I am pleased at the progress being made. Some of the regulations may be overbearing and some of it may go too far, but the financial system is, on balance, safer (and fairer) than it was before. If regulation swings slightly too far the other way then so be it; put it down to the regulatory cycle. We need to remember this in 20 or 30 years, when the next boom is being stoked by politicians and bankers with their own agenda and when, quite possibly, the regulatory foot is slightly off the legislative pedal.

But I am much more interested in the practical manifestations of this and about how we as a company can benefit from this developing situation. We have some wonderful anecdotal evidence of how the regulatory burden is having a real and immediate effect on staff and managers.

Picture the scene: a senior regulator parks herself or himself next to your desk and is clearly there for the morning. In fact, he or she remains there for the next three days. The regulator wants you to pull document after document, account after account and screen after screen, demonstrating that you actually do have the information that he or she needs and is requesting. When the self-same regulator gets distracted by a question from a colleague and returns to the screen and says, "run me a MYRIAD on that", you know you will satisfy them and I know, as a business manager, that my system is probably fairly well positioned, right here, right now.

Transparency is a wonderful thing and having systems and processes in place to service that transparency is absolutely the way forward. This scenario extends in two further ways. Imagine you are a senior manager overseeing that business line function: as a senior manager, you may well be invited to sit on the desk while the regulatory audit takes place. Ultimately, you are responsible for providing the transparency that the regulator seeks. You are responsible for having the systems, processes and controls in place that enable fast, accurate access to the information required. From a senior manager's point of view, your interests should actually be tied to those of the regulator because you both are, in some way, responsible for making sure that all of the little bits and bytes, once properly organised, can be used in such a way that they do not all add up incorrectly and that, when laid end-to-end, they can help to avert a disaster. Transparency reduces the likelihood of ensuing chaos.

Key concepts in this area now revolve around immediate availability of information, anytime, anywhere in the world. Data persistence, repeatability of processes and security around systems are all phrases that resonate with regulators and directly affect the major financial institutions. Can you carry out the same processes next year, without expending the same amount of effort that you did this year? Can you measure changes, year-on-year? Can you introduce standardised, systematic changes to your processes pan-enterprise, to satisfy the regulator's request for improvements? And can you do so quickly and efficiently, while also preserving access to past records for future comparison?

The further extension of the scenario above involves a different task for the senior manager—that of forward planning—to help to avoid meltdown in the future. What regulators now want to see is the capability to work through extreme difficulty and stress in the financial system at some unknown point in the future. The living will action plan is as much about capital cushions as it is about having the wherewithal to work through a nasty situation as that situation unfolds. The first issue is a financial one and the second is operational. That situation may entail the orderly winding down of your own organisation, which is categorically an operational issue.

In fact, shutting a large institution down overnight cannot practically happen anyway, and this is now seen as absolutely not the quickest and safest thing to do, despite what past thinking may have suggested.

Having a detailed plan for a workout is now a fact of life and this entails not only having a fully auditable trail of evidence around which aspects of the workout may depend, but it also involves having a credible, robust operational plan to underpin the workout as it actually happens. The moniker 'too big to fail' may be applied to the world's largest financial institutions, but the emergent standards by which they are judged will, in the main, be applied to all financial institutions, no matter how large or small.

Senior bankers caught asleep in the future will possibly go to prison, unlike politicians (two points which are both worth bearing in mind). The transparency required by regulators needs to uncover and review what you have done in the past. It needs to check whether your accounts are currently in order and not in any way replicated to distort your management information. Where there are gaps, being able to demonstrate that you know what those gaps are and that you are doing something to close them is actually part of the common sense reviews now taking place. Clearly showing that you are taking immediate, effective action to stop those gaps and that there is a remediation plan in place are key elements in securing the regulator's confidence that you are on top of the job.

Furthermore, translating that current action plan into your living will, as well as linking aspects of that plan to it, will then start to tick a plethora of other boxes which likely appear on the regulator's clipboard.

Of course, the regulator too will have a system that matches your own for comprehensive input and output capabilities, adaptability, robustness, security and reporting. Leading the way and 'running a MYRIAD for them' can only help ease their passage and set your institution apart from the crowd. **AST**

Simon Shepherd
Chief executive
MYRIAD Group Technologies

Low RISK High

Managing risk = preparation + knowledge + research

Stephanie Colaric of Bank of America Merrill Lynch explains how custodians are responding to the current environment, and asks whether now is a good time to explore new markets

MARK DUGDALE REPORTS

Does the current economy provide an advantageous environment to clients interested in global expansion?

Currently, the economy is not very conducive to exploring new markets due to the economic and regulatory environment which is having an effect on all investors and participants. The main focus for custodians today is on managing and meeting the amount of regulatory and market infrastructure change that's happening. For example, Target2-Securities brought very significant infrastructure changes across Europe. This type of change is dominating the agenda.

The role of the network manager has changed significantly since the global financial crisis. It is now more akin to that of a risk manager, so the expansion of networks and moving into new markets is treated differently. Previously, the number of new markets in which a global custodian operated was a competitive edge. Today, sub-custodians no longer move straight into new markets at the behest of their global custodians because they want to protect those relationships. Both global custodians and sub-custodians are taking a more measured approach.

There is a constant and ongoing revaluation of business strategies along with a rationalisation of the sub-custody business. We have seen that in the Middle East among the smaller regional providers, which I don't necessarily think was the case before the global financial crisis, and can therefore be attributed to the economic environment.

Of course, custodians will continue to evaluate new markets, but the process will consider meaningful volumes and other factors before they are taken onboard.

Are there any growing markets of particular interest?

Emerging markets of Asia and Latin America—India, Indonesia, South Korea, Malaysia, Mexico and Brazil—are showing promise. There is also keen interest in African markets. Recent events have caused a bit of a slow down but I think it is just temporary. Increased focus will be on Africa.

In terms of new markets, there is interest in Saudi Arabia, as well as Hong Kong. With the Shanghai-Hong Kong Connect Program, which aims to broaden investors' access to Chinese markets, there is a lot of uncertainty around how it is going to play out, but all eyes are on it and the feeling is that it has significant growth potential.

What would you attribute growth to in these markets?

A lot of it has to do with growth in the middle class markets, which has a positive impact on both inbound and outbound investment. Foreign fund managers are investing in those markets to buy domestic companies in order to benefit from domestic consumerism. At the same time, outbound investments from those markets are growing as domestic investors want to invest their savings and increase their wealth.

In Asia, there have been developments in the management space, such as the mutual recognition initiative between Hong Kong and China that would allow fund managers based in Hong Kong to sell domestic funds to Chinese investors and vice versa. Similar regional discussions are taking place across Asia around passport schemes and cross-border distribution. There is still some way to go before these fall into place, but they are going to have positive long-term implications.

How should business adapt to meet the demand of new markets?

Global custodians are very practiced at opening in new markets. Generally, there are established and reliable sub-custodians and the markets already have the right infrastructure and practices in place.

This might not always be the case. The Shanghai-Hong Kong Connect Program, for example, will be challenging for the industry as a whole, from brokers to global custodians, because of the level of changes required around operational processes and technology. Aspects such as the pre-delivery of shares to the broker have put a strain on the market.

However, global custodians have the advantage because they can link to their internal brokers and offer integrated execution custody. Globalisation has driven a lot of change. Operating globally, you must work 24/7 and have regional operations and service. Additionally, your platform must be flexible and meet the requirements of different regulators. AST

"Bank of America Merrill Lynch" is the marketing name for the global banking and global markets businesses of Bank of America Corporation. Lending, derivatives, and other commercial banking activities are performed globally by banking affiliates of Bank of America Corporation, including Bank of America, N.A., member FDIC. Securities, strategic advisory and other investment banking activities are performed globally by investment banking affiliates of Bank of America Corporation ("Investment Banking Affiliates"), including, in the United States, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp., both of which are registered broker-dealers and members of SIPC, and, in other jurisdictions, by locally registered entities. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Merrill Lynch Professional Clearing Corp. are registered as futures commission merchants with the CFTC and are members of the NFA. Investment products offered by Investment Banking Affiliates: Are Not FDIC Insured • May Lose Value • Are Not Bank Guaranteed. ©2014 Bank of America Corporation

Stephanie Colaric
Global product head, global custody and agency services
Bank of America Merrill Lynch

ČSOB Securities Custody

- If you are looking for a partner with perfect knowledge of financial markets in the Czech and Slovak Republics, turn to ČSOB Custody.
- We can guarantee long-term experience, full service and maximum efficiency.
- Think about regional custody in Central Europe with KBC Group members.

Contact in the Czech Republic: Československá obchodní banka, a. s.
Jaroslav Záruba, phone: +420 224 114 434, e-mail: jzaruba@csob.cz, www.csob.cz/custody

Contact in the Slovak Republic: Československá obchodná banka, a. s.
Rastislav Čapkovič, phone: +421 259 668 415, e-mail: rcapkovic@csob.sk, www.csob.sk

www.csob.cz

www.csob.sk

No need to panic

Speaking at the SLIB Counterparty Risk Roundtable, Kazimierz Sycz argues that worries over CCPs are, for the most part, overstated

STEPHANIE PALMER REPORTS

What effect has the introduction of EMIR and the mandate for central clearing had on the European market?

Central counterparties (CCPs) have been there for years. The first clearinghouses opened in the nineteenth century, and they started taking on risks as true CCPs in the 1920s. What is new now is the mandate to clear OTC derivatives, but Europe has had a CCP for OTC interest rate swaps ever since 1999, which is also when it started clearing cash securities.

The definition of a CCP is risk management. It is not there to help firms streamline processing; it is there, first of all, to guarantee the trade. If traders do not work through a CCP, they are directly exposed to the risks, they have to know and trust each counterparty that they deal with. With the CCP in between, they can trade with more counterparties, and it is easier to unwind a position. This is an important new thing in OTC derivatives.

The European Market Infrastructure Regulation (EMIR) also covers listed derivatives and securities. EMIR has tightened up risk management across asset classes, meaning clearers have had to adapt their systems to the new features in all the different CCPs. But they're also making changes that are inspired by EMIR, and not necessarily regulatory. Many are simply treating the risks more seriously. For securities these are the main contributions.

Some banks have expressed concern over the financial stability of CCPs. Is that something you see as a problem?

From the point of view of a clearing member, if the CCP defaults, then it is in serious trouble. So, of course, the CCP does pose a risk, however unlikely. Many used to think the CCPs were set in stone. Now they're realising that they could default, and if they do, there will be a big problem.

But it is a problem that is being tackled. This topic is being heavily discussed now because it is new, in the sense that many have only just become aware of it, but we should not overestimate the issue. When you see the amount of time spent on it in the press, it seems like overkill.

Work in this area is coordinated quite nicely by the Financial Stability Board. If there is an issue around systemic risk, then it is for the top regulatory boards to worry about. There are other questions more important for our daily practice, for example, whether all participants in the post-trade chain have their risks fully covered. In my opinion, this is an issue that is being fairly underestimated in comparison.

The governor of the US Federal Reserve has stated that there is still a lot of work to do with CCPs. Would you agree with that?

Certainly. The Federal Reserve's focus is on systemic risk: can we let a CCP fail? How can we prevent that? How can we contain contagion if it does fail? These are the same questions we are asking of all institutions that are deemed systematically important. A piece of regulation that is good for systematically important banks will usually be good for CCPs, too, but there will be many specific points to address for each individual CCP business, whether it's securities, derivatives, or somthing else.

Apart from systemic risk, there is quite a lot of work to do in the risk management for cleared trades. The industry is starting to move past EMIR, and some participants may have been lulled into thinking that all of the issues have been overcome. Well, not yet. There is always a standoff when it comes to regulations, because ideas need time to develop but there is always a deadline. For me, the process is not finished yet.

For example, for CCPs we need a uniform framework for stress testing and for backtesting; for clearing members, we need the stop button; for the custodian, we need an estimation of the settlement risk. We have come to realise that there are weak links in the chain, and this is still in the process of being addressed. It is happening, and it is becoming clear that there are a lot of very interesting things to come. **AST**

Kazimierz Sycz
Manager, risk solutions
SLIB

bravura
solutions

Financial software solutions that deliver

Bravura Solutions is a leading global supplier of software solutions for the wealth management, life insurance and transfer agency industries, underpinned by functionally rich technology that enables modernisation, consolidation and simplification.

We are committed to increasing operational and cost efficiency for our clients, enhancing their ability to rapidly innovate and grow, minimising their risk and enabling them to provide better service to their customers.

Backed by over 30 years of experience, our installed or managed hosted solutions are mission critical to some of the world's leading financial institutions. In excess of £1 trillion in assets are entrusted to our systems.

- transfer agency
- financial messaging
- life insurance
- investment
- pensions
- private wealth & portfolio administration

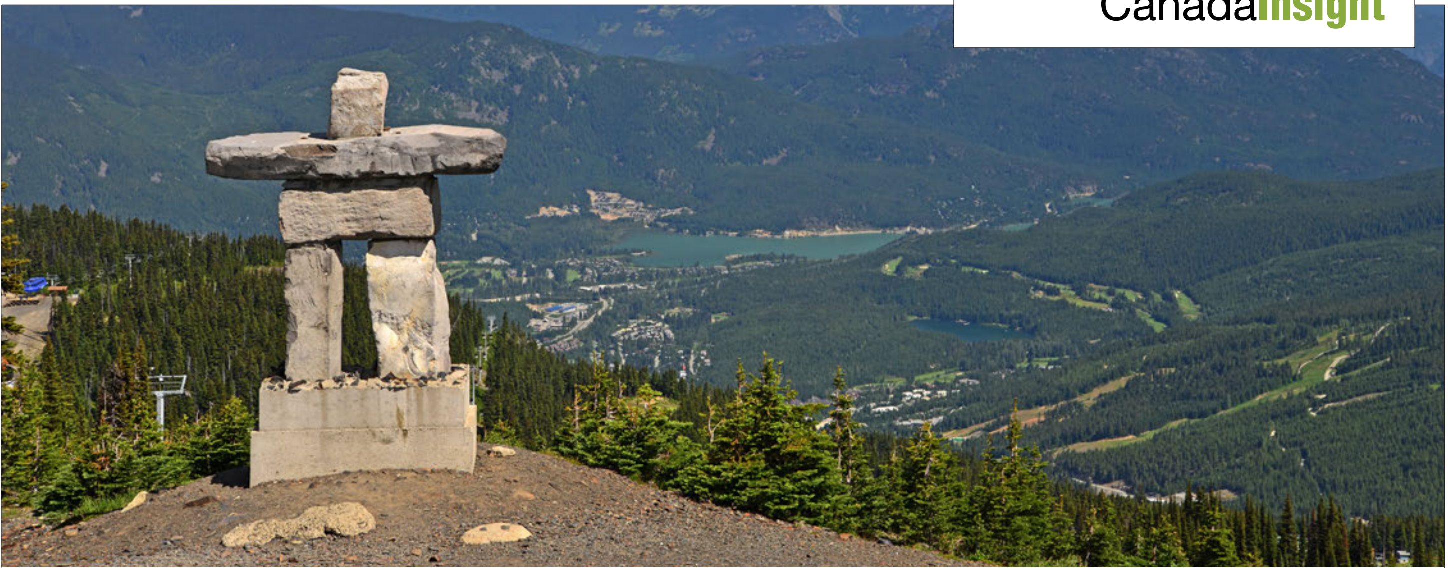
For more about how we can help your business contact us.

info@bravurasolutions.com

@BravuraFinTech

Bravura Solutions

www.bravurasolutions.com



The route to security

Canada remains a stronghold for investors, with sound systems and ample protection against the elements. CIBC Mellon's Shane Kuros reports

Geographically standing alone at the top of North America, Canada is a nation with exciting qualities rarely found around the globe: a vast physical landscape, an abundance of natural resources, and a strong financial sector, ripe for international investors to discover and explore.

Canada is acknowledged as one of the best sovereign nations in which to do business, and our financial sector continues to earn global acclaim. In 2014, our banking system was named the soundest in the world for the seventh year in a row by the World Economic Forum, and our nation maintains one of the few triple-A credit ratings for sovereign debt.

As outlined in the Bank of Canada's most recent financial system review, the country continues to find success amid a challenging global environment. In the review, the Bank of Canada said: "Once we have seen a sustained increase in export demand, uncertainty about the future will diminish and firms will respond."

"Our research indicates that many of the export sectors that we expect to lead the expansion still have some excess capacity to meet higher demand. This is one reason why our productivity growth has picked up recently. The implication is clear; a sustained expansion in our exports not only will represent new demand, it will ignite the rebuilding phase of our business cycle, which will create new supply."

Stability is one of the strongest attributes of Canada's financial sector. The regulatory environment in which market participants operate has garnered well-justified praise for fostering strong risk management, governance and best practices across the industry. The Canadian Office of the Superintendent of Financial Institutions (OSFI) regulates federally registered banks and insurers, and trust and loan companies in Canada, with slight differences in rules and regulations for each province and territory.

While Canada's environment is complex, regulators are constantly looking to strengthen the sector. For example, the individual governments of Canadian provinces British Columbia, Ontario, Saskatchewan, New Brunswick and Prince Edward Island are undertaking an initiative with the Canadian government to enforce capital markets rules and regulations nationally, rather than provincially and territorially.

Canada's Department of Finance noted that "a cooperative capital markets regulatory system will strengthen Canada's capital markets by providing better protection to investors, enhancing Canada's financial services sector, and managing systemic risk … A common regulator will administer a single set of regulations, reducing red tape for businesses".

Regulatory demands in the marketplace, both global and domestic, continue to evolve as well, and those who implement fluid and dynamic rules will have a much easier time adapting to them. In the Canadian marketplace, reconciling domestic activities with cross-border regulations is a key consideration. Local expertise and insights are intangibles that attract global investors, as domestic suppliers work with entrants to the Canadian market to find solutions that mitigate risk and satisfy the requirements of both local and global regulations.

Many protections exist in the Canadian market. The Canada Deposit Insurance Corporation (CDIC) protects a client's savings against the failure of a bank or other CDIC member institution. They provide insurance up to specified limits for money deposited in a CDIC member, in the event of that member becoming bankrupt. Similar to the CDIC, the Canadian Investor Protection Fund (CIPF) provides insurance regarding securities, cash and other property held in a client's account, should an investment dealer become insolvent. In the Canadian Derivatives Clearing Corporation, Canada also has the only central clearing counterparty for exchange-traded derivative products in North America.

Navigating challenges is a matter of mutual education. At CIBC Mellon, we're ready to assist global investors with our renowned client service delivery and relationship building methods, along with a deep knowledge of Canadian market mechanics, to create the right balance to satisfy both Canadian and global stakeholders.

The Canadian economy continues to grow with the emergence of vital and healthy sectors, and the banking system is one of the soundest in the world. With uncertainty and instability prevailing in various locations throughout the world, Canada stands out in terms of steadiness and opportunity for global investors. Now is the perfect time to explore everything Canada has to offer. **AST**

Shane Kuros
Vice president of business development
CIBC Mellon

> Corporate and Investment Banking

THE SOLUTIONS YOU NEED TO STAY CONNECTED IN AFRICA

Investor Services from Standard Bank

Doing business in Africa can be complicated. If you need access to custody and related services, you need to find a partner who knows the continent like their own backyard. Because Africa is our home, Investor Services from Standard Bank offers you a breadth of capability across 15 African countries. So whatever your investment activity on the continent, we have the expertise to make your business work.

They call it Africa. We call it home.

For more information, contact Adam Bateman
email: adam.bateman@standardbank.co.za or
visit www.standardbank.com/cib

Standard Bank

Also trading as Stanbic Bank

Moving Forward™

Authorised financial services and registered credit provider (NCRCP15).
The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06). SBSA 145001
Moving Forward is a trademark of The Standard Bank of South Africa Limited

Benefit treats

CACEIS executive Pascal Hernalsteen unpacks the servicing needs of private equity and real estate fund managers

Private equity and real estate fund management companies operating in a number of European countries often work with a single depository operating in key jurisdictions for alternative investment funds. Engaging a leading depository bank, with offices in Europe, America and Asia, which provides support to global fund managers, from the fund's inception and throughout its lifecycle, can significantly benefit managers.

Private equity, real estate and European market distribution

The Alternative Investment Funds Management Directive (AIFMD) stipulates that alternative investment fund managers, as well as alternative investment funds that are domiciled outside of the EU and therefore not directly governed by AIFMD, must register in an EU member state to benefit from the new private placement regime in Europe, which comes into force in 2018. Several countries, including Germany and Denmark, already require non-EU domiciled funds to register with the local regulator in order to be distributed.

Under these regulations, alternative investment funds domiciled outside of Europe must appoint a depository either in a European member state or in the country where the fund is domiciled. For instance, a US fund manager, looking to market its funds to German investors, could select a European depository to obtain the necessary regulatory approval for distribution locally. Non-EU fund managers will therefore become more reliant on suitable partners.

In Germany, the new investment guideline in Chapter 330 of the German Capital Investment Act (KAGB) requires managers to select a depository. German asset managers' initial reluctance to implement AIFMD has faded as the benefits of the new standards, which have a distinct advantage in attracting investor money, became apparent. Due to the new set-up, many Germany-based issuers, asset managers and institutional investors reconsidered outsourcing tasks outside their core competences to external partners. And an external partner needs to offer broad know-how across all types of assets and the ability to handle the specifics of closed-end private equity real estate funds.

In July 2013, Luxembourg also modified its regulatory framework by introducing a new 'carried interest' law, enhancing the simple limited partnership structure (Société et Commandite Simple or SCS), and introducing the special limited partnership structure (société et commandite spécial or SCSp), which is directly inspired by the US/UK-style 'limited partnership'. The new legal framework for both the SCS and SCSp structures permits greater flexibility while increasing the level of asset security.

Furthermore, Luxembourg enables alternative investment fund managers to set up a highly flexible fund vehicle that is tailored to private equity and real estate investment strategies. It is one of Europe's leading jurisdictions for private equity and real estate fund domiciling and servicing, with a highly skilled and multilingual workforce.

> “Third-party services to private equity funds enable fund managers and institutional investors to meet their needs more effectively in terms of transparency, risk and performance monitoring”

Ireland, is best known as the domicile of choice for North American and UK hedge funds, however, the Irish authorities took pre-emptive steps to update Irish alternative investment fund structures before AIFMD was implemented with many enhancements to facilitate private equity and real estate investment in particular. Private equity and real estate are emerging industries in Ireland, but regulatory changes may see their size increase, and large asset servicing companies should provide a fully-fledged office in Ireland to serve overseas managers' demands.

Principal benefits of engaging in asset servicing partners

Along with a multi-jurisdictional presence, asset servicing companies can support private equity fund managers throughout the investment lifecycle, from initial investment through to exit and collecting revenues. By delegating day-to-day investment monitoring, cash management and investor relations support to a third party, private equity fund managers can streamline their operations while reducing risk and administrative costs and improving investor communication and relationships. For institutional investors, investments in private equity funds increasingly take the form of a series of cash flows dependent on the lifecycle of the investments, so managing capital calls and distributions is paramount.

Other functions are just as important, such as look-through of un-listed assets. This meets several aims: obtaining precise information for investor accounting and analysis of portfolio performance and risk. By providing these services, an experienced asset servicing provider enables managers to improve compliance with local regulations. A provider holds a large quantity of data, enabling managers to better monitor portfolios and performance. Third-party services to private equity funds enable fund managers and institutional investors to meet their needs more effectively in terms of transparency, risk and performance monitoring, while building a trust-based relationship with a partner.

The CACEIS dedicated private equity and real estate team is composed of private equity, real estate and debt specialists in Germany, France, Ireland, Italy, Luxembourg, Switzerland, the US and Canada, and services more than €96 billion in assets under depository. The teams have gained extensive expertise in this industry over the past decades, providing effective support to managers that invest directly or indirectly via local vehicles. Our alternative investment servicing business is based on a powerful servicing platform that combines cutting edge technology and outsourcing services to support the specific administrative needs of private equity and real estate investment companies. **AST**

Pascal Hernalsteen
Head of private equity, real estate and securitisation
CACEIS Luxembourg

Global Transfer Agency Solutions for the Asset Management Industry

The Riva Advantage

In an increasingly global transfer agency environment, the ability to offer a single TA solution capable of servicing multiple jurisdictions and product types across the globe has become a primary requirement.

Riva offers a comprehensive transfer agency solution that supports multiple locations, jurisdictions and investment products on a single platform with a low total cost of ownership.

Riva • Financial Systems ®

For further information please visit our website **www.rivafs.com** or call us on **+44 (0) 1624 850140** and learn more about Riva TA.

What shortfall?

Broadridge is making strides in collateral management, as Jerry Friedhoff reveals

MARK DUGDALE REPORTS

Broadridge has recently strengthened its collateral team—why did it make these appointments?

We are committed to building our global collateral management capabilities, so we're investing in individuals who have deep industry expertise to add to our existing securities financing team.

We are bringing in knowledgeable resources with various backgrounds to support our collateral management offering, but the key areas that we needed to recruit for were relationship management, sales and product management. Michael Airey has joined us as vice president of strategic solutions in the capital markets team. He is responsible for sales channel enablement for our global securities financing and collateral management solutions, and will act as the subject matter expert for our FinancePro and CollateralPro products.

Airey was managing director for short-term markets and financing, and head of US enterprise collateral optimisation at Royal Bank of Scotland, and he has held similar roles at Dresdner Bank and Merrill Lynch. He has been working in the securities finance and collateral industry for more than 20 years, so he is very knowledgeable about the trends and demands that buy and sell side firms face in terms of collateral management and financing.

The other addition to our team was Mark Faber, who joined as product manager of our collateral management business. He has spent more than 17 years managing various operational functions for investment banks. He has been responsible for managing multi-product collateral management groups at financial institutions including Societe Generale, Goldman Sachs and Jefferies.

His experience in collateral management has focused on collateral management operations, system replacement, department transformation and support of regulatory initiatives. His past experience will be valuable in helping us understand our clients' needs, which will ultimately shape our collateral management strategy.

What are you aiming to achieve with these new hires?

Although CollateralPro is an upstream/downstream system agnostic solution, our aim is to enhance our offering to Broadridge clients by linking it to our other, globally deployed, front-, middle- and back-office solutions. We decided as a company to focus on collateral management, because we know it is a top priority for our clients around the globe as well as other market participants. Our strength in global securities processing makes us a logical choice to provide an enterprise collateral management solution, too.

With links to depositories, would it be right in saying your middle-to-back office solution is becoming more of an enterprise one?

Indeed, we have links to depositories, utilities, custodians and other key players around the world through our widely-used securities processing platforms (Gloss, BPS, Impact, etc). Our plan is to connect CollateralPro into those systems so we can provide an enterprise collateral management infrastructure.

> “The vast majority of transactions are going to be centrally cleared over the next four years”

In addition to local deployment, we offer CollateralPro in a hosted environment so that anyone with connections to Broadridge data centres can obtain an integrated end-to-end solution with minimal IT costs. Use of our technology allows participants to adopt an enterprise strategy for collateral management without the expense normally associated with this kind of initiative.

What is your position on the so-called collateral shortfall?

We are not seeing that come about—yet. Markets are changing, but right now, there has been enough collateral to meet the market demands. The flexibility to accept different types of collateral is key, and participants' willingness to adopt that approach has alleviated concern about a shortfall to some extent.

Having said that, we expect there will be a spike in collateral movements because of margin requirements and rules surrounding settling in different currencies. The sheer volume of margin calls should only increase and assumptions are that sufficient collateral will be available to support those movements, so we think that the shortfall doomsaying was perhaps a little over done.

Of course, the situation could change tomorrow, but right now, without a crisis, markets are surviving.

The central counterparty is an ever-present regulatory reliever—how much securities finance business do you predict going through them?

We see that as happening slowly but surely. Our internal analyses have suggested that if the regulatory schedule stays as is and as more agreements between central counterparties (CCPs) and new members are made, the vast majority of transactions are going to be centrally cleared over the next four years. It will take some time for that to happen because the old bilateral agreements need to run their course. Once they are done, we will see more than half of the business change over to CCPs.

What else is next for Broadridge?

One area that we are looking at is concerns about spikes in collateral management operational workloads. We have a large business process outsourcing (BPO) team that focuses on financial services operations and we are putting into place teams that can provide various levels of collateral management outsourcing, depending on a company's needs or desires. The plan with that is to coordinate the collateral management operations teams and link into either our or their technology stack. We have identified a number of aspects of collateral management functionality that are real candidates for outsourcing. AST

Jerry Friedhoff
Managing director, securities financing and collateral management
Broadridge

Issuer to Investor: Corporate Actions
Less delay. Less errors. Less risk. More sense.

How successful processing starts - and finishes.

- For more information on SWIFT and its portfolio, *visit swift.com*
- To join the community debate *visit swiftcommunity.net*

The path taken by a corporate action announcement is rarely smooth. Whether it's a dividend, bond redemption or merger, the stages between issuer to intermediary to investor can see data get dropped, details missed, and investor decisions, delayed.

The solution is clear. A standardised, common language. One that ensures consistency of information delivery and data integrity from the issuer of a corporate action straight through to the end user.

Together, Swift and DTCC have created a solution that means less delay on corporate actions announcements, less burden on intermediaries, and less chance crucial data will get missed or misinterpreted.

Which makes a lot more sense.

To find out more, contact Malene McMahon in our New York office:
email: malene.mcmahon@swift.com
telephone: +1 212 455 1906

T2S update: BNP Paribas and the first wave

The French bank's head of clearing, settlement and custody product, Philippe Ruault, tackles Target2-Securities and its next stages

STEPHANIE PALMER REPORTS

BNP Paribas is joining the T2S project during the first wave in Italy. Does that put you in good stead to deal with the later waves as well?

Starting alongside Italy is good for us. The country is the ideal location for us. Being one of our major locations, we have a large and experienced team over there. Who started working on the Target2-Securities (T2S) project in 2008. We looked at the origins of T2S and prepared ourselves by rolling out a single platform across our Italian, German and Spanish markets and we have now deployed this to the rest of the T2S markets, including Spain this year. When the first wave goes live, all of the benefits of the migration in Italy will also be leveraged for other markets. Single interfaces allow for the same processes and the same functionalities.

We developed our straight-through processing platform in-house, and we first rolled it out in Germany and Italy six years ago. We are now in the final roll-out stages for Spain, which is our last T2S market to join the new platform. We have also deployed this in all of our new markets, for example, Hong Kong, Singapore and Sydney. It's entirely proprietary, and leveraged to meet all the markets after those involved in the first wave of T2S.

What do expect to be the major benefits of T2S?

T2S will drive harmonisation of settlement across Europe, but will bring a number of advantages on liquidity aspects. We have added features to our products to help with liquidity, which could benefit some of the big investment banks when regulation obliges them to get more certainty around their credit and overnight lines. T2S is a facilitator for that, as clients can pool their cash in a single central bank account and leverage new credit lines at another central bank. It adds transparency, and companies have more control, managing more of their assets themselves.

Of course, we will continue to play a role. We have launched Liquidity Access, a tool directed to help with all aspects of liquidity management in the new environment, including reporting. Clients can ask us for information on their actual liquidity consumption in the settlement market, and we can provide intra-day reporting and real-time reporting to show them exactly where they stand in terms of their liquidity.

We are moving towards disclosure of intra-day lines and committing to these lines. Whatever the situation, whatever the stress on the market, we will be able to tell clients exactly how much they have available for intra-day liquidity.

Does this increase the cost burden?

In terms of investment, definitely. The deployment of the single platform has been a €15 to €20 million project for us. We have mobilised 80 people to help clients that want to design specific models for their particular T2S requirements. It has been a significant cost, but we have retained our core client base and acquired additional clients for our regional offers, so it was a wise investment.

> "It has been a significant cost, but we have retained our core client base and acquired additional clients for our regional offers, so it was a wise investment"

How much of an effect will T2S have on asset servicing?

There will be big changes to settlements, and the format will change for some clients. On the asset servicing side, our main priority is minimising the impact for clients. We are rolling out guidelines for corporate actions now, as new directives have come in that, for example, change the way things are done with recalled debt and new messages. Our Euronext market offering is more advanced, so we are starting from there to deploy any changes in corporate action processes across the market. We think this will make a big difference when the first wave of T2S goes live.

BNP Paribas has a large client base in Europe and the APAC region. What have you done to reach out to the Americas?

In 2012, we launched sub-custody in the US market, which was, again, a significant investment. We are the first foreign firm to set up a new sub-custody offering in that market for about 20 years, so there's a big push to develop there. We are ambitious in terms of winning Asian and European accounts for sub-custody in the US and developing a franchise of global custody service to US investors.

As a new entrant to this market, do you have to be more aggressive with pricing?

Not at all. It is important to charge the current market price. Pricing in the US is a benchmark for the rest of the world in terms of customer fees, and the last thing we want to do is to start a pricing war. It is our level of customer service that makes us successful and we want to come in to this market as a fresh provider, eager to develop our services and advance in that way. This is a market with a great legacy of long-term providers, and we have to respect that.

Is there a difference in the way you approach the US market, compared to Europe and Asia?

It is a competitive market and we are up against firms that have been at it for 20 years or more. The difference is that, in the US, the assets are massive so there are always bigger mandates and that's quite attractive. In markets such as Brazil or Colombia, you need many clients to reach the same size as the US.

Also, as we are a global custodian, it is important for us to keep our assets safely in our own branches in the US, simply as a key aspect of guaranteeing asset safety. Launching sub-custody in the US has helped allow us to hold an average of 90 percent of our clients' assets in our own network around the world. **AST**

Philippe Ruault
Head of clearing, settlement and custody product
BNP Paribas Securities Services

The key to your hidden assets...

GOAL is the widely-acknowledged industry leader in providing creative products, services and solutions to automate and optimise the reclamation of withholding tax on cross-border securities dividend income and compensation claims on global securities class actions.

It is now more important than ever that investment advisors, trustees and fund managers are able to demonstrate business integrity, financial transparency and strong corporate governance as an integral part of fulfilling their fiduciary duties to protect the assets in their schemes.

Our research demonstrates that just over 24% of class action claims that could be filed by entitled parties are left unprocessed and unrecovered, despite opinion that institutional investors are legally obliged to instigate such claims on behalf of their clients. Historically, non-participation in U.S. securities class actions has cost investors and funds dearly, for instance between 2000 and 2011 nearly USD18.3 billion in U.S. settlements to which shareholders were entitled were not reclaimed.

Goal Taxback will undertake all the work necessary to recover excess withholding tax suffered on foreign income by utilising our proprietary software together with all the knowledge and expertise gained through years of experience in the business.

Goal's clients include hedge funds, several of the world's largest global custodians, asset managers,

private banks, pension funds, high net-worth individuals, investment banks, prime brokers and fund managers spread widely around the world.

GOAL GROUP LIMITED
7th Floor, 69 Park Lane, Croydon CR9 1BG **United Kingdom**
Level 19, Cheung Kong Center, 2 Queens Road, Central, **Hong Kong**
Level 27, 101 Collins Street, Melbourne, VIC 3000, **Australia**

Stephen Everard, Chief Executive Officer
severard@goalgroup.com +44 208 760 7130

Jonathan Hu, Director of Sales & Relationship Management – Asia Pacific
jhu@goalgroup.com +852 9864 7900

Andreas Costi, Director of Sales & Relationship Management – Australia and New Zealand
acosti@goalgroup.com +61 3 9653 7300

Please refer to our website for the contact details of our network of global sales and support agents
www.goalgroup.com

The R-Team

Fundsquare and Silverfinch have teamed up to take on Solvency II reporting and unite two industries. Paolo Brignardello reports

With the introduction of Solvency II regulatory reporting imminent in early 2016, Fundsquare has announced a partnership with the fund data look-through experts at Silverfinch. Together, they're devising a solution that can cater to the needs of both insurers and asset managers as regulations bring the industries closer together than ever.

While Solvency II's reporting regulations are designed to increase transparency in the insurance world, fund managers are finding themselves drawn in to the process, largely because insurers make up such a large proportion of their own clientele.

An important element of the new regulations requires insurers to be allowed access to their own holdings, and it obliges them to reveal details of the funds in which they invest. In turn, this will force fund managers to disclose more information about the investments than their own regulatory bodies require. More importantly, it will mean, most probably, revealing investment activity to direct market competitors.

Although not legally required to do so, fund managers that do not provide the information required for insurers' Solvency II requirements face losing their clients to competitors that will.

Those that release the information could even benefit from this themselves, learning more about their clients as a result of increased interaction between insurers and fund companies, and through the required transparency, which, by definition, works both ways. The complications, however, lie in balancing transparency for reporting requirements with protecting clients' private information and fund managers' data.

A central hub is the solution. It provides a single location where all data required for Solvency II reporting is readily available. This method should, in the long run, help companies become less reliant on intermediaries, putting their own streamlined and cost-effective reporting processes into practice.

Silverfinch clincher

The pairing with Silverfinch will add the required data protection to Solvency II reporting through a central hub. The only credible remedy is through a single, purpose-built standard utility to allow fund managers to exchange information with their clients in a secure format that remains totally under the fund manager's control and in-house.

This will allow asset managers to be 'Solvency II friendly' well in advance of the 2016 implementation, while the added security of an in-house solution will restrict the release of unrequired data.

Data will be protected from those not entitled to see it, including the competitors of the asset managers involved, but it would still be entirely possible for a client to legitimately gain access to data for Solvency II reports and pass on the information to regulators.

> "The knock-on effects will not be limited to asset managers and data protection companies"

It will, however, also resolve some of the concerns about additional costs and inefficiencies that could come hand in hand with the reporting requirements. The asset management industry is in danger of generating a 'spaghetti' model with a surplus of communication models in various formats generating too many connections with different insurers and their respective clients.

The central hub offers a solution to this, forming a cloud-like community connection between the asset servicers, insurers and clients simultaneously. Data protection expertise will serve to provide the necessary IT services for security protection, consistent with the detailed levels of data required for the reports.

While Solvency II strives to harmonise the insurance market in Europe, much like the Alternative Investment Fund Managers Directive strives to harmonise the fund management industry, the knock-on effects will not be limited to asset managers and data protection companies. Insurers will be required to set certain amounts of capital against operational, market and credit risk, while the 'look-through' aspect will require complete transparency on end investments, even if they are held by third-party investors.

The transparency directives stem from the idea that an unseen asset in any portfolio must be risky. There is no guarantee here that the insurer holds enough capital to pay out if a claim is made. It adds complexities to investments, as well as additional costs that will undoubtedly be passed on to the policyholders. But, actually, the eventual costs of not providing this look-though function could amount to even more.

Under Solvency II, failure to provide a look-though will mean insurers have to hold excessive amounts of capital unproductively as reserves, in order to satisfy the regulators that they are as solvent as they need to be. Money not invested will not only cost the insurers and their customers, but also the asset managers on the periphery.

With its existing connections to the fund management industry, Silverfinch will tackle the ongoing challenges of Solvency II regulations in partnership with Fundsquare. The issue is being broached with industry groups such as the UK Investment Management Association, and together they are striving to blend Fundsquare's central hub with a workable and cost-effective data protection service for fund managers.

The partnership is founded on the belief that by working together in good faith, neither industry will be too inconvenienced by the implementation of regulatory reporting.

Solvency II could drive insurers to understand their assets as well as their liabilities, and to understand their investments in greater detail too. At the same time, clients recognise the importance for effective investments, and appreciate the limits that insurers and inventors work within. The asset managers still face data protection challenges, but they stand to benefit from the all-important transparency regulations.

Whether it was intended to or not, Solvency II may open up a discourse of information between these industries, ultimately driving sales for both, and a partnership between Fundsquare and Silverfinch shows they're approaching the challenge with a positive and well-prepared outlook. **AST**

Paolo Brignardello
Head of product management and marketing
Fundsquare

Command

Cooperation

Control

In tune with your network

HIGH PERFORMANCE NETWORK MANAGEMENT

MYRIAD Group Technologies Limited
www.myriadgt.com

Simon Shepherd
simon.shepherd@myriadgt.com T. +44 (0) 203 470 0320

Taking charge

Russian's central securities depository is leading the charge for corporate actions reform, as Maria Krasnova explains

MARK DUGDALE REPORTS

NSD is leading a programme to reform corporate actions in Russia—what is your aim?

The National Securities Depository (NSD) of Russia initiated a programme of corporate actions reform in the Russian market with the support of the regulator, issuers, registrars and clients. The reform is aimed at implementing new technologies and international standards on the basis of the electronic document interchange. Market participants will be able to mitigate risks and reduce costs associated with corporate actions by eliminating the use of traditional paper documents, using electronic technologies and involving recordkeeping institutions. The reform provides for complex changes related to the legal base and technologies of the corporate actions processing.

Why now?

After we established NSD in the Russian market and harmonised interaction between the central securities depository (CSD) and registrars, the question of optimisation of procedures between issuers and investors came up. Existing procedures in the Russian market in the field of corporate actions have given rise to a range of inefficiencies and costs when measured against international standards.

Implementation of international standards for corporate action execution will help to reduce market participants' risks and expenses, as well as provide foreign investors, which were granted direct access to the Russian stock market this year, with comfortable operational conditions.

How will these reforms affect the financial market in Russia?

The key goals of the corporate actions reform are to allow shareholders to enjoy equal rights regardless of their geographical location and to maximise the effects of liberalising the Russian stock market. This could be ensured by introducing an e-voting process in the Russian securities market, as well as by processing corporate actions in a centralised manner, through a settlement infrastructure organisation, and by abolishing paperwork.

More broadly, corporate actions reform will help to increase the quality of corporate governance in the Russian market, as the reform is aimed at creating conditions for full-scale execution of shareholders' rights. Also, we believe that implementation of e-proxy voting and automation of corporate actions will raise the investment attractiveness of Russian assets.

What will this programme involve and over how much time? What is the value in automating it, and when will this be complete?

After the amended legislation came into force on 2 August, issuers of public companies have to provide e-proxy voting opportunities at shareholder meetings. Shareholders will still be able to vote traditionally, in person. Only clients of depositories can use the e-proxy voting service.

A full-scale project launch is planned for the beginning of 2016. During 2014 and 2015, project activities have been concentrated on the development of necessary technologies and preparation for the introduction of an automated corporate actions processing system, based on the best international practices and securities market participants' requirements.

A priority, in accordance with international standards, is to avoid all paper communication and provide market participants with an opportunity to receive information on corporate actions as well as to execute corporate actions in internationally adopted formats.

To facilitate timely communication of accurate corporate actions data, NSD will serve as a 'golden source' of information for each corporate event, thereby minimising the need for sub-custodians or other intermediaries to collate information on corporate actions from multiple sources and to reconcile any discrepancies in information that may be found across these sources.

We expect that in 2015 and 2016, when new legislative changes come into effect, they will enable market players to participate via their depositories in all voluntary events in the Russian market. Depositories will also be entitled to participate in all voluntary events without power of attorney, and all corporate action information including meeting notification will be disseminated through NSD and custody chain. The completion of the automation of an e-proxy voting procedure is planned for May 2015.

What does NSD want to move to ISO 20022 and 15022? Will you complete this by the end of the year?

The key format that NSD strives to use in its interactions with market participants is ISO 20022. This format corresponds at most to the needs of the settlement system. ISO 15022 use is mostly based on its popularity among international market participants.

From 5 November, NSD began informing clients about upcoming meetings of shareholders using ISO 15022 messages. By the end of the year, NSD will also send messages about shareholder meetings in accordance with ISO 20022. NSD was already sending information about corporate actions associated with both Russian and foreign issuers' bonds.

From May 2015, NSD plans to implement the e-proxy technology on the basis of both of the ISO 20022 and 15022 formats.

What do NSD clients need to know about how their corporate actions will be processed while technologies are being updated and improved?

As of now, NSD provides market participants with an opportunity to use e-proxy voting services for all items on the general meeting's agenda. Currently, the NSD's customers may vote using the interim e-proxy voting solution in formats developed by NSD and agreed by market participants. From April 2015, current interim solutions will be replaced with the new one, which will provide NSD clients with the full range of services and will comply with international standards.

During 2015 and 2016, NSD will implement technologies that will allow market participants to take part in corporate actions using electronic document interchange, with messages in standardised ISO formats. Issuers will be able to initiate corporate actions by sending respective messages to the CSD.

There is also a plan to launch an electronic voting platform, which will allow investors to participate in shareholder meetings and execute their voting rights remotely by using electronic communication. We believe it is an important component of the market-wide corporate actions reform and is a safe, equal and efficient way for beneficial owners to directly participate in corporate governance. AST

Maria Krasnova
Deputy chairperson of executive board
NSD

WE KEEP A WATCHFUL EYE ON WHAT MATTERS TO YOU

With our years of experience and track record in custody services, it is second nature to us to provide top class safekeeping and administration services while leading change in the Nigerian financial market.

For more information, contact Segun Sanni.
email: segun.sanni@stanbicibtc.com or
visit www.stanbicibtcbankcom

www.facebook.com/stanbicibtc @stanbicibtc

Stanbic IBTC Bank

A member of Standard Bank Group

Moving Forward™

Moving Forward is a trademark of The Standard Bank of South Africa Limited.
Stanbic IBTC Bank PLC RC 125097

THIS WAY

One direction

Even large banks need just one team responsible for all of their reconciliation requirements, says Darryl Twiggs, executive vice president at SmartStream

MARK DUGDALE REPORTS

The US Securities and Exchange Commission is using SmartStream's TLM software—was that a big boost for you?

The updated product has been designed from the ground up to be able to reconcile anything. It's well suited to the larger top-tier banks, but it can just as easily be used for monitoring performance and comparing systems, and that's what the US Securities and Exchange Commission (SEC) intends to use TLM Reconciliations Premium for.

The whole platform is single-technology with a normalised database structure, and the interface is all of our products. What the banks are looking for is a platform that allows them to reduce on their IT teams, but it's also an advantage to the SEC as part of the regulatory model, to have a harmonised back office.

We started with TLM Reconciliations Premium and reconciliation products, and then we expanded into trust management, liquidity, exception management and, finally, trade processing. It can reduce the cost of owning a firm and that can be a big advantage. Fund business users have large investment opportunities and we're there to help them with our product. Altogether, it does build up a very nice, neat picture.

The updated system went live recently. Are you already planning the next one?

In short, yes. As a matter of policy, we regenerate our solutions every six to seven years. So, since 2009 we have re-built every single solution that we provide. Technology moves on and expectations change with it, so, for example, we are starting to design our products with tablets in mind because people want to operate the software with a 'swipe' capability.

We've also moved in to software as a service, and we've been active in the move to cloud computing since 2009, because all of our products are web-based. You can deploy our software globally, and access it using all kinds of technology.

Banks are being asked to cut costs, not by 10 or 15 percent, but by anything up to 70 percent in some cases. In cases such as this, they can be forced to revolutionise their operational paradigms. This is why we're seeing an emergence of managed services, third-party services and hosted services. Banks are changing the way they're architected, and SmartStream has been a driving force in providing solutions.

We believe that even large banks need just one team responsible for all reconciliation requirements. We reconcile every instrument and every piece of data so that everything is in one place, and we can do that for cash management, corporate actions, exceptions management and more. The software can service and harmonise the whole of the back office at once, and the bank can rationalise the cost of the operation, engaging every line of business.

Some banks have their back-office staff in isolation and find themselves trying to resolve issues in areas of which they have no real knowledge. SmartStream offers a technology that can resolve problems quickly and improve scheduled processing rates at the same time. Ultimately, it becomes a lot cheaper.

What sets TLM apart from other solutions?

The key for us is in our mantra; single technology platform. All of our solutions use that single technology and can be linked together to provide high-quality data to the client. We have automated processes that can identify an error, retrieve the relevant data, and fix it automatically. You really have to be a senior technology platform to be able to do that, and we are fortunate to be in that position.

We provide a strategic tool that can inform a bank that they're going to be in trouble tomorrow, and provide support and solutions for this in real time. There have been issues with electronic trading, when the trading window is a microsecond. Traders have had to alter their processes to monitor this and respond accordingly. TLM doesn't provide reports at the end of the month; it provides real-time alerts straight to the client's smartphone.

Other technology companies claim that a single-stack technology is an impossible task—is that true?

It's not true, because the whole of the technology stack is moving. Most of today's technology uses Java and HTML5, and these are common technologies. We attack the fundamentals of each department in a generic way that can be applied to all. There are many steps in the lifecycle of a trade. There's no point in providing a solution for one step, you have to be open-minded and provide a wide set of instruments for an industry with such diversity. AST

Darryl Twiggs
Executive vice president, product management
SmartStream

Technology for the future

GBST **Capital Markets** GBST **Wealth Management** GBST **Financial Services**

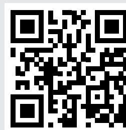
GBST is a leading provider of technology solutions for capital markets, securities processing and wealth administration.

With more than 25 years' experience and a forward thinking attitude, we deliver contemporary and innovative solutions to help our clients stay ahead in the ever changing financial services industry.

Download our latest reports on financial transaction taxes and T+2 settlement to share our experience and research findings on these challenges facing the capital markets industry today.

Financial Transaction Taxes
Practical lessons from a strategic solution roll-out

By GBST & Deloitte
Download: http://gbst.com/financial-transaction-taxes-report



T+2 Settlement
Technology challenges for the day after tomorrow

By GBST & Aite Group
Download: http://gbst.com/t2-settlement-whitepaper

GBST | Email us on **info@gbst.com** or visit **www.gbst.com** to find out more

Copyright © 2014 GBST. All rights reserved. Reproduction or transmission (by any means or in any form) of this work to third parties is prohibited except as may be expressly permitted, in writing, by GBST Holdings Ltd.

Ahead of the legacy

Bill Blythe explains why his company's reconciliation solution, Gresham CTC, has left legacy vendors behind in the race to meet clients' needs

JUSTIN LAWSON REPORTS

What was your remit when starting at the company and how has that developed in the last two years?

When we were designing Gresham Clareti Transaction Control (CTC), we identified a large gap in the traditional reconciliation space. Legacy reconciliation vendors have been around for many years tackling SWIFT cash and securities reconciliation, which they do well. But at Gresham we were very conscious that there was a whole set of new message formats coming out for trading more exotic instruments, and the complexities and the data structures around those message types were a lot more complex than SWIFT messages.

Firms also wanted to reconcile earlier on in the trade lifecycle, near the front and middle office. Because of the way in which those legacy systems were architected, it was difficult to incor-

porate the changes. To get around this there was a huge increase in the use of Excel spreadsheets as controls. That's because they are quick, they're flexible and anyone who is smart in the middle office can write a macro and start to compare data very quickly.

But the problem that comes with that is a real lack of control. At best, you can see who saved the spreadsheet last, and there are greater possibilities for fraud. This has been borne out in some of the more high profile cases involving big banks, where the errors were based on spreadsheet-type controls. So regulators are now starting to say spreadsheets can't be used as an effective control.

What we wanted to do was design a new reconciliation tool that would allow firms to on-board the new, wide data structures, just as quickly as with Excel, but with all of those enterprise-wide controls that you need within a reconciliation system: scalability, robustness, integrity and security. We wanted to disrupt a very stale market that is dominated by only a handful of vendors and bring something new to the industry.

Compared to the legacy systems, what differentiates Gresham CTC?

One difference is our rapid on-boarding capabilities. We are renowned in the market for the speed in which we can on-board new reconciliations. We can do that at a fraction of the time of any of our competitors. It's interesting to see in the last 12 months how those legacy vendors are trying to respond to us in terms of releasing new products. But they are only getting about halfway there.

A second difference is that we don't use a fixed data model and specifically design systems to be flexible. In contrast, the legacy systems were built primarily to reconcile SWIFT messages based on fixed data. In order to adapt these systems you have to go through shoe horning exercises using expensive extract and transform data and technologies to get the data into a format that you can reconcile. Gresham CTC is not constrained by any fixed data models. If we want to reconcile a Depository Trading & Clearing Corporation message that has 700 attributes, we don't have to make any compromises.

Because we're using newer technology we can deploy much quicker and leverage new technologies to give us real performance and scale. We did some benchmarking tests with Intel where we were loading and matching 1.8 billion equity trades in one hour. That's 500,000 per second. None of the legacy vendors come close to that sort of performance. For us, it is about rapid on-boarding, no fixed data model, and performance and scalability.

With the mandates you are winning, are you taking on legacy systems or are clients moving to yours?

For the majority, we complement those existing systems. There have only been a handful of deals where we have replaced them. We don't suggest that you go and rip out these big systems, as people have invested in them for a long time and they do work well in cash and securities reconciliation. That is not where the risk lies. The risk lies in derivatives and new structured products that don't fit into the legacy model, which are run on spreadsheets and touch many different systems. We find that most of the mandates are either brand new requirements or complement existing infrastructure.

Gresham also has an account receivables management solution. We've been working with one of the leading banks in Asia to design a specific solution for this problem, particularly around the bank-to-corporate margin. Banks want to be able to show stickier relationships with corporates, especially since liquidity capital ratio requirements are calculated on this basis.

We've built this management system and we've got some real interest in that from some of the big tier banks that are looking to buy the solution. Fundamentally, it is still reconciliation and matching, but it is specifically around accounts receivables management.

Banks are always trying to renew products, which invariably means there are always new systems. The whole world of data is crazy and you have regulators bringing in extra reporting with the US Dodd-Frank Act and European Market Infrastructure Regulation, so it's not just about the checks and the balances, the reconciliations need to be able to help.

Since 2008, there has been a huge raft of regulation to try and make things safer for the customer. Would you say regulation has been a real driver in this industry?

Definitely. It's the growing need to prove integrity. Regulation is one angle that is forcing banks and institutions to be accountable for their actions. A lot of that comes from social and political pressure, but if you get this stuff wrong now you can go to prison, or you can lose half of your wealth. The days of not worrying whose money it is are long gone now. So, the guy who signs off on whether an operation is good or not needs to prove that integrity, otherwise he may be doing a 10-year stretch on Breaker Island.

People are also looking for robustness and completeness across the front and back offices. A really good example of a piece of regulation that is having an effect is Dodd-Frank, which says you have got to report from a group-wide basis. Before, people would just report in their silos. The front office would have to report their profit and loss and their risk. The middle office would do their own reporting. And the back-office would also report separately. In order to improve integrity you now need overarching reporting and holistic controls.

Is the need for a holistic solution making banks address how many systems they use for each of the offices?

There have been lots of studies on this. The regulators are calling them user-developed applications (UDAs). What they mean by that are the spreadsheets, access databases and home built applications that do the checks and balances. The reason those systems were built in the first place is because legacy vendors can't deal with some of the requirements. Over time, people have either got by with spreadsheets, which are all over the place, or the more sophisticated ones have built applications to handle the problems that the legacy providers don't deal with.

I see banks go on these programmes and say, "we are going to cut down our systems from 300 to four", and you think that makes sense. What happens is, they start writing these requirements, and five years down the line they deliver a small number, but it is not until nearly seven years after they started before they're down to four.

The problem is the guy in the front office doesn't want to wait. All of a sudden he's saying, "I'm now going to trade X & Y and I need a system for that". The front office always gets what it wants as it's always innovating and trying to stay competitive. What starts off as a good idea is quickly out of date. By the time they have finished, it doesn't work, or they have new products in the front-office they are trying to develop. So they go round in this cycle, burning billions of dollars in the process.

If there was one thing you could change in the industry, what would it be?

I would like to see quicker decision processes within the banks. I think they take too long to make a decision. I am not sure whether this is because they are extremely risk averse, or whether they don't look that far ahead in time. The decision making process can drag on and can often be longer than the time it takes to implement the solution. **AST**

Bill Blythe
Global business development director
Gresham Computing

Industry appointments

BNY Mellon has made key changes to its leadership team in the United Arab Emirates (UAE) and wider Middle East and Africa region.

Tarek Sherlala has been appointed as senior executive officer in the Dubai office.

Sherlala will lead business strategy for the branch and oversee compliance of the bank's activities in Dubai. He will also continue as BNY Mellon's head of asset servicing in the Middle East and Africa.

Rajai Ayyash will take the role of regional executive for the Gulf. For the past 10 years, Ayyash has been the country executive for the UAE, Kuwait and Oman.

Since early 2014, he has been responsible for Saudi Arabia, Qatar and Bahrain.

The restructuring follows the retirement of Tarek Elrefai, who has been senior executive officer of the Dubai branch and head of client management for the Middle East and Africa for five years.

The new senior team includes **Imad Abukhal**, **Giambattista Atzeni**, **Brian Hoey**, **Clive Robinson** and **Bana Akkad Azhari**.

Calastone has appointed **Cristóbal Conde** as chairman of the board, moving up from his position as non-executive director, which he took up in late 2013.

Conde will take up his post with immediate effect, and will work closely with CEO Julien Hammerson to continue the company's growth trajectory.

Previously, Conde was chief executive at SunGard, where he worked for 28 years following its acquisition of Devon Systems, which he co-founded and ran.

He was responsible for SunGard's record-breaking $11.3 billion leveraged buyout transaction when he took the company private in 2005. He stepped down from SunGard in 2011, but still acts as an advisor for several businesses, including not-for-profit companies.

Andy Allen has been appointed as managing director to lead RBC's investor and treasury services business in Singapore.

Prior to his new role, Allen worked at J.P. Morgan Investor Services. He has more than 25 years of experience in global banking, 17 of which he has spent in Asia.

He will bring extensive knowledge of the securities industry, risk management, the local operating and regulatory environment and relationship management of clients, both domiciled in Singapore and those looking for offshore solutions.

Alacra has recruited **Alan Samuels**, **Kelvin Dickenson** and **Kevin Kollar** to its management team.

Samuels is vice president of Alacra and will be responsible for the firm's client, counterparty and legal entity reference data solutions.

Previously, Samuels spent 10 years leading data, research, tools and analytics businesses at Standard & Poor's and Fitch Rating.

Kollar is vice president of sales in America. His role will be leading the sales teams in North and South America, with responsibilities for new business and account management.

He has experience in sales leadership at the London Stock Exchange Group, overseeing its rapid expansion in the North American market.

Dickenson is vice president of Alacra Compliance Solutions. In his new role, he will be responsible for leading the firm's customer-focused product roadmap for anti-money laundering and know your customer, as well as vendor and third-party due diligence, supporting compliance with a host of regulatory requirements.

Previously, Dickenson worked at Dun & Bradstreet for nine years with his most recent role being managing director of compliance solutions.

Steve Goldstein, CEO of Alacra, commented: "The collective knowledge and expertise Samuels, Dickenson and Kollar bring to Alacra will be of great value to our clients."

Kroll, the global investigations firm, has named **John Tudorovic** as managing director and head of the financial investigations team in Dubai.

Tudorovic and his team will be based in Dubai where they will support clients across the Middle East region.

He will work alongside Yaser Dajani, who is managing director and head of Kroll Middle East.

The new role will involve responsibility for managing a variety of assignments, including financial and anti-corruption investigations, for local companies as well as multinationals.

Tudorovic moved to Kroll from Ernst & Young, where he was partner and head of the Asean.

Northern Trust has set up a new office in Manila, the Philippines, that will support the processing and back-office functions for the bank's global clients.

This office is Northern Trust's third established in the Asia Pacific this year and supports its growing international business across the region.

Paula Kenee, who has been at Northern Trust since 1994, has been appointed as country head for the Philippines. Prior to her new role, she was chief operations officer for asset management across Europe, the Middle East and Africa.

The Asia Pacific is the fastest-growing global region for Northern Trust, with assets under custody growing at an annual rate of 25 percent from 2008 through 2013, and assets under management growing by more than 15 percent annually over that five-year period. **AST**

Raising The Bar In Recruitment

Telephone: +44 (0)20 7643 2298 I Email: enquiries@hornbychapman.com
Web: www. hornbychapman.com I Postal: No.1 Poultry, London EC2R 8JR

By your side
in a complex world

SELL-SIDE, BUY-SIDE OR ISSUER, WE CAN HELP YOU FIND YOUR WAY

BNP PARIBAS
SECURITIES SERVICES

The bank for a changing world

securities.bnpparibas.com

BNP Paribas Securities Services is incorporated in France as a Partnership Limited by Shares and is authorised and supervised by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the AMF (Autorité des Marchés Financiers). BNP Paribas Securities Services, London branch is authorised by the ACPR, the AMF and the Prudential Regulation Authority and is subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas Securities Services, London branch is a member of the London Stock Exchange. BNP Paribas Trust Corporation UK Limited (a wholly owned subsidiary of BNP Paribas Securities Services), incorporated in the UK is authorised and regulated by the Financial Conduct Authority.

... and climbing.

A global player in asset servicing...

Offering leading value in investor services demands constant evolution. At CACEIS, our strategy of sustained growth is helping customers meet competitive challenges on a global scale. Find out how our highly adapted investor services can keep you a leap ahead.

CACEIS, your comprehensive asset servicing partner.

www.munier-bbn.com

Custody-Depositary / Trustee

Fund Administration

Issuer Services

www.caceis.com

caceis
INVESTOR SERVICES
solid & innovative