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A Resilient Nature
Guernsey takes reg and rep in its stride

Following Their Instincts
Being fit for survival and the future

Enough Is Enough
Regulation: where does it end?

An Evolving Landscape
Settlement and clearing in Asia

SS&C weighs out $2.7 billion on Advent

SS&C Technologies is buying San Francisco-based Advent Software for approximately $2.7 billion in cash.

Advent has about 4300 customers across more than 50 countries, including asset managers, hedge funds, fund administrators, prime brokers and wealth management advisors. The firm generated revenues of $379 million in 2014.

The acquisition will expand the depth of expertise and technology available to SS&C clients, and marks a continuation of SS&C's growth strategy through acquisitions.

It has completed 40 acquisitions to date, including GlobeOp in 2012 and Global Solutions in 2014.

Advent CEO Pete Hess said: "This is a very exciting transaction for our shareholders, clients, and employees. I believe the combination of Advent and SS&C will create a powerful team that can take a big leap forward in the value proposition we offer the industry."

He added: "SS&C has a rich history of delivering a leading combination of people, process, and technology that complements Advent's existing solutions, and the additional scale and resources we will have as a united team will accelerate our ability to provide the industry with game-changing solutions for investment managers around the world."

Bill Stone, chairman and CEO of SS&C, commented: "The acquisition reinforces our focus on our clients. Advent Software, combined with SS&C's complementary offerings in software-as-a-service, middle office services, regulatory solutions, mobile applications and financial information exchange is unmatched."

"We are excited to have Pete Hess and his team and the entire Advent community. We intend to continue our combined strengths in innovation, client focus and employee opportunity."

Both SS&C and Advent's board of directors have unanimously approved the acquisition. Subject to approval from Advent's stockholders and clearance from the regulatory authorities, negotiations are expected to close in Q2 this year.

Pershing Securities Australia chooses Broadridge

Pershing Securities Australia has selected Broadridge's post-trade processing solution as its middle- and back-office processing platform for third-party domestic clearing.

The solution is designed to increase processing efficiencies, while also providing flexibility to cope with future market and regulatory changes that could arise on a modern platform.

Pershing, a BNY Mellon company, will use the solution to support its correspondent base of licensed participant brokers and a large user base of securities dealers.

It will use the solution to process equities, options and managed funds covering the whole of the post-trade lifecycle, from trade capture and confirmation to settlement and accounting.

The service also offers additional connectivity to payment and settlement providers, and will enable Pershing to increase automation through straight-through processing, business views and proactive workflow controls. This also helps to reduce risk through fast-track analysis and repair of processing exceptions.

Craig Mason, chairman of Pershing Securities Australia, said: "Broadridge is a proven and trusted global provider that shares our commitment to the highest standards of client service. Its solution will support our drive for efficiency and high-quality service across our operation, and give us a firm foundation to adapt to future infrastructural and regulatory changes in the Australian market."

Akhter Khan, Broadridge's general manager of global technology and operations solutions in Asia-Pacific, added: "Perhaps more than any time in history, operational excellence has become key to profitability, growth and sound risk management in financial services."

"Pershing Securities Australia's forward-thinking approach to its operations is an important advantage, and it is our privilege to welcome them to the growing community of firms using our Australian solution."

SmartStream buys IBM's Algo Collateral system

SmartStream Technologies has acquired IBM's Algorithmics Collateral solution, including all of its assets related to software, sales and support.

The acquisition will add to SmartStream's existing suite of solutions, helping financial firms to automate their end-to-end post-trade lifecycle, reducing the costs and levels of risk involved.

The Algorithmics Collateral solution, which will be rebranded TLM Collateral Management, offers collateral lifecycle automation for buy- and sell-side institutions, custodians and asset servicing firms of all sizes.

SmartStream has predicted that its clients will see increased value for post-trade processing through the integration of collateral management with SmartStream's operational risk control framework.

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IMB purchased Algorithmics in 2011 for $387 million, acquiring its risk and analytics software and content advisory services, as well as the collateral solution.

SmartStream has acquired only Algo collateral from IBM. This includes solutions for cash and intraday liquidity management, corporate actions, reconciliations, data management and exception management.

Philippe Chambadal, CEO of SmartStream, said: "This acquisition marks another significant step for the company and our customers. Funding and counterparty risk management have a critical focus for our customers, who will now be able to leverage the integration of TLM Collateral Management with our leading cash and liquidity management solutions to give a clear picture of a firm's exposure."

"This will give them the unique ability to mitigate counterparty risk and to respond to market changes in real-time. The solution gives a complete picture across the front-and back-office and a centralised view of a firm's inventory and exposure, enabling greater transparency of funding and collateral needs—which ultimately underpins trading."

BNY Mellon to service Ontario's green bond

BNY Mellon has been appointed as fiscal agent, registrar principal paying agent and transfer agent for the Province of Ontario on the issuance of its first green bond.

Proceeds from the bond will be used to finance projects with particular environmental benefits throughout Ontario.

The initial bond of 500 million Canadian dollars will be used to fund the Eglinton Crosstown Light Rail Transit project in Toronto, a system to expand the city's transport system and reduce congestion.

Sonia Chaliha, head of sales and relationship management for Latin America and Canada at BNY Mellon Corporate Trust, said: "We've seen increasing demand for investment vehicles like green bonds as more investors seek investment options that allow them to build a strategy around their social and environmental values."

She added: "It's been estimated that green bonds may account for 10 to 15 percent of global bond issuance in the next five to seven years. We have numerous environmental, social and governance related offerings and provide our clients with a broad range of services that help mobilise investment capital to drive social progress."

"Building on our existing capabilities, we are well positioned to support issuers, such as the Province of Ontario, which use green bonds to finance environmentally friendly projects."

In 2014, BNY Mellon was added to the Dow Jones Sustainability World Index, and secured its place on the Dow Jones Sustainability North America Index for the second year running.

SIX and UnaVista set up Swiss trade repository

SIX has selected UnaVista as a partner to establish a central trade repository for derivatives transactions in Switzerland.

The partnership follows increased demand from banks, and will use the reporting technology of London Stock Exchange Group's UnaVista platform.

The solution will be operated and hosted by SIX, allowing Swiss clients to fulfill their reporting obligations under the Swiss Financial Infrastructure Act, which is currently part of the parliamentary constitution.

To 'Infinity' and beyond

Finnish central securities depository (CSD) Euroclear Finland has begun to replace its entire securities processing infrastructure.

Named Infinity, the new system is designed to bring the Finnish market a step closer to T2S, and will be released progressively in three stages. The first release was completed successfully on 2 February.

Mats Råstedt, chairman of the Finnish market advisory committee, said: "Implementing the Infinity system for the fixed income market has been a tremendous effort for the whole market. Close cooperation and coordination between Euroclear Finland and the market participants has made this transition possible."

"This is an important milestone on the Finnish market's roadmap to T2S, and at the same time aligns the Finnish fixed income market with the new European harmonisation standards."

The first release replaces the CSDs previous fixed-income system, Ramses.

The second stage is scheduled for May 2016 and will replace the current equity transaction processing systems, HEXClear, as well as the central register.

The final release will connect the Finnish market to T2S in the scheduled migration in 2017.

Yannic Weber, Euroclear CEO in Finland and Sweden, said: "Euroclear is making a significant multi-year investment to substantially improve the post-trade infrastructure in Finland."

"Upgrading the core CSD systems brings us closer to readiness for T2S. This remarkable market change has been carried out in very close co-operation with our participants. Our continuing objective is to offer better services and flexibility to accommodate the rapidly changing needs of all types of clients."

Hanna Vainio, deputy CEO of Euroclear Finland and sponsor of the Infinity programme, said: "We are very pleased that the launch has been such a success. Going live took us less than two years which is a major achievement."

"Infinity itself is a major upgrade that enhances our CSD service offering while supporting the latest European harmonisation standards. These new features will allow clients to streamline their back-office operations, which will significantly ease their pan-European post-trade processing."

Luxembourg pledges responsible investment drive

The Association of the Luxembourg Funds Industry (ALFI) has pledged to increase responsible investment in the funds industry to make up 10 percent across the fund centre.

At a press briefing in London, Anouk Agnes, ALFI director of communications and business development, explained that while the current market is made up of 80 percent UCITS funds and 20 percent non-UCITS funds, the optimal balance would be 70 percent UCITS funds, 20 percent of alternative investment and 10 percent of responsible investment.

Responsible funds should be concrete and innovative, with a measurable social or environmental impact.

Agnes said: "The definition of responsible investing is a major obstacle for growth in the sector, because more and more people are speaking about it but not everybody actually really knows what it is about."

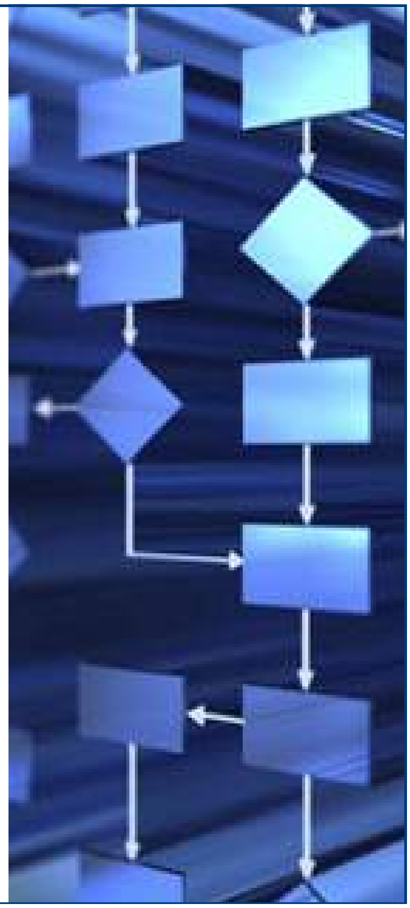
"What we have in mind are funds that invest, according to a pre-defined investment strategy, to create some positive impact. That can be a social impact, for instance reducing poverty, or an environmental or governance impact."

"Those funds are growing and they cover everything. They could be funds that invest in social housing, fair trade, or microfinance. There is no limit."

She also outlined the minimal efforts that fund managers can work to simply by choosing to invest in firms that act responsibly—a strategy of making socially responsible investments.

"The aim here is not necessarily to create impact for society, but rather to do no harm by investing, and that is a strategy that every mainstream asset manager can apply to a little extent or to a large extent."

"These are just strategies of filtering your investments. Responsible investing can cover



both extremes of the spectrum, those who can do the minimum and those who can do something really different. I think those who do a lot can actually contribute to change the world."

Camille Thommes, director general of ALFI, commented: "Some funds have been doing this for years without making a big fuss about it, but as this concept becomes a discussion point we can positively engage with the asset management industry, making it more widespread and well known."

BNY Mellon and Deutsche AWM seal mandate deal

BNY Mellon has signed an agreement with Deutsche Asset and Wealth Management (AWM) to provide real estate and infrastructure fund administration services, representing $46.3 billion in assets under administration.

In July 2014, the banks announced that they had entered in to negotiations, but the deal did not close until 1 February 2015. The terms were not disclosed.

BNY Mellon will take care of Deutsche AWM's direct real estate and infrastructure fund finance, as well as providing fund and asset management accounting and client and financial reporting functions.

About 80 staff members from the Deutsche AWM fund finance team are expected to transfer to BNY Mellon, becoming a part of their Alternative Investment Services team.

Samir Pandiri, executive vice president and CEO of asset servicing at BNY Mellon, said: "As investors shift into other alternative investments, the market for real estate asset servicing is poised for solid growth."

He added: "Investment managers are turning to asset servicers like us who are better positioned to make the necessary investments in technology and people to deliver a higher level of service."

"This important new relationship will allow us to develop a more integrated accounting and client reporting solution that leverages Deutsche Asset and Wealth Management's global presence and team, and help propel the growth of our real estate fund administration business."

Pierre Cherki, head of alternatives and real assets for Deutsche AWM, said: "We have developed a close partnership with BNY Mellon and look forward to working with them on this innovative initiative."

"Our goal is to provide clients the best service possible in this area and this strategic relationship will enable us to benefit from the resources of one of the world's leading investment servicing companies."

Preparation leads Guernsey to regulatory success

Guernsey's forward-thinking approach to international regulatory requirements has aided the success of its funds industry, raising its profile as an international finance centre, according to a panel discussion at the Guernsey Funds Masterclass in London.

Panellists discussed the implementation of regulations like such as the Alternative Investment Fund Managers Directive (AIFMD), the Markets in Financial Instruments Directive (MiFID) II and the Foreign Account Tax Compliance Act (FATCA).

Emma Bailey, director of the Guernsey Financial Services Commission (GFSC) and a panellist at the event, praised the diverse skill-set based on the island, saying: "We have a whole range of skills. We're not just policy makers, we're not just sitting at the policy end looking at these directives."

"We know our industry, and we know the impact it has on a lot of other industries as well, and that is because we're so integrated globally; our domestic market is very small."

As the GFSC strives to market Guernsey as an international finance centre, firms on the island benefit from its innovative approaches to global regulation.

Panellist Steve Darrington, partner and CFO at Phoenix Equity, said: "Guernsey's need to demonstrate itself as a credible regulatory regime causes people who operate in Guernsey for any reason to be sucked in to that regulatory regime. It does make people better positioned and better organised, and that is a genuine positive."

Other panellists echoed the praise for Guernsey's management of the changing regulatory environment.

Debbie Anthony, tax partner at Deloitte, said: "[Guernsey] has got its guidelines and its reporting up and running. It has continually been in the lead in this, and I do think that's incredibly impressive."

Managing director of Investec, Grant Cameron, added: "It's inevitable that transparency and full disclosure is here to stay, and I think Guernsey has made the right approach and made the right decisions around it."

As well as a proactive approach and timely response to regulations, Dominic Wheatley, CEO of Guernsey Finance, believes that Guernsey's positioning has helped, as well as its relationships with European authorities.

He said: "The Guernsey model maintains access to the EU, but also offers a non-AIFMD product for non-EU investors who don't like the cost and compliance burden associated with AIFMD."

"Our early and proactive engagement with Brussels on AIFMD and MiFID II demonstrates the responsiveness of our funds sector and has garnered a great deal of respect with authorities such as the European Securities and Markets Authority."

He added: "Our approach to these issues follows our established pattern of clarity and transparency of purpose allied with excellence and pragmatism in execution. This helps everyone know exactly where we stand and makes implementation as smooth as possible for the industry."

Clearstream opens up in South Korean market

Clearstream has launched an investment fund cooperation with Korea Securities Depositories (KSD), linking KSD's Fundnet platform with Clearstream's fund processing platform, Vestima.

The cooperation intends to expand both direct and indirect cross-border fund distribution and open up the South Korean markets for offshore funds. It also strengthens Clearstream's investment fund strategy in Asia.

Jaehoon Yoo, chairman and CEO of KSD, said: "The partnership with Clearstream significantly enhances our cross-border investment fund distribution capabilities."

"In response to the diverse investment needs of customers, we decided to establish a link with Vestima, the largest global fund processing platform. This partnership also provides our domestic Korean asset management industry with lower costs and higher efficiency."

Philippe Seyll, member of the executive board of Clearstream and head of investment fund services, said: "We are pleased about the new link to KSD and the Korean investment fund market. South Korea is a major domicile for investment funds in Asia, where markets are continuing to open up to offshore funds."

State Street reports boost in asset servicing revenue

State Street secured new asset servicing commitments of $1.1 billion in 2014, including $400 million in Q4.

Releasing its figures for Q4 2014 and for the full year, State Street also revealed a successful year for assets under management, with new assets managed totalling $7 billion in Q4 and $28 billion over the full year.

State Street also saw an increase in revenue, reaching $2.63 billion in Q4 2014, an increase from $2.58 billion in Q3 2014, and from $2.46 billion in Q4 2013.

Chairman and CEO Joseph Hooley said: "Our fourth-quarter and full-year 2014 results reflect strength across our asset servicing and asset management businesses."

He added: "We are pleased we completed our Business Operations and Information Technology Transformation program at the end of 2014 as planned and I want to acknowledge the efforts of the entire State Street team for helping us complete this important initiative."

"Managing expenses and continuing to drive efficiencies remain ongoing priorities, despite continued pressure from regulatory costs."

Ryan Labs mandates Ultimus for new fund

Ryan Labs Asset Management has chosen Ultimus Fund Solutions to provide fund administration services for its recently-launched fixed-income mutual fund.

The New-York based firm launched the new fund through Ultimus Managers Trust, and hopes that the pairing will lead to greater transparency and operational efficiencies.

Ultimus also offers daily reporting capabilities and a mutual fund vehicle for its institutional clients.

Ryan Labs has about $5.1 billion in assets under management in fixed-income portfolios for institutional clients.

Chapman's Eye on the market

Tempus fugit

So this year continues to scud along at breakneck speed. Popular consensus has it that time is flying by at its fastest rate ever, or perhaps that is just a function of advancing years? We're already in the midst of the bonus period, with general feedback being of polarisation, with some people getting relatively decent figures (albeit around 20 percent off last year's levels) and others getting very little. A variety of reasons have been given for the structure of these bonus levels, from exchange rate differentials to US regulatory fines, but the prevailing feeling from 'the street' is one of a mild but increasing distrust of 'management's' protestations, seeing them as simply sophistry, covering up a desire to cut variable remuneration.

Whether the strength of feeling and dissatisfaction about remuneration will translate into widespread employee upheaval will reveal itself over the next six to eight weeks or so. However, the current market remains strong, with firms continuing to look to upskill and build bench strength, especially in private equity, real estate and insurance, which many firms believe is a deep well of untapped revenue, and new firms are entering the market and looking to build a presence in London.

Asia had a slow start this year but is picking up, while the Middle East remains something of an enigma. We all accept there is vast wealth there, we all feel that the quality of talent there could be improved and many wish to move there to get away from the high cost of living and uncertain weather in the UK, but opportunities remain limited. My personal view is that the local hiring managers are overly insular in their approach and should adopt a more global mindset when it comes to expansion of their business and hiring the people who can make that happen.

Corporate activity is buoyant with frenzied action in the lower levels of M&A and I suspect SS&C's recent acquisition of Advent will be the first of many such moves this year. At a macro level—in our industry at least—all eyes will be on BNP Paribas Securities Services to see if it can avoid the mistakes some of its competitors made, and continue to make, with the integration into the investment bank. Certain other firms have 'taken their medicine' in recent years in terms of cutting staff and getting their cost-income ratios back in good order, be that of their own volition or at the behest of the analysts, and are now cautiously re-entering the employment market, looking for talent step-by-step and trying to avoid the frenzied mass hire and mass fire mentality that has certainly typified investment banks in recent years.

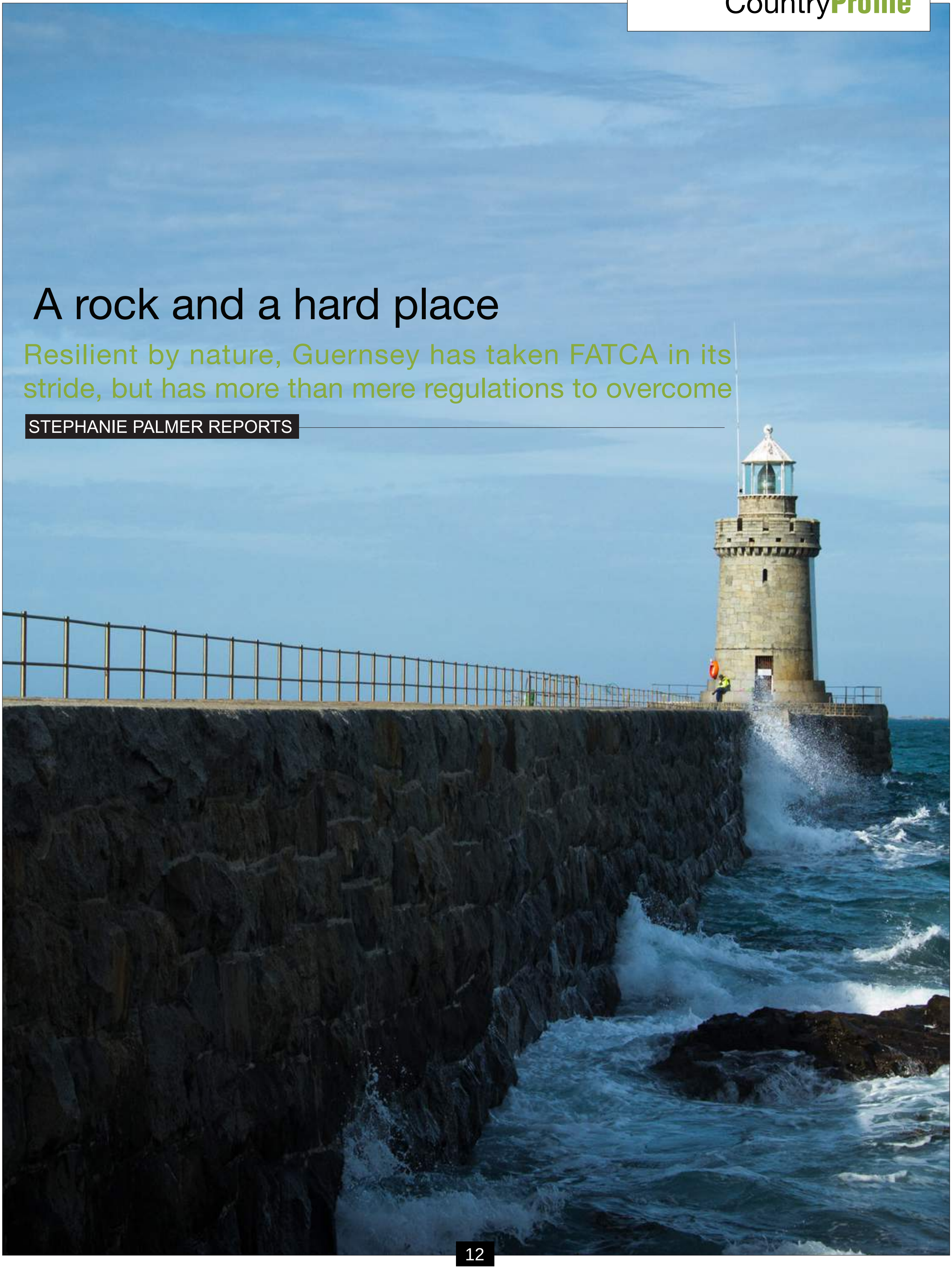
In the treacherous mirror of hindsight, the trust banks, on the other hand, were overly paternalistic and held on to certain staff beyond their sell-by date in a misplaced sense of loyalty, when perhaps it would have been kinder to let them go earlier, a la Goldman Sachs's annual headcount 're-sizing'. Most have now learned that lesson, partially resulting in the excess of supply over demand, which remains in the current employment market but hopefully will begin to find some form of equilibrium during the coming year.

Paul Chapman, managing director, HornbyChapman Ltd

A rock and a hard place

Resilient by nature, Guernsey has taken FATCA in its stride, but has more than mere regulations to overcome

STEPHANIE PALMER REPORTS



The second sibling of the Channel Islands, made entirely of granite and taking a battering from the choppy English Channel, Guernsey is intrinsically a robust little island. So it should be no surprise that it has grown an equally hardy funds industry that sits comfortably among the world leaders, even though it is squished in to a mere 25 square miles.

With the recent increase in regulatory requirements and reporting obligations, pressure has been piling on to fund managers, and on to the regulators that have to keep abreast of what they're regulating.

The introduction of Foreign Account Tax Compliance Act (FATCA) meant that financial institutions were suddenly obliged to report information on accounts held by US taxpayers. It came as a shock to managers and left investors puzzled, but in July 2014, when it came in to effect, Guernsey was ready, emerging way ahead of some of its European counterparts.

Dominic Wheatley, CEO of Guernsey Finance, puts this primarily down to the first law of business: proper preparation.

He says: "Guernsey as an island has invested a lot in putting the right infrastructure in place, and there has been a lot of investment, at a company level, in getting the reporting infrastructure and the IT sorted."

"Now it's just part of the furniture. Once you've done all the preparatory work, it just becomes another part of the compliance infrastructure that has to be done."

It's the same preparation that has put firms in good stead to comply with their reporting obligations under the Alternative Investment Fund Managers Directive (AIFMD), while others have emerged a little more prepared for the Markets in Financial Instruments Directive (MiFID) II.

Collectively, the onslaught of acronyms has also led companies to compile and consolidate their data, encouraging more accurate data analysis and streamlining internal processes.

Emma Bailey, director of the Guernsey Financial Services Commission (GFSC), puts that down to the diversity on the island, and the skill-set of its staff.

She says: "We're not just policy makers, we're not just sitting at the policy end looking at these directives. We're also at the sharp end implementing agreed international standards."

"We know our industry, and we know the impact it has on a lot of other industries as well, and that is because we're so integrated globally; our domestic market is very small."

Such drastic changes in operations come at a cost, no matter how willingly they're implemented or how smoothly they run, and there is some concern that more regulations like FATCA could be on the way.

Wheatley says: "I think the big issue is that every country looking for that same transparency will do it slightly differently, so there will be incremental complications."

"If the international community could agree on one basis on which that information is being reported that would meet every country's standards, that would make everything much easier. But, that's a pipe dream. There will be global standards, but they will be re-interpreted by every country."

Guernsey's drive to overcome regulatory challenges and prove a commitment to compliance is intrinsically linked to the island's reputation and the drive to improve that. As far as Bailey is concerned, the phrase 'tax haven' is not in her vocabulary.

"I have trouble with the term because it simply isn't correct," she says. "Guernsey is clearly a highly reputable international finance centre with a well-respected regulatory regime, and that's the message that we all need to get across."

"Our international engagement is through being a participant as well as just an attendee at events, and actually trying to bring our influence to the table as a small jurisdiction and one of the smaller regulators."

She does concede, however, that it may take some time, saying: "We are chipping away at the misconceptions, and we are doing this in a very robust style."

Wheatley agrees that there are problems in the perception of the island's funds industry, attributing the problem to a blanket judgement of offshore jurisdictions in general, but also points out the steps that Guernsey has taken to enhance its reputation.

In fact, in many ways Guernsey has taken its questionable reputation and turned the issues in to positive factors. As a small jurisdiction with strong communication channels between financial sectors, the island has high levels of transparency, allowing the regulators to easily identify what is going on, and to spot any anomalies, all in an expertly discreet manner.

Wheatley says: "It's a combination of the island's adaptability and the ability to deal with things efficiently. We do this in a way that the international community likes, and therefore there's a reputational benefit as well."

Bailey goes a step further with this, suggesting that it is, at least partly, Guernsey's reputation and perceived susceptibility that has led to its success in anti-money laundering.

"We're still fighting those perceptions of the island, and anyone looking to illegally use funds or place funds may still have that perception as well."

"Like any international finance centre, we're potentially exposed to each of the traditional layers of money laundering because we've got the banks, the investment world, insurance—we've got a bit of everything really."

"But on the flip side, we have higher standards because of this. We have the high standards in place for deterring and detecting it, and the reality is that places like London are just as susceptible than Guernsey is."

On top of this, the island also now has a dedicated financial crime division within the GSFC, showing an ever-increasing determination to tackle money laundering, along with the dreaded tax transparency issues.

There is a general feeling that this reputation is not going to go away easily, but for the time being, Guernsey is taking it in its stride, while trying to prove it wrong.

Wheatley says: "There are those who disapprove of the finance industry generally, and in that case, you just can't win the debate. But, importantly, our clients understand what the island has to offer."

Bailey is also resigned to the fact that those wrong views of the island are something they will have to work around.

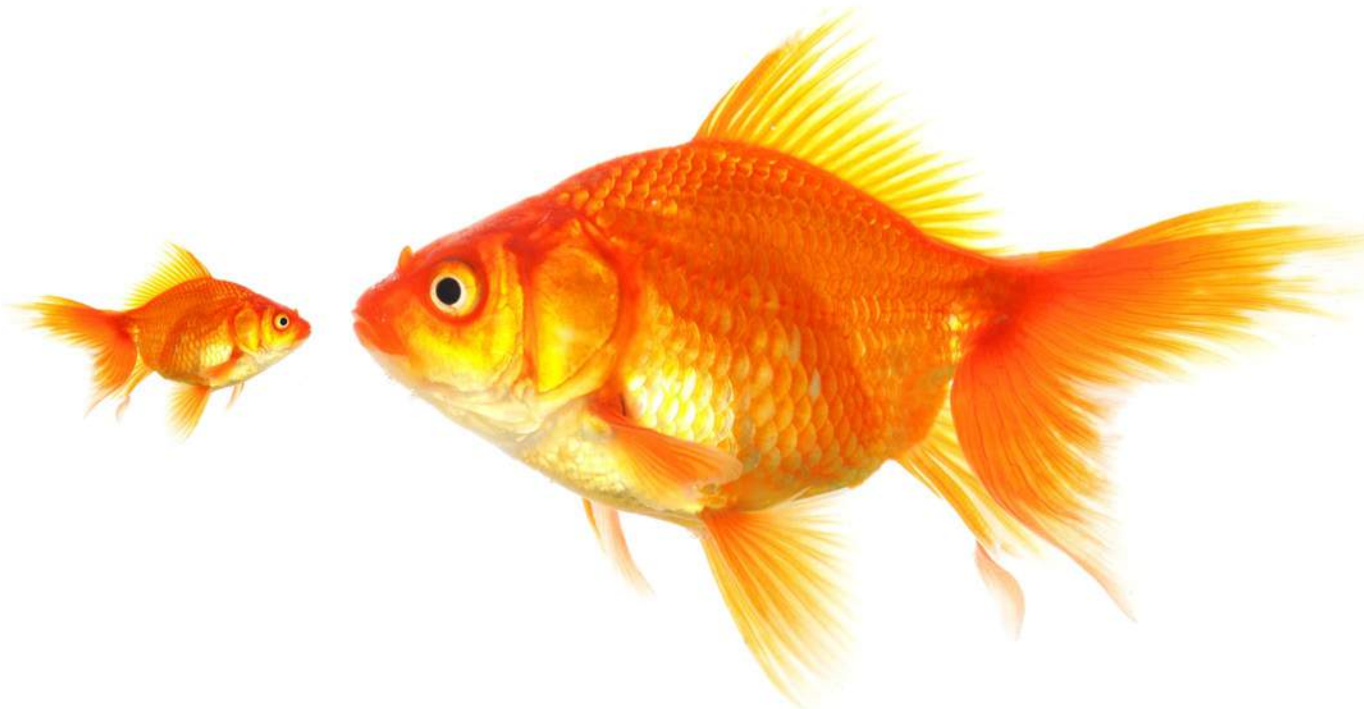
"We do have to be conscious of it," She says. "We would like to lose that perception, but where we come across it, we deal with it head on."

And 'dealing with it' seems to be a standout trait of Guernsey's authorities. FATCA didn't cause a drama, and they take AIFMD and MiFID in their stride, too.

Ultimately, that poor perception has led Guernsey to grow as a better funds base, and the ability to turn bad press in to positive results, is a skill that can only lead to more good things.

Any struggles with reputation and jurisdictional bias seem to have led to a more communicative industry that works in harmony towards a common goal.

"We haven't done this in isolation," Bailey concludes. "One of the key things for GFSC is working with the industry, with the government, the funds firms and the finance firms, as well as with Guernsey Finance, making sure we approach this in a way that is right for Guernsey and Guernsey's clients." **AST**



Little and large

Camille Thommes of ALFI explains how the financial behemoth that is the Chinese market could learn more than a little from Luxembourg

STEPHANIE PALMER REPORTS

The grand expanse of China may seem a million miles from little Luxembourg, but the geographical giant and the teeny European hub have put their heads together over the last few years to facilitate extra growth in a challenging market, and it seems to be working.

In November 2014, the long-awaited Shanghai-Hong Kong Stock Connect finally whirred in to action, allowing investors all over the world access to mainland Chinese stocks from the Hong Kong Exchange.

Meanwhile, Luxembourg saw a record-breaking 2014 in terms of growth, breaking the €3 trillion mark in assets under management for the first time in September, and seeing in the new year with a grand total of €3.1 trillion.

The Association of the Luxembourg Funds Industry (ALFI) also put some quality time in to its relationship with China.

In July 2014, ALFI signed an historic memorandum of understanding with the Asset Management Association of China (AMAC). The partnership had three main objectives: making a commitment to implementing joint programmes; offering mutual assistance and exchange of information, specifically regarding regulation and investor protection; and to create opportunities for mutual membership referral and events for professional developments.

The memorandum arguably simply put an official stamp on a long-running partnership between Luxembourg and the Asian markets, one that has seen a heightened presence and increasing interest. In 2014, ALFI's financial seminars in Taipei, Tokyo and Hong Kong drew 180, 275 and an enormous 475 attendees, respectively.

Camille Thommes, director general at ALFI, says: "Luxembourg UCITS have been investing for quite some time in the mainland China market and we have a very positive relationship with AMAC."

"There is willingness from the Asian market to have an active dialogue with the regulators here in Europe, like the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg, who can explain in much more detail how our system works, and who can provide the necessary reassurance to allow funds to go ahead."

The partnership has not only strengthened the relationship, it has paved the way for Luxembourg domiciled funds to take advantage of the new Shanghai-Hong Kong Stock Connect. The first ever UCITS to go live on the programme sprung up from Luxembourg, and was approved in December 2014.

When the memorandum of understanding was signed, ALFI chairman Marc Saluzzi said: "In the future, as Chinese asset managers may wish to extend their activity outside of China, Luxembourg will constitute an ideal gateway into and beyond Europe. Luxembourg is indeed the leading worldwide domicile for cross-border asset management activities."

With Luxembourg already distributing UCITS across 70 countries, it may well turn out to be an ideal spot to launch RMB-denominated funds in to the European market, and to distribute them around the world.

As well as a boost for Luxembourg, this could speed up the internationalisation of the renminbi.

China's qualified foreign institutional investor (QFII) scheme is still a relatively recent development, launching in 2002, and China didn't start trading with other currencies until 2010. Even after that things didn't pick up too quickly. The UK became the first western country to issue a government bond denominated in renminbi in 2014.

It may not be a direct correlation, but since the launch of the stock connect, and the subsequent expansion of the Chinese markets, the Renminbi has leapt to the top-five currencies used for global payments.

According to SWIFT, RMB jumped from thirteenth on the list in January 2013, with 0.63 percent of the worlds payments, to fifth less than two years later. In December 2014, RMB accounted for 2.17 percent of the world's payments, behind only the Japanese yen with 2.69 percent, the British pound with 7.29 percent, and the euro and US dollar with 28.3 percent and 44.64 percent, respectively.

It's a long-awaited milestone in the internationalisation of the RMB, with SWIFT's head of banking markets, Wim Raymaekers, saying the news "confirms its transition from an 'emerging' to a 'business as usual' payment currency".

With the two markets mirroring each other in growth, Luxembourg UCITS have already increased investment in mainland China markets, and since the RMB QFII quota was expanded in 2013, many have also started to invest in the Chinese equity markets.

As the Luxembourg market continues to grow, ALFI is setting its sights on new markets, including China. Luxembourg will take advantage of its existing position as an international renminbi centre to remain at the forefront of the internationalisation of the renminbi, while fuelling the gradual opening of the Chinese markets through the stock connect programme.

ALFI's Thommes explains that while entry to the Chinese market is beneficial to Luxembourg, the emerging market could also learn one or two things from Europe's leading fund domicile.

"We provide training, we provide experts to report on development strands on certain important aspects in the management and administration of funds, and we have even offered training to some of the regulators in the region."

"We are well respected and well recognised there, and we are very keen to support it in its development, providing our best expert advice if they need it."

According to Thommes, while European, and worldwide, investors can take advantage of the Chinese capital markets, the liberalisation of those markets can only make the RMB stronger. But that's not to say that connecting to the programme been an easy ride.

"Obviously the stock connect is an important initiative and one cannot expect it to work perfectly from day one, but we have been working very closely with the authorities, and with the help of our experts, we will get there," he says.

"There are still some technical and operational issues that need to be fixed, but the stock exchange authorities, both in Hong Kong and mainland China, are open to get feedback from the players entering the scheme."

The problems haven't just been practical ones, even if the system is perfectly oiled and running smoothly, there is still the arguably larger hurdles of gaining the trust of investors and making sure that the service is running properly.

Thommes says: "Both the funds investing and the service providers need to make sure that they comply with European regulation when it comes to aspects of delivery versus payment, ownership rights and enforcement rights. These are the issues that we have been discussing over the last couple of months, to find ways to give that comfort and certainty to investors."

"There's a clear willingness from Hong Kong and China to address those issues, and a lot of firms are already taking the feedback on board. There is definitely a mutual interest to make the system work smoothly from an operational, legal and technical standpoint."

That said, nothing that changes the state of play so drastically is likely to come in without at least a little hitch, and Saluzzi maintains that this is a healthy transition period that is necessary to smooth out the creases in the road.

"It's a very normal process to go through when you set up this kind of platform," he says.

"When two regions come together the operational conditions and legal requirements are not the same, so you have to go through the practical implementation details and you have to work out some of the frictions between market participants and the platform. That's normal, and it's nothing to be concerned about."

Once these teething problems are overcome, ALFI anticipates a growth spurt in the scheme, evolution in the system and a generally increased interest in establishing UCITS funds in Asia.

"There is clear interest from Asia, especially China, to use that scheme to offer investors a direct entrance to the Chinese equity markets," says Thommes.

"They are thinking about expanding the scheme to other instruments, instruments that are pure equities, and that's a clear demonstration of the opening up and further globalisation of the Chinese capital markets."

Although there may be glitches in the system now, it's important to remember that the programme has not been up and running for six months yet. Service providers have muddled through successfully and many have already found their own solutions while the powers that be are working on official fixes.

The Shanghai and Hong Kong stock exchanges are already thinking about a second-phase rollout of the scheme. They're willing to accept their shortcomings and are setting them right as quickly as possible.

As the Chinese market opens up to investment from Europe, it's also allowing in advisors, those who have a little more experience in the field and understand Europe and its smorgasbord of recent regulation, and that are wiling to help, whether that's out of empathy or the promise of mutual gain.

Somehow, Luxembourg seems to have become a key ally in the Shanghai-Hong Kong Stock Connect's relationship with the western jursidictions, pioneering the new scheme and embracing the risks that come with it.

It may be an unlikely friendship, but, as Thommes said, it's a positive one. Mutually supportive, patient and progressive, and perhaps, one that's revolutionising the funds landscape as we know it. AST

The investor of the future

Jon Willis of Calastone explores the changing behaviour of investors and challenges the industry to radically re-examine how it seeks to serve

In the midst of ski-season, for the 2015 International Transfer Agency Summit (ITAS) we're heading off-piste. Every year in Luxembourg the funds industry assembles for this important conference to discuss a broad spectrum of essential topics: regulation, distribution, oversight, value chain alignment, platform developments, and product diversification. Without question, these are all highly relevant and important, but I worry that, all the while, kindling wood is being laid under the industry's feet and investor behaviour is radically changing. As an industry, will we be fit to serve investors of the future regardless of what generation they belong to?

Today's consumer is influenced heavily by smart technology and the power of marketing suggestion. Outside of financial services, many service industries and retailers have woken up to the sales, growth and product development potential that a well-designed platform has to offer. Recognising that a platform in itself isn't sufficient, they have invested heavily in understanding, analysing and exploring data that customer behaviour generates in order to drive their service and sales strategies. Ever alert to buying patterns and trends, they tailor offers for their customers, offer recommendations based upon what similar consumers did or liked next, and work hard to create customer 'stickiness' by recognising and rewarding loyalty.

Consumer behaviour appears to respond well. Not content with recommendations alone, we are keen to see how others have rated the product or service in question. We want to read reviews and any supporting snippets of content, and ask others for their opinion to enable us make decisions quickly.

Against the backdrop of fast, light and easy-to-use smart mobile technology, empowered by real-time information, it is extraordinary to consider that today it is easier for the UK population to obtain debt, than it is to invest in a savings product. Using smart technology, loans are approved within seconds and providers communicate with their debtors to make further offers and suggestions. We live in a world sorely under-saved with one click debt.

Generation next?

The pace of functionality, data processing capability and capacity change is ever-accelerating. What can we anticipate from (and for) the next generation of 'Millennials' as they make decisions about how to use their disposable income?

After all, they are potential and, in some cases, existing investors. Based on their buying power alone, they are already influencing the relative success of investment products, today and tomorrow. They are engaged consumers, and therefore engaged investors.

The Miggins metamorphosis

Forget Mrs Miggins, welcome Ms Miggins. Used to a cashless way of life, on her daily commute home to Tunbridge Wells, she'll be checking her bank account, making instant payments and moving her cash around. She may be adjusting the temperature of her home for when she walks through her front door. Throughout the day, she will have been checking and tracking what her kids, or pets, have been up to and running a remote, digital diagnostic check on her car before deciding where and when to book it in for its service (and if she can't do that today, I'd happily predict it won't be long coming).

From a single stream, using an integrated stream of apps, data and social information, she will make short-, medium- and long-term financial decisions, all at a single swipe.

Brand turned inside out

Investors used to care about brand. It used to matter to which firm they entrusted their hard earned cash, and in response, 'star' fund managers were paraded and billboarded. For Ms Miggins, peer review and performance will drive her investment decision-making much more than brand. No more the model where the brand attracts the investor, rather the investor attracts the brand.

It's not just alibabble

Consider the potential. Only two years ago, the Chinese fund management firm, Tianhong Asset Management Co, managed a relatively modest $1.9 billion in assets. In June 2013, it launched a money market fund with the retail giant Alibaba Group Holding. Benefiting from easy navigation from the ecommerce retailer's site, investors could invest in the Yu'e Bao fund. Within nine months, the fund had attracted more than $81 billion from tens of millions of investors.

Time for fresh thinking

It wasn't so long ago that the industry questioned the need to automate transaction processing. That's when we came along, and since then, at every stage of our innovation and evolution we have worked closely with administrators, distributors, managers and custodians, thinking through what they and the industry need. We determine our product and innovation roadmap with a keen focus on helping the industry reduce cost and risk, meet its regulatory requirements, and above all else, better serve the end investor.

During the first day at ITAS this year, we will be hosting a session (Breakout Group B at 14.20) 'What Will It Take To Really Drive Our Business Forward'. Within what we predict to be a rigorous and informative session held under Chatham House Rules, will lie the following central question: if the industry remains on its current trajectory of change, are we going to get to where we need to be, by doing what we have always done before?

These are changing times, and fascinating and exciting because of it. And there are two things we can be sure of these days: time waits for no one, and neither does technology. **AST**

Jon Willis
Chief commercial officer
Calastone

Enough is enough

Regulations have led to improvements in the industry, but we must be wary of where to stop, says Dermot Mockler of TMF Custom House

STEPHANIE PALMER REPORTS

With the introduction of certain regulations, some prime brokers are shedding clients while administrators have begun to exit hedge fund administration altogether. Why is this happening?

I believe that the two key factors are cost and profitability.

Historically, many prime brokerage firms have seen the fund administration space as a necessary evil and, given the increasing costs and complexities, many are happy to move away from it. They're reverting to their core businesses in the custodial, depository spaces and directly related activities.

Some of the larger institutional players are losing money on a daily basis from their fund administration business, and that is significantly eating in to profits in other areas.

Some have built up their market share by offering attractive rates to clients, but they haven't necessarily accounted for the ever-increasing regulation, and the amount of extra work to be done. They are stuck in arrangements that are now quite hard to get out of. In many cases they can't terminate the relationship with a client, because it will damage their relationship with that same client in the prime brokage and custodian business.

Instead, they are considering offloading the whole fund administration business, which sounds like a simple solution. But then the question is whether anyone is going to be interested in buying that business, which may not be attractive in terms of costs versus revenues.

Can they solve the problem of compliance by doing this, or are they just postponing it?

The problem is not the introduction of new regulations, it's that they are losing money, and they are losing money because they took on business too cheaply in order to gain market share.

This shift towards outsourcing administration won't affect the impact of the regulations, or delay them. Whoever ends up providing the administration service will have to assist fund managers in complying with whichever regulations affect them.

These regulations are here to stay. The fact is that the shape of the market, and the players in it, might be different to what people might have thought, but that's all that will change.

In many ways these are positive factors. The requirements of the depository under the Alternative Investment Fund Managers Directive (AIFMD), for example, are heavily weighted towards the big institutional players and it was predicted that they would only agree to provide the depository services if they got the administration business as well.

That was one of the biggest anticipated challenges to the independent administrators, but actually depositories have not been so keen to stay in that space, which takes some of the pressure off of the independent firms.

If you leave the prime brokers and the specialist fund administrators just doing what they're best at, that's preferable to having a small number of brokers or depositories covering all corners of the market. That makes for a positive marketplace, which is good for the industry, and therefore good for the consumer.

Have the changes led to positive effects for the end users?

People have been worrying about the outcomes of the regulatory changes, and rightly so.

There were depositories that gave their clients two options; go with them for both depository work and administration, or leave their administration where it was, and pay extra for the additional risk. That appears to have backfired, and I don't think they were ready for it.

It does open up the space for more of a status quo, as there is a space for specialist fund administrators within the AIFMD regulations. If a client remains with the specialist providers, that will have less of an overall effect on the costs of running a fund, which is good for the consumer, and good for the industry.

The regulation has definitely been positive in terms of transparency, but whether it is positive to the end user, I think the jury would still be out on that.

Some estimates suggest that AIFMD alone could cost managers more that £1 million a year, and a big chunk of that could be passed down to the shareholders. The shareholders do benefit from having increased transparency, but they could also suffer because the fund isn't likely to perform as well.

The increased transparency does give shareholders the chance to compare managers and funds more freely and to choose those that are regulated, and they may take some comfort in that. The bottom line is transparency versus fund performance, and I think it is going to take some time before anyone can say whether the regulators have got the balance right; whether it has been good for the market or whether it is costing the shareholders too much.

Is all of this change distracting fund managers from their primary lines of business?

There is no one-size-fits-all answer to this, but many of the small to medium-sized managers have had to make very significant changes in a relatively short space of time, and that has had an effect in terms of resources and cost.

It's hard to say whether the greater challenge is the time that it takes up or the actual financial cost, but either way, it is distracting managers.

With huge regulatory and reporting changes, managers have woken up to the fact that they cannot get away from tax transparency legislation, and I think the fund industry in general has woken up to the Foreign Account Tax Compliance Act (FATCA). This had to be dealt with and it proved to be a challenge that most managers and fund boards worked on, accepted, and did what they had to do.

On the back of that, other transparency regulations came out of the EU and US, which just proved to be an extra headache. There were multiple regulations hitting managers from all sides at the same time, and I think it was the managers trading EU derivatives that have been hit the hardest.

They have had to deal with the European Market Infrastructure Regulation (EMIR), AIFMD and its transparency obligations, and tax transparency, all at the same time, and that has been a challenge that some have tackled better than others.

It was never an easy space, particularly for small start-up managers, but it has become significantly more difficult with the extent of the regulations that have been introduced, and the additional costs of complying with them.

Do you think that's going to let up anytime soon?

The pace of new regulations will slow down—at least the pace of major regulations. This year is the due date for a review of AIFMD to see if the regulators are going to widen the net, and in 2018 there will be more reviews.

Rather than bringing in new regulations, in the next two to three years the challenges are more likely to be an extension of FATCA, or an equivalent, across other jurisdictions worldwide.

Most managers and service providers, in particular those with forward planning, have put a structure in place to cope with FATCA on a global basis, effectively to prepare for what we know is coming down the line.

In the future, the hard work will already have been done and we will just be using the same platforms to widen the reach of what is already in place.

In terms of AIFMD, the regulators have some catching up to do. Now, with the Annex IV reporting beginning in earnest, they need some time to review what they have got before we can tell if the directive is going to be a success or not.

> “The pace of new regulations will slow down—at least the pace of major regulations”

There won't be so many new regulations coming out, more of a consolidation of the existing frameworks that have been put in to place over the last couple of years.

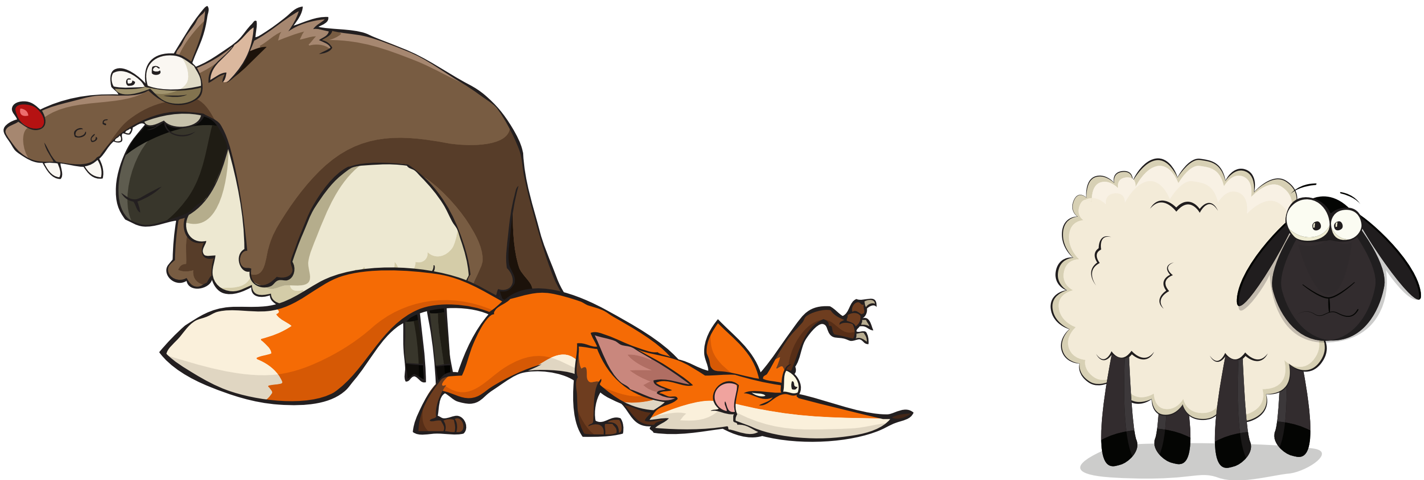
Do you find this reassuring?

I think the industry just needs to sit back, take a breath and take stock of all the changes and challenges that have come up over the last three or four years. At some stage, the regulators have to slow down and assess the industry. Regulations are there for a reason, and that reason is to protect shareholders.

We need transparency, but not so much that we're looking beyond what adds value to the marketplace. The regulators have to ask themselves if they are doing things for the right reasons, or if there are other ways to improve market stability and investor protection. Hopefully, they will come to a sensible balance in the next year or two.

There will always be things that can be tweaked and improved, but now the structures of the regulations are in place, it's just a matter of consolidating and improving the role of existing regulations, rather than introducing significant new ones.

We should only move on from here if it is beneficial for the industry overall, not just for the sake of moving. Yes, we can improve the frameworks, but we should not be looking to introduce anything new unless there is a very strong and rational case for it, and a clear benefit behind it, too. **AST**



Survival of the fittest

The transfer agency landscape is shifting, and in 2015, it will be those willing to adapt that will survive. Industry experts discuss the challenges ahead

What is your focus for 2015?

Laurent Majchrzak: Our main focus in 2015 is anti-money-laundering (AML) and know your customer (KYC), which, for several years now, financial regulators have been taking extremely seriously, closely scrutinising long-form accounts, fully analysing auditors' comments, and putting more pressure on management companies and boards.

If there are any inconsistencies in AML or KYC dossiers, the regulator has the power to take punitive measures. This increases the need for rigorous controls on management procedures for investor account documentation. As providers, we either accept inefficiencies as a natural part of doing business or we invest in solutions that provide more accurate controls that seek perfection. CACEIS will bring higher-than-benchmark AML and KYC services to clients by the end of 2015, giving them a significant competitive advantage.

Another focus is the modernisation of our reporting service for investors and distributors, combining a traditional 'generate and send' reporting service with newer internet-based solutions, which are a key part of our plan to facilitate 'direct orders'.

The Markets in Financial Instruments Directive (MiFID) II and other regulatory developments pose a serious threat to some European countries' distribution models by limiting funds' ability to remunerate distributers for bringing business, effectively removing the incentive to sell a manager's products. We are looking to develop new, internet-based solutions, so investors can directly open accounts in an automated manner and subscribe into funds, which reduces long-term administrative costs and avoids passing via an intermediary like a distributer.

Once the implementation of our new transfer agency platform is completed this year, it will be more robust, enabling us both to make productivity gains and enhance services. In the current market, where there is pressure to reduce costs, increasing automation rates is one of the only viable avenues for lowering costs.

Adapting to new regulatory demands is also a major 2015 focus. Phase one of the Foreign Account Tax Compliance Act (FATCA) is complete, phases two and three are not far off, and Luxembourg's new 'Automatic Exchange of Information' threatens a similar workload to FATCA.

Finally, we will focus on facilitating alternative investment fund and UCITS registration in target markets to simplify clients' distribution efforts.

Steve Fice: Advances in technology continue to influence the transfer agency sector. There's a growing demand for improved online solutions that permit investors to view, service and trade on their accounts in real-time from mobile devices on a 24/7 basis. We have seen significant interest over the last 12 months in our retail and distributor portals, and we expect this trend to continue.

The portals facilitate user self-service, while providing third-party administrators and fund managers with an enhanced service offering and a significant competitive advantage.

We are also seeing further demand for automated settlement and dealing. Clients are under constant pressure to improve efficiency and reduce risk while managing costs. Increased use of straight-through processing (STP) is one mechanism for eliminating manual and time-consuming administrative processes, and fund management companies are increasingly opting for full automation to include settlement across the transaction processing cycle.

Ghassan Hakim: With the increasing demand to stay ahead of the curve for all of the changes faced by our industry, which include a raft of complicated tax and regulatory changes, increasingly complex investment fund structures and global distribution models, transfer agents are in the process of transitioning from a traditional cost centre to a more added value service.

Our role as the transfer agency software solution provider is to keep designing and implementing solutions that allow our clients to meet these increased demands cost efficiently, while remaining business agile and operationally efficient.

In such an environment it is easy to see why the opportunity to utilise the benefits of a comprehensive single transfer agency solution that is capable of servicing the cross-border distribution of an entire asset manager's product range, across multiple jurisdictions, with a single investor view, is very attractive.

How are regulations around the world affecting investor reporting? What impact is regulation having on workload and costs?

Hakim: There are many aspects to this topic but one clear and overwhelming feature is increased regulation globally that is not necessarily in complete synchronisation across jurisdictions. Asset managers, fund promoters, administrators and service providers are constantly being asked to provide investors with frequent, simple to understand communications that are fully transparent.

Other than language, each jurisdiction has introduced various nuances to these goals that the underlying systems must take in to account. Having multiple transfer agents and/or separate investor and client reporting systems makes keeping up with these changes a lot more costly than having a global, centralised, transfer agency system that incorporates the investor reporting requirements by being flexible, customisable, parameterised and quick to change.

Fice: International regulatory initiatives such as FATCA continue to have a major impact

“Advances in technology continue to influence the transfer agency sector. There's a growing demand for improved online solutions that permit investors to view, service and trade on their accounts in real-time from mobile devices on a 24/7 basis”

Steve Fice, head of global transfer agency operations, **Bravura Solutions**

on the transfer agency industry and the software providers that support it. Systems and processes need constant updating and refreshing to keep up to date with the ever-changing legislation requirements.

The combined impact of global and local regulations such as the client asset rules affect providers by imposing ever-increasing costs for compliance from market to market. This creates a more complex ongoing administration and support burden. Transfer agency technology platforms must be flexible and able to address diverse requirements across multiple regions.

Majchrzak: This is perhaps the biggest question our industry is facing and one that is still evolving as new obligations arrive. There is regulatory reporting in the jurisdiction where a fund is domiciled, reporting on the UCITS fund's registration status (reports themselves are harmonised in Europe but communication protocols with financial authorities are not), new reporting rules for alternative investment funds, and finally, the arrival of FATCA and the Automatic Exchange of Information, both of which are a huge drain on resources.

For the provider, the costs of adapting to these regulations is immense, and we have a limited capacity to pass costs to clients that are naturally unwilling to take them on. The lack of harmonisation forces us to absorb the huge costs. With no initiative from the EU to create a central authority that can receive and redistribute reports to local regulatory and tax authorities in a standard format and protocol, providers are forced to adapt to the requirements of every single authority, which is inefficient and raises additional distribution costs.

Financial authorities tell providers to simplify distribution and reduce associated costs while they keep introducing new obligations that raise indirect distribution costs.

What operational changes are you implementing and can you enforce changes fast enough to meet regulatory demands?

Fice: For third-party agents and fund managers, understanding the impact that regulations will have on their business and investor base, and the overhead required to support and implement these, continue to be a priority. We discuss with clients how the regulations should be supported and the changes that need to be made to reflect their business and operating models.

As our solutions cover a range of geographies and regulatory environments, the approach we have taken wherever possible is to cover the enhancements required on a syndicated basis across our client base. Clients have also been able to benefit from shared product management, regulatory tracking and business analysis skills across all our transfer agency solutions.

Majchrzak: We have to meet these regulatory obligations. No credible provider can let a client down by missing an implementation deadline. We take this extremely seriously, but sometimes it is the clients who are unable to keep up. Providers must be ready but the obligations lie with the fund and despite intensive communication campaigns, it's an uphill struggle to get clients to act on time. We are commercially obliged to develop the services and it's up to a client whether to engage our services or not. For FATCA and the Key Investor Information Document, we would have preferred to receive a definitive decision from clients in good time, but this was not always the case.

Hakim: At Riva, our goal from the time the system was initially conceptualised was not only to offer a global solution across jurisdictions and product types, but also to give the end users a lot of control and flexibility on how the system should operate via a central static data engine. As a result of this model, our Riva Transfer Agent solution offers a fast time-to-market for all such changes, many of which can be adopted by the end user without requiring vendor intervention.

What will harmonisation efforts such as T2S in Europe and the Asian fund passport initiatives do to the complexity of transfer agency? What will the business effects be?

Majchrzak: Target2-Securities (T2S) brings reduced settlement times (Luxembourg players still have to agree on the new settlement date) but money-market funds already use 'same day' settlement so it's just an evolution of the marketplace. The Luxembourg central securities depository (CSD)-related initiatives to simplify clearing for funds, facilitate delivery of units from a register to a CSD and inter-CSD exchanges are all worthwhile initiatives but nothing revolutionary, so long as solutions cannot support order routing from the participant.

The European Commission cannot launch the truly revolutionary initiative of establishing a global European CSD, possibly because of conflicts of interest with CSDs like Clearstream and Euroclear. A global European CSD could be connected to all the other CSDs, permitting settlement and delivery of fund units after a transaction, and order taking, where members place orders directly with the CSD, similar to the Euroclear France model.

A global European platform would deliver units when the investor buys them and also receive orders from the platform. However, we are looking at T2S, which wasn't initially designed for funds, but into which funds have been included. It's not a project that is focused on distribution, it's a project with consequences for distribution. Fund distribution is suffering from the lack of specific initiatives designed to meet

> “Providers must be ready but the obligations lie with the fund and despite intensive communication campaigns, it's an uphill struggle to get clients to act on time”

Laurent Majchrzak, global head of fund distribution services**, CACEIS**

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The Asian passport, whether it's the Association of South East Asian Nations passport or the Asia Regional Fund Passport, would favour the jurisdiction of Singapore as the location of choice for a transfer agent and could see Singapore rival Hong Kong as an international fund distribution hub. However, for Hong Kong-based transfer agents, growth in the number and scope of mutual fund recognition initiatives, like that which is under discussion between Hong Kong and China, would be a very positive development.

Fice: As we have seen with UCITS IV, different countries and markets have their own nuances, which provide barriers to harmonisation above and beyond funds regulation itself. Key to overcoming these challenges is technology that allows changes to be quickly made, especially when dealing with multiple domiciles, each with their own processing and settlement model.

Undoubtedly, anything that reduces the risk and the overnight funding is good for the market and makes it faster and more efficient. The migration to T+2 will increase the automation of operational processes across firms. Efficient, STP-enabled technology platforms will offer real advantages as institutions revisit their current asset servicing business model.

Hakim: For the most part, these harmonisation efforts will not require a direct change to the way transfer agency systems operate, as the impact is more on legal agreements, trading systems and distribution arrangements. However, there will be pressure on transfer agency systems to provide more timely information to a broader audience and to ensure that all relevant regulatory mandates are accounted for.

Once again, moving towards a global transfer agency approach is the most effective way to address these growing and complex demands while maintaining control over increased cost of compliance.

Having multiple systems across jurisdictions would require duplicate efforts and more interfaces between them. Such changes extend beyond the systems infrastructure and in to the business servicing model in terms of responding to more complex investor queries, transactions and reporting needs.

How is transfer agency evolving to accommodate the changing environment? What adaptations have you had to undergo, if any?

Fice: Those financial institutions that can achieve the right balance between regulatory compliance and service innovation will be well placed to capitalise on growth opportunities. Crucial to success will be efficient and agile technology solutions that deliver real value and a long-term strategic advantage.

One of the key challenges facing transfer agency is the increasing data-driven demands from regulators, clients and investors. Fund managers and third-party administrators are turning to surround technology solutions to provide access to accurate, real-time data and management information reporting. Data warehouse solutions that break down isolated silos and consolidate data from multiple back-office systems are increasingly in demand.

Core transfer agency platforms must also be able to support institutional and retail business for cross-border and domestic funds with the growing trend towards distribution platforms.

Hakim: Transfer agents, globally, have seen a dramatic increase in their costs to operate and provide effective and efficient services to shareholders and other impacted entities. As a result, many organisations have, over the past several years, had to revisit and alter their business models in order to continuously adapt to the changing environment around them. These efforts are continuing to date, and are not likely to stop in the near future.

As a result of these added pressures, we are seeing a number of organisations re-evaluating their service offering and some have already either exited this space or have indicated their intention to do so.

This changing landscape brings opportunities with it for new players to enter the space and for smaller providers to expand, but these players can only be successful if they have an underlying global transfer agency system to support a cost effective and competitive business model.

Majchrzak: Costs in general are higher but two types of costs must be considered: Internal costs and costs that can be passed on to clients. Higher costs obviously come from adapting systems, creation of new reports and new processes.

In the past, most players considered transfer agency costs as 'out-of-pocket' expenses but today, as costs have sky-rocketed, the industry says it can no longer price transfer agency activities at a flat rate when there is market pressure to reduce fees across the board, including in transfer agency. It becomes extremely hard to price these distribution activities at a flat rate without taking into consideration the internal costs. It also weakens the viability of the transfer agent-only offer because, in the absence of other pockets of profitability to subsidise it, you have little choice but to adapt by increasing prices.

Asset managers have been used to transfer agency being a low-cost service, but the economic reality is that the transfer agent can no longer realistically price its services without taking into account the increase in service complexity. The progress that transfer agents are making in reducing production costs has been completely offset by regulatory initiatives which keep adding layers of complexity and increasing costs. Transfer agents have to adapt or quit the business. AST

"There will be pressure on transfer agency systems to provide more timely information to a broader audience and to ensure that all relevant regulatory mandates are accounted for"

Ghassan Hakim, CEO, **Riva Financial Systems**

Putting big data to good use

The asset management sector is yet to get to grips with big data. Transfer agents may be able to help

MARK DUGDALE REPORTS

The world of data is getting bigger. Almost three million emails are being sent every second, some 50 million Tweets are being published every day, while Google is processing 168 petabytes of data every week.

What does this mean for investors? In KPMG's most recent 'Investing in the Future' report, it asked whether big data, which is understood to be streams of information so large and complex that they are difficult to digest and disseminate, could be used to make better investment decisions.

"We are already seeing new business models emerge in the industry that claim to be able to be able to develop investment strategies, trades and hedging arrangements from the analysis of the content from millions of social media messages," explained the firm in its report.

"Similarly, other sectors are beginning to be disrupted by new data sources. For example, in the insurance sector, the analysis of policyholders' spending habits is starting to displace traditional actuarial data as a more appropriate predictor of individuals' risk (and therefore pricing) profiles."

"Can this happen in investment markets in an analogous manner? What would investment analysis look like in the face of big data going forward and what could it mean for alternative investment strategies?"

The conclusion drawn by KPMG and others is that the asset management sector in particular is yet to get to grips with big data. Ian Smith, financial services strategy partner at KPMG in the UK, said: "Asset managers still have a long way to go to recognise and exploit big data and data analytics. While IT is already attracting a significant amount of investment, it is not being channelled into the right areas. Many businesses are putting their efforts into trying to unpick the complex legacy of disparate systems and technologies while trying to make sure they provide the right level of control to meet increasingly stringent compliance."

"There is too little focus on building the architecture to meet the business needs of tomorrow. Platforms will need to be redesigned with the flexibility to support a much more diverse client base and deliver a step change in costs, control and client experience."

Indeed, regulation is a huge driver in this area, particularly given the continued emphasis from regulators on gaining greater visibility into underlying fund investors, according to Richard Clarke, director at RBC Investor & Treasury Services, with responsibility for shareholder services within product management.

He adds: "This means that more data has to be captured to gain greater clarity as to who the investors are on the register."

"The challenge is to take that investment to support regulatory requirements and turn it into an opportunity to provide more meaningful information to our clients and derive better returns on our investments."

A multitude of fund types, more countries of distribution than ever before, and different distribution models, also add to the complexity of global asset management's big data challenge.

"On the face of it, more complexity in their operating model, driven by cross-border distribution and an expansion in market coverage, alongside greater demands from regulators, are not a good combination of factors driving the cost base of asset managers. Consequently, asset managers that are unsure how to handle big data may look to their transfer agents for more support in this area," says Clarke.

Clarke explains that transfer agents that process tens of millions of transactions per year are particularly well positioned to understand and help with the task that asset managers are facing. Specifically, turning the data associated with those transactions into meaningful and useful information.

"Asset managers need more flexible interfacing tools that will enable them to receive, store, manipulate, consolidate and interpret big data," says Clarke. "If we can help integrate transactional data with macroeconomic trends, for example, which asset managers need for their product development teams, transfer agents can begin to support both regulatory compliance or sales management with reporting, and also provide useful intelligence to the product development teams trying to identify sales patterns, which in turn should assist in increasing returns."

"The more intelligence that a transfer agent can provide in identifying which products are attracting whose attention and how these trends are affecting their distribution strategy, the more valuable we become to the asset manager."

While some asset managers are deploying their own strategies around leveraging big data internally, gaining a more holistic view will be essential in order to fully appreciate investor behaviour, suggests Clarke. "Transfer agents have the benefit of processing millions of transactions which, if leveraged appropriately should give valuable insights into the key trends of investor behaviour."

"Leveraging big data is not new and the tech commerce sector (unsurprisingly) is significantly further ahead than any financial company. When you consider Amazon obtained a patent called 'Anticipatory Shipping' over a year ago, which is the process of dispatching an item in anticipation that their customer will order the product, it gives you some clue just how far along the path they are."

"It is unlikely that the asset manager sector will catch up, and in many ways even take the same path, however, one would expect the potential of leveraging the innovation in big data will be realised sooner rather than later." AST

Constant challenges, new solutions

The ability to seamlessly implement collateral processes across asset classes and borders will be critical to success, says Ted Leveroni of DTCC

The availability and optimal use of collateral continues to be a key focus of market participants' risk management processes, as a result of the global financial crisis and an onslaught of new mandates. Firms in Asia, like their global counterparts, are putting measures in place to strengthen their collateral management processes as a result of two major pieces of regulation: over-the-counter (OTC) derivatives reform and enhanced capital and liquidity requirements under Basel III regulation.

Under G20-led reforms, increasing global regulation has created fundamental challenges to existing operating models for market participants that trade OTC derivatives, particularly in Asia, due to market fragmentation resulting from multiple central counterparties (CCPs) and different jurisdictional regulations. According to the International Swaps and Derivatives Association's (ISDA) most recent study about the Asian OTC derivatives market, Asia comprises 8 percent of global OTC derivatives transactions and the association estimates that collateral requirements in the region can be expected to be in the range of $80 to $160 billion.

These operational challenges that come with that level of collateral demand will be exacerbated by the shortage of acceptable assets in Asia that are needed to meet these increasing collateral requirements driven by central clearing, as well as the higher margin requirements for OTC trades that continue to be non-centrally cleared. As a result, firms are becoming increasingly aware of the need to increase efficiencies in the deployment of available collateral.

Across the Asia region, policymakers have recently introduced new rules and regulations which detail the collateral requirements for firms trading OTC derivatives, such as the amendments to the Financial Instruments and Exchange Act in Japan (2014), the Securities and Futures Ordinance (2014) in Hong Kong, the Securities and Futures Act (2012) in Singapore, and the Corporations Legislation Amendment Bill (2012) in Australia. These efforts complement a wide range of US and European regulations governing the use of derivatives, such as the Dodd-Frank Act and the European Market Infrastructure Regulation (EMIR) respectively.

It is not just global OTC derivatives regulations that will change the way firms manage their risk and associated collateral. For the sell side in particular, one of the biggest impacts on collateral management processes is likely to emanate from Basel III regulation. Firms will be required to hold high quality liquid assets (HQLA) to meet the requirements of the Basel III liquidity coverage ratio (LCR), thus locking up instruments that could otherwise be used as collateral.

The success of each of these regulations, whose goals are increasing market stability, enhancing transparency and reducing counterparty, operational and liquidity risk, will, however, be largely dependent on the efficient management and effective processing and allocation of collateral. What has become clear is that the evolving Asian markets increasingly require sophisticated solutions that help to manage collateral across jurisdictions and a complex network of multiple clearing brokers, CCPs and bilateral counterparties in addition to other operational relationships.

A large number of firms, however, are still using antiquated, manual processes and fragmented systems to manage their collateral. Indeed, too often, collateral is managed in siloes across an organisation, sometimes making it impossible to have a holistic view of what and where collateral is in use which makes managing and processing collateral inefficient and costly.

In fact, a recent academic study published in June 2014 by the Depository Trust & Clearing Corporation (DTCC) and the London School of Economics (LSE) highlighted the increasing occurrence of collateral bottlenecks due to weaknesses in financial market infrastructure. These weaknesses lead to eligible collateral being immobilised in one part of the system, making them unattainable to credit worthy borrowers that need access to their inventory of collateral, not only for central clearing purposes and higher margin requirements for bilateral transactions, but to track and optimise their available collateral. Furthermore, the ability to successfully analyse the collateral implications of a trade before it is executed allows for more efficient management of available assets.

Financial institutions are becoming increasingly cautious of fragmented, siloed methodologies that can only deliver limited operational cost and risk benefits and will, ultimately, leave firms struggling to comply with future regulations. Instead, they are seeking to partner with market infrastructures to bring efficiency to their collateral processes, enabling them to remain competitive, effectively leverage all of their collateral and drive down costs. To meet that objective, a joint venture between DTCC and Euroclear (Global Collateral Limited) has been established to not only address operational and counterparty risk, but also the broader issue of systemic risk by providing greater transparency of collateral availability and mobility.

Global institutions, from both the sell and buy sides, are increasingly looking to the Asian markets as a source of growth. At the same time, many smaller market participants based in the Asia region are looking outside their domestic markets to compete internationally. Increased international trade, however, brings with it greater regulatory complexity. As a result, the ability to seamlessly implement collateral processes across asset classes and borders will be critical to success. AST

Ted Leveroni
Executive director, business development and external relations
The Depository Trust & Clearing Corporation

Targeting new opportunities: the promise of T2S

There are positive signs that the industry is aware of the challenges and opportunities of T2S. Denis Orrock of GBST Capital Markets reports

It has been nearly seven years in the making but the Target2-Securities (T2S) platform is finally just around the corner. The project was formally launched in 2008 with a clear goal: simplify the highly complex and costly settlement system in Europe and in the process make markets far more efficient and attractive.

A big question now, as the 22 June go-live date approaches for the first wave of participating central securities depositories (CSDs), is whether financial firms have positioned themselves to take advantage of the benefits the platform will offer. T2S represents significant opportunities for banks, brokerages and their clients, but it also involves important challenges in terms of business strategies and operational models.

What's more, the introduction of T2S comes after a period of intense change for the financial industry as firms have had to make major adjustments to their systems and processes in response to far-reaching regulatory initiatives. It has been estimated that over the past five years, some firms have had to allocate as much as 70 to 80 percent of IT budgets to overhaul or upgrade systems and ensure they could meet new regulatory requirements. That represents time, effort and resources that many firms would rather devote to their business, so it's hardly surprising that so many executives talk about 'change fatigue'.

New choices

One obvious challenge is how firms will organise themselves in terms of where they direct their settlement. Since the T2S platform will harmonise highly disparate standards for settlement, firms dealing in many markets will have the chance to significantly reduce the number of CSDs they use. That potentially means big cost savings, exactly what T2S was intended to achieve.

This challenge is made all the more interesting by the likelihood that many CSDs will be changing their own business models. The T2S Framework Agreement was signed by 24 CSDs, which will move onto the platform in four waves starting this June, with the final wave scheduled for February 2017.

Those CSDs are about to face a sharp increase in competition as a result of the harmonisation T2S brings. That is likely not only to put downward pressure on settlement costs due to the competition, but also to prompt many CSDs to reinvent themselves with new services. New collateral management and liquidity management services are expected to be offered. So choosing how many and which CSDs to use will be about much more than price.

The importance of better liquidity and collateral management will be heightened by the introduction of Basel III, which calls for greater bank liquidity and decreased bank leverage. For instance, one question firms are grappling with is whether focusing on a single CSD for the bulk of settlement will offer scope for efficiencies when pooling securities.

Basel III, like T2S, has also faced delays in the implementation phase and is now scheduled for 2019. But knowing that these new capital requirements are coming—even if it is not for a few years—raises the stakes for firms considering settlement strategies.

Another point to note: not all of the current CSDs will necessarily survive. Now that competition is about to increase dramatically, markets can expect a certain degree of consolidation to occur in the coming years. It's not unlike what has been seen in the trading venue landscape, which has been another part of the financial infrastructure that historically was dominated by national heavyweights but which saw a burst of new competition following the Markets in Financial Instruments Directive. Now, some of those venues are beginning to consolidate. It's quite possible the settlement space will follow the same pattern.

Finally, as firms map out their European settlement and clearing plans, they will need to look beyond what the CSDs are doing. They will also need to listen to their own clients. Will the buy side voice preferences for where they want their trades cleared? The answer is not clear, but sell-side firms will need to navigate all of these issues in developing their settlement strategies.

The good news is that once firms have made their strategic decisions, there will be scope for cross-border settlement optimisation. This is where some of the real benefit from the increased competition should begin to kick in as sell-side firms can take advantage of the new services CSDs provide and the greater connectivity among the network of CSDs that will migrate to T2S.

Positive signs

So far, preparation for T2S appears to have been smooth. No project of this size and complexity is ever without its technical hiccups, but the latest signs are that the platform will go live as scheduled with the initial participating CSDs. A lot of attention is being devoted to the June launch, and with good reason. But the full impact of T2S is unlikely to be known until all four waves are completed. Beyond that are larger questions as to whether T2S expands, or even if other regions such as Asia will be tempted to emulate Europe.

In the meantime, sell-side firms have two important priorities. The first is they need to ensure they have enough flexibility in their operating models to take advantage of whatever happens in the CSD space. Beyond operations, middle- and back-office technology should be reviewed to ensure that it does not hold back any move to a more efficient environment, where some or all of post-trade processing could also be outsourced. The second is they need to engage with the buy side, both to educate clients about T2S and to gain an understanding of what the buy side wants to achieve.

There are positive signals that the industry is aware of both the challenges and opportunities. A recent major survey by the International Capital Markets Association showed that the bulk of market participants see large benefits and significant organisational impact from T2S. Most respondents had plans and initiatives underway. But for those that haven't, the time to start thinking about what T2S means for your firm is now. **AST**

Denis Orrock
CEO
GBST Capital Markets

Northern Trust

Transition management: spotlight on transparency and reporting

Clients should make efforts to understand their provider's business model, operational structure, processes and personnel, says Ben Jenkins, global head of transition management at Northern Trust

The transition management industry has seen significant shrinkage in recent years, with a number of service providers exiting the business. In some cases, such exits have come about through mergers, while in other cases, a decision may have been taken that transition management has been deemed ancillary to a service provider's core business. Consequently, the need now exists for many clients to review their transition management panels.

Recent months have also seen increased interest in transition management on the part of regulators. In particular, regulators are keen to ensure that exacting standards of transparency are met when providers conduct a transition management project for their clients.

Against this backdrop, Northern Trust remains fully committed to its transition management business, and to providing our clients with the highest levels of transparency when conducting assignments. In our opinion, the following are some of the foremost areas that should be considered and evaluated when appointing a transition manager.

Fees

The transition manager should disclose details of all remuneration received as a result of the assignment. The client should always demand that their transition manager fully quantifies any remuneration they will earn, in its entirety. If a transition manager appears to be offering a very low commission rate, the possibility exists that additional revenue may be earned elsewhere. For instance, using an affiliate in the course of executing a transition may allow a firm to make extra revenue that is not disclosed to the client.

If the transition manager also acts as the trading broker on their assignment, the client should request confirmation that the transition management fee is the only form of compensation for that business and all of its affiliates.

Clients should also pay close attention to the execution of foreign exchange and hedge transactions and in particular, work with their provider to understand how these transactions will be executed. All fees and execution methodology should be explicitly stated.

When trading with third party brokers the client should always ask if the transition manager or any of its affiliates receive compensation from third parties.

The transition manager's business model

Clients should understand exactly who is undertaking their assignment—a transition manager can operate from a variety of different business models. A provider may offer a 'zero commission, no fee' transition—and then trade with an affiliate entity at a higher rate than a third party broker. Clients should enjoy total transparency around any additional fees paid to the transition manager or its affiliates, including riskless principal trading and internal cross-trades.

Information and reporting throughout the assignment

Clients should be able to clarify with the transition manager all reporting to be received throughout the assignment. Northern Trust's view is that the following should be considered among the most important areas when choosing a provider:

- Pre-trade: the transition manager should provide a pre-trade report and timeline working on a consultative basis with their client, planning the strategy and timing of the transition.
- Intra-events: an end of day report should be provided at the end of each trading day, together with both actual and projected costs. Intra-event (and intra-day) information should be provided upon request and close coordination and communication between clients and their selected transition manager should take place.
- Post-trade: after completion the transition manager should be expected to report on the restructure. A detailed post-trade analysis should be provided, ensuring that the client fully understands the costs and process undertaken.
- Internal crossing: this refers to instances when transition managers use their access to index funds or other transition client flow to offset buys and sells. The transition manager may be undertaking several assignments at any one time and, in the course of implementing one transition, may decide to delay trading an asset to match with another client that wants to buy it.
- This may create misaligned interest for the transition manager and may result in one or both of the clients receiving a less than optimal trade execution. Such uncompetitive pricing on 'crossed trades' can affect performance and the cost of a transition.
- External crossing: this term refers to instances where trading desks execute their orders with alternative venues are defined as 'external crosses'. These come in a multitude of types. Some will allow only buy-side firms to participate, whereas some may provide rebates to high frequency traders to provide liquidity. It is, therefore, important to know their characteristics, benefits and weaknesses.
- The use of external crosses is a good way to source liquidity and reduce costs, but should only be used as part of the transition strategy, to ensure no market leakage or impact takes place.
- Oversight and governance: oversight and governance expectations for the complete scope of the transition should be made clear at the outset.
- Brokerage allocation: the transition manager should clarify whether it makes use of one or more executing dealers, and be clear about the rationale behind this decision. Ask the question: is your transition manager or any of its affiliates receiving compensation from third parties?
- T-charter: it is important to know if the transition manager uses T-Charter reporting. The T-Charter is the voluntary code of conduct for transition managers and helps clients to understand the transition process and capture the effects on portfolio performance from all transition activity. Adherence to the T-Charter can be seen as a commitment to meeting certain standards of quality and client care throughout an assignment.
- Operational set-up: clients should ask how the transition manager is set up operationally. For example, does the provider have an existing relationship with your custodian? How are their trades reported to the custodian? And is this done electronically via SWIFT, or manually? Manual trades can be a source of operational risk on settlement of trades. In some cases, the processing of manual trades may result in unexpected costs charged by a custodian.

We would always recommend that clients get to know their transition manager as well as possible and make efforts not only to understand the scope of their assignment, but also the provider's business model, operational structure, processes and personnel.

All of this will help maximise standards of governance and transparency throughout your assignment. **AST**

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Settlement and clearing in Asia: an evolving landscape

The regulatory and market landscape in Asia continues to evolve, with implications for clearing and settlement across the region. Nicholas Bone and Stephen Pemberton of Standard Chartered Bank take a look

In recent years, efforts to integrate Asia's capital markets have gathered pace. The (ASEAN) Association of Southeast Asian Nations trading link, which allows investors to more easily trade cross-border, was established by Malaysia, Thailand and Singapore in 2012, and subsequently joined by Indonesia, the Philippines and Vietnam. For market participants, the ASEAN trading link should, in theory, offer greater opportunities to increase investment choice, improve liquidity and lower costs.

To date, however, the ASEAN trading link has failed to fulfill its promise. It has struggled, largely due to a lack of unified regulation. Local regulators are understandably reluctant to cede oversight over domestic trades, and limited regulatory middle ground has been found. Meanwhile, there seems little chance of an external, third-party (non-domestic) exchange emerging as an alternative to exchange integration, given the fate of Chi-East's multilateral trading facility, which ceased operation in 2012.

One of the key success criteria to successful exchange consolidation is the delivery of a scalable, cost efficient post-trade platform, which typically accounts for a significant proportion of the front-to-back cost base of market participants. Last year, a new post-trade services regime was established as part of the ASEAN trading link to allow investors to trade cross-border and settle with their domestic central securities depository (CSD). However, while this development is welcome, CSD settlement processes are unlikely to change and uncertainties around deadlines, fees and taxes remain.

Like its exchanges, Asia's central counterparties (CCPs) remain largely focused on their home markets. Some non-Asian CCPs, such as Eurex and ICE, are now setting up in the region. However, to date their impact has been limited and brokers remain unable to realise the operational and financial benefits of concentrating their activities with fewer CCPs.

Some signs of progress

While the pace of regional exchange integration may not have lived up to prior expectations, other regional initiatives offer grounds for optimism. The Asian funds passport was set up to reduce the dynamic of the 'suitcase' sales of (predominantly European-domiciled) mutual funds into markets. This complements some regulatory aspirations to build up the local industry by requiring that foreign managers have a local presence.

It seems, however, that the industry might be viewing the idea of a full Asian funds passport as unattainable, at least in the near term. As a result, mutual recognition or sub-regional passporting is a first step. In 2009, the ASEAN Capital Markets Forum (ACMF) created a framework for the mutual recognition of cross-border offerings of collective investment scheme products (CIS) within the ASEAN to non-retail investors, with the intention of making such products available to retail investors once adequate protective measures have been established. This may be the roadmap to the future developments of passporting schemes in the region.

Another encouraging sign is that the adoption of ISO15022 or ISO20022 standards for post-trade market infrastructures across the region is accelerating. For instance, the Singapore Stock Exchange (SGX) plans to introduce a new post-trade market infrastructure. The first phase will allow market participants to communicate with SGX using an application programming interface (API). For clearing processes (such as allocations), FIXML messages will be used, while ISO20022 SWIFT messages are for settlement. The current client accounting system will be de-commissioned by early 2016.

The second phase of the project, which is expected in the second half of 2016, will enable depository members to send ISO20022 messages for settlement instructions as an alternative to file uploads. In addition, the simultaneous movement of securities and cash will be facilitated (currently there is a lag) and two-tier bank guarantees will be removed.

Similarly, the Thailand Securities Depository is planning to introduce a new post-trade matching system by mid-2015, which will allow local custodians to use SWIFT MT messages for settlement purposes. Kustodian Sentral Efek Indonesia, the domestic CSD, is also planning to upgrade its post-trade infrastructure using ISO 15022 and/or 20022 standards for settlements, corporate actions and funds execution, while the Vietnam Securities Depository is considering the use of ISO15022 for both settlement and corporate actions processing.

Connecting countries

While some pan-regional initiatives may be nascent, other ambitious initiatives are underway to connect markets at a country level. Perhaps the best publicised of these is the Shanghai-Hong Kong Stock Connect, which allows certain investors in each location to access stocks in the other. After the initial launch excitement in November 2014, volumes have remained around 20 percent of quota utilisation on a daily basis, partly due to practical issues, including beneficial ownership and pre-delivery that have prevented many regulated funds in Europe and the US from utilising the link. However, reassuringly, the Hong Kong Stock Exchange is engaging the market to resolve many of these challenges and an ID solution, for example, should be introduced by April this year.

More generally, in the longer term the Shanghai-Hong Kong Stock Connect should be seen as a positive development as it is easier for foreign investors to access the A share market. Equally, the positive reaction and keen interest in the link demonstrates that a unified regulatory view that takes into account practical impediments is key to driving multi-exchange links.

In January, it emerged that Hong Kong and Shenzhen will also create a link, allowing access to more A shares and potentially providing a further boost to liquidity. Future developments could include a bond connect offering.

In September 2014, SGX and the Taiwan Stock Exchange announced a link enabling investors to trade on the other bourse without the need to place an overseas order via a domestic broker. This connection—and a proposed connection between Taiwan and Japan—should lower transaction costs and improve efficiency. However, there is a risk that such links could be difficult to manage: multi-jurisdiction governance and a lack of post-trade efficiency could hamper liquidity, as some perceive it has done with the ASEAN trading link.

Regulatory and market changes

While Asia remains slow to embrace pan-regional solutions—and links between Hong Kong and Shanghai or SGX and Taiwan are still at an early stage—its markets are nevertheless undergoing change as a result of new international and local regulatory reforms and market developments.

For example, many Asian financial institutions are considering the impact of derivatives clearing regulation on their European or US counterparties. Meanwhile, brokers are focused on capital requirements that have arisen from Basel III and other international regulations. They are also adapting to changing clearing requirements for those G20 markets in Asia, which is further exacerbated by the introduction of margin requirements for over-the-counter non-cleared derivatives.

These changes are spurring considerable debate. For example, changes to collateral requirements associated with external regulatory change (rather than simply a desire to manage counterparty risk) are prompting growing awareness of the need to use forms of collateral other than cash, which predominates in Asia. One potential hurdle is the relative illiquidity of Asian bonds, which reduces their attractiveness as collateral. Local corporates and financial institutions are consequently interested in solutions that allow them to use such pools of collateral effectively.

Working with the right provider

The failure to progress faster with regional exchange integration means that Asia remains an extremely diverse and, fragmented region. International and local regulatory change—aimed at making markets safer for investors—reinforces this plurality of market environments. Ultimately, there is a risk that uncoordinated regulatory and market changes, however well intentioned, could restrict investor choice, resulting in outcomes contrary to those intended.

All too often, service providers and other market participants are forced to address change at a single country level, resulting in higher costs and increased complexity. To help make sense of this challenging environment it is important for market participants to work with a service provider that has a pan-regional view and presence, especially at a time when many service providers are reconsidering their commitment on what they want to offer to the region.

In addition, market participants should select a service provider that takes an open-minded view of market and regulatory change. Service providers must be proactive in working with third parties in order to bridge markets and address regulatory challenges. For example, by working with international CSDs it is possible for them to take a more holistic approach to collateral management while providing a differentiated value proposition to clients.

In a complex and rapidly evolving regulatory and market environment, service providers must constantly seek new ways to help their clients to access opportunities in the region as efficiently and effectively as possible. AST

Left: Stephen Pemberton, head of custody, clearing and collateral services in the transaction banking business at Standard Chartered Bank

Right: Nicholas Bone, director of intermediaries in the transaction banking business at Standard Chartered Bank

Industry appointments

Societe Generale Securities Services (SGSS) has made a string of changes in the UK.

Sarbjit Panesar has been appointed global head of business development, **Stephen Donnet** has become head of securities banking operations, and **Florence Cuenet-Soulier** has been named as client solution manager to strengthen the bank's London team.

Panesar is joining from SS&C Globe Op and will be responsible for developing business solutions aimed at insurance companies and asset managers that oversee insurance assets.

Previously, Donnet served as director at City Consultants. In his new role, he will be responsible for building robust and scalable banking operations to service SGSS's UK client base.

Prior to her new role, Cuenet-Soulier was in charge of the client management unit for hedge funds at Societe Generale Corporate and Investment Banking in London.

She will be developing business and client solutions for the asset managers and asset owners segment in the UK, which includes the recently launched wealth and investment management outsourcing solution.

Bertrand Blanchard, UK country manager at SGSS, commented: "These appointments, along with those announced previously this year, are important milestones in SGSS's development plans for the UK, particularly for asset managers and owners."

Standard Bank has appointed **Ian Colquhoun** as global head of repo marketing. He will report to Stuart Cullen.

Prior to his new role, he served as international head of repo sales and marketing at Mitsubishi UFJ Securities.

Colquhoun will be responsible for FICE repo marketing and business development. His new role commenced 26 January 2015.

The US Securities and Exchange Commission has named **David Grim** as acting director of the investment management division.

Grim will replace Norm Champ, who left SEC at the end of January.

Grim has been the division's deputy director for the past two years.

He oversaw all aspects of the division's disclosure review, rulemaking, guidance, and risk monitoring functions.

He joined the SEC in 1995 as a staff attorney in the division's office of investment company regulation and has held other roles including chief counsel and assistant chief counsel.

Mary White, chair of the SEC, said: "The commission and investors will benefit tremendously from his extensive legal knowledge, deep roots in the work of the division, and his managerial expertise."

London Stock Exchange Group (LSEG) has appointed **Mark Hoban** to the board as a non-executive director, with immediate effect.

Hoban brings experience of UK politics, economics and market regulation to the role.

He is an accountant and current member of parliament in London, who served as financial secretary to the treasury and minister of employment.

Chris Gibson-Smith, chairman of LSEG, commented: "His experience will be of great value as we drive our business forward in an increasingly complex and evolving regulatory environment."

Laura Allen has joined Trading Apps as its new director of sales for the UK and European region, in order to further develop its client base.

Allen has spent the last three years at J.P. Morgan, where she ran the European supply trading arm.

Prior to this, she was employed for 14 years at UBS where she was the global head of supply sales. **AST**

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