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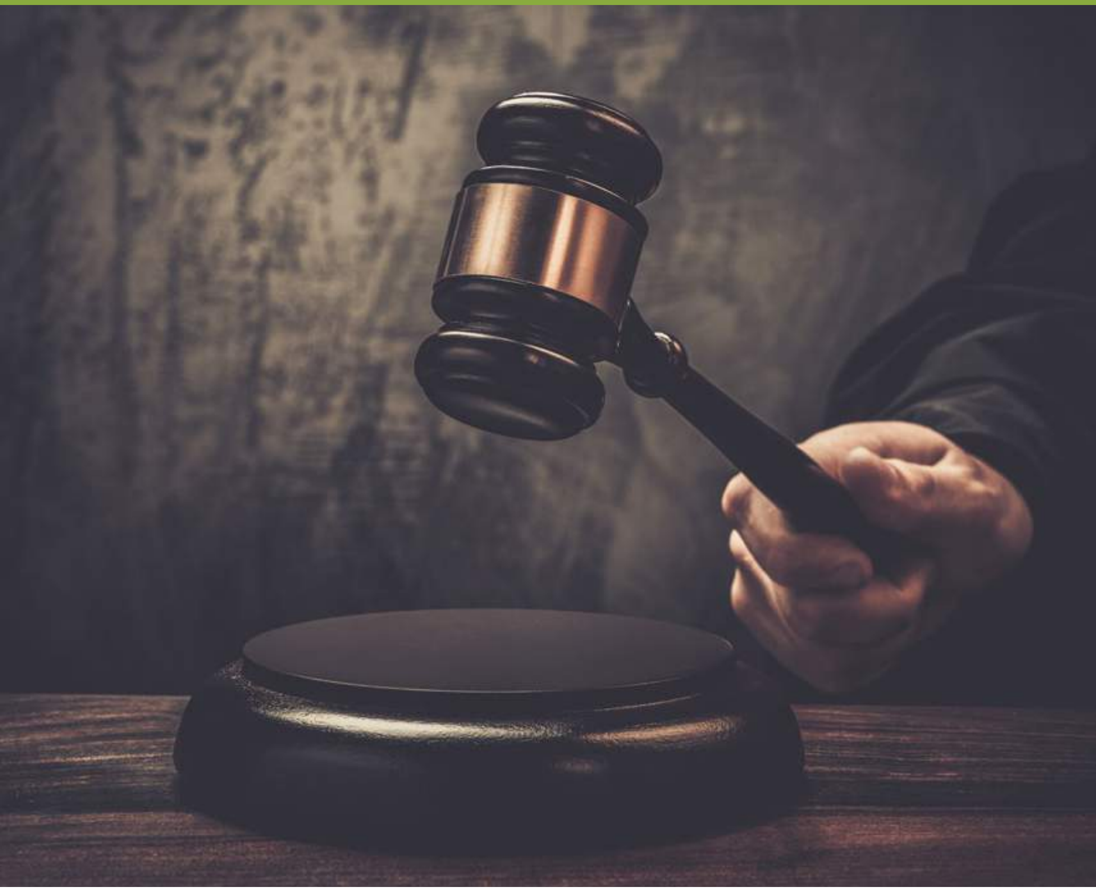

BNY Mellon hit with £126m fine

The BNY Mellon London branch and BNY Mellon International have been fined £126 million by the UK's Financial Conduct Authority (FCA) for failing to comply with custody rules.

The bank's businesses failed to meet the requirements of the FCA Client Assets Sourcebook (CASS), which applies to safe custody assets and client money, and ensures that assets can be returned to clients quickly in the case of a fund becoming insolvent.

According to the FCA investigation, they did not adequately record, reconcile and protect custody assets. This failing was deemed particularly serious because of the systematically important nature of the bank, and the fact that safeguarding assets is considered a key part of its business.

The report concluded that if the BNY Mellon businesses did fail, then the value of assets at risk would have been significant. The fine also took the timing of the breaches into account, as they occurred when the market was under stress.

Georgina Philippou, acting director of enforcement and market oversight at the FCA said: "The size of the fine today reflects the value of safe custody assets held by the firms, as well as the seriousness of the failings and the fact that these failings were not identified by the firms' own compliance monitoring."

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SunGard launches US transfer agency utility

SunGard has added a new transfer agency utility to its suite of managed services in the US, offering independent support to asset managers, third-party administrators and custodians.

The technology offers firms the scale of a global service provider without imposing on their own core competencies, and allows SunGard to deliver additional efficiency that smaller service providers can struggle to achieve.

The new utility comes as a response to the changing dynamics of the service industry, and partly as a result of SunGard's acquisition of US long funds transfer agency business from CitiBank.

According to a statement from SunGard, in the years following the 2008 financial crisis, sub-accounting and new regulatory requirements have driven many top-tier financial institutions to rationalise their transfer agency functions. Consequently, firms are focusing more time and investment on capabilities like fund accounting, administration and custody.

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DTCC boosts Alert for primes and custodians

The Depository Trust & Clearing Corporation (DTCC) has added new global custodian and prime broker automation capabilities to Omgeo Alert.

State Street is one of five custodians due to go live on the Omgeo Alert Global Custodian Direct service this year.

The release, Alert 5.0, includes the Global Custodian Direct feature, which enables global custodians and prime brokers to electronically maintain timely

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BNY Mellon hit with £126m fine

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She added: "Other firms with responsibility for client assets should take this as a further warning that there is no excuse for failing to safeguard client assets and to ensure their own processes comply with our rules."

"Client assets protection continues to be a priority for the FCA and firms who hold client assets should review their processes in line with these findings to ensure full compliance with the custody rules."

BNY Mellon is the world's largest custody bank by safe custody assets. In the UK, BNY Mellon London and BNY Mellon International provide custody to 6,089 clients combined.

During the time of the breaches, the balance of safe custody assets held at BNY Mellon International peaked at £136 billion, while those held by the London branch reached £1.3 trillion.

UK custody rules require firms to keep entity-specific records and accounts, which would be used by an insolvency practitioner to identify the clients whose assets are due to be returned.

BNY Mellon used global platforms to manage clients' safe custody assets, meaning that they could not conduct entity-specific external reconciliations or submit accurate client money and asset returns.

Other failings included not taking the necessary steps to prevent combining assets with firm assets from 13 propriety accounts, and using assets held in omnibus accounts to settle other clients' transactions without consent.

The BNY Mellon businesses also failed to implement specific governance arrangements that were sufficient to the nature of the business.

These failings add up to a general failure to properly consider the interests of the clients.

BNY Mellon qualified for a 30 percent cooperation discount on the penalty. This meant that a £180 million fine was reduced to £126 million.

BNY Mellon said: "This amount is fully covered by pre-existing legal reserves. Importantly, BNY Mellon remained financially robust throughout the relevant period and, as indicated by the FCA in its Final Notice, no clients suffered any loss as a result of the issues identified."

The bank has also launched an internal review with the assistance of an independent third-party accounting firm and external legal advisors. It will also implement a new framework of improved policies and procedures.

The statement added: "BNY Mellon is very mindful of the importance of safeguarding client assets and has been trusted by its clients to do so for 230 years. This trust could not have been earned without robust regulatory compliance in all of our operating jurisdictions, and we regret in this case that we did not meet our standards or those of the FCA."

"As always, regulatory compliance remains a key area of focus as we maintain our track record of safety and soundness as a financial institution," concluded the statement.

SunGard launches US transfer agency utility

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This launch comes only weeks after SunGard released its industry utility for derivatives processing, a service that helps global capital markets firms to adapt to new market challenges and cost pressures.

Barclays was the first customer for the utility, migrating some futures, OTC derivatives clearing operations and technology processes.

The transfer agency solution reflects the next step in SunGard's plans to provide a full spectrum of capabilities to financial services.

Doug Morgan, president of SunGard's institutional asset management business, said: "This is a natural extension of SunGard's current transfer agency capabilities and will help reinforce our position as a leading provider of managed services to financial institutions."

Morgan added: "We continue to invest in new and enhanced technologies while helping to ensure a seamless customer experience, and believe this new business model will result in improved services and features for our current and future customers."

DTCC boosts Alert for primes and custodians

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and accurate standard settlement instruction (SSI) data in the system, on behalf of their clients. Currently, investment managers perform these updates manually.

Global custodians and prime brokers, through adoption of Alert, can offer their clients the additional service of maintaining and providing SSI data in an automated, secure and efficient manner.

The service also facilitates the communication of custodian-sourced, market practice-compliant data by connecting a custodian's central SSI repository to the Alert host, using ISO 20022 messaging.

"Asset managers have traditionally maintained SSIs for their accounts, however, custodians have always been the source of this data, where each account settles and holds its assets. Omgeo created Alert to enable asset managers to maintain their SSIs in a central repository for brokers to access, driving value for these segments," explained Bill Meenaghan, executive director of Alert product management at Omgeo.

"By adding custodians as users of Alert, we will be able to improve information quality standards, since custodians will automatically be updating their data as they create or change account standard settlement instructions."

Dick Taggart, a member of the Omgeo board of managers and executive vice president at State Street, who also serves as chairman of DTCC's

ASTINBRIEF

SSI utility product governance committee, said: "By enabling global custodians to access and update Alert automatically via GC Direct, we add significant efficiency and risk reduction to the industry."

"SSIs will be more complete and accurate, which helps reduce fail risk, and Omgeo's establishment of a true utility under the DTCC umbrella reduces costs and risk for all subscribers and participants."

Subsequent phases will expand asset class coverage in the service, as well as offer an enhanced application program interface for brokers, asset managers and third-party transaction services to retrieve SSI information in real-time during trade processing.

Drive for 'real' geographic stock assessment

CACEIS and EDHEC-Risk Institute have proposed an alternative approach to assessing the risks and performance of a portfolio, based on the actual geographic exposure of stocks.

In a new publication entitled Accounting for Geographic Exposure in Performance and Risk Reporting for Equity Portfolios, the institute stated that analysis of portfolios should be based on 'real' economic activity and not only on the place of listing or nationality assigned in market indices.

The study found that in many cases, a stock's official nationality will not match its actual geographic and economic exposure with regards to the company's distribution of sales.

It therefore questioned the practice of classifying stocks in this way, as within the context of a global marketplace, a company's operations are generally not restricted to a single country.

According to the study, in the majority of developed market indices the percentage of company sales generated outside of the official region of the index is significant, and has been on the increase for a number of years.

For example, for the STOXX Europe 600, the index is predominantly non-European, and this change in exposure is likely to influence variations in the index performance.

There should be a clear distinction between those stocks that are actually exposed to the nationality of their index and those that are not, in order to compare performances, the study said.

It concluded that the current assessment methods of geographic exposures and diversification of portfolios present an incorrect overview, as it only takes in to account the place of listing, incorporation or nationality of an index.

Northern Trust looks to Euroclear for efficiency

Northern Trust is cooperating with Euroclear UK and Ireland (EUI) to improve accuracy and efficiency for its investment fund transactions and enhance processing capabilities.

Through the partnership, Northern Trust hopes to provide automated unit settlement capabilities across the funds market, in addition to its existing capabilities for bonds and equities.

The EUI solution provides end-to-end automation from the point of placing an order to the settlement, transfer and reconciliation, and also includes processing corporate events.

Justin Chapman, global head of industry management at Northern Trust, said: "As the settlement landscape continues to evolve, Northern Trust is focused on ensuring we can offer the most efficient and accurate processing available."

"While greater automation is a continuing issue across the funds industry, utilising Euroclear's fund processing solution, Northern Trust is well positioned at the forefront of this change."

Katrina Sartorius, head of product management at Euroclear UK & Ireland, added: "Our automated fund services allow our clients to better manage cash and fund unit positions throughout the business day."

"Northern Trust joins a select band of leading custodians in moving away from the prohibitively high rates of cost and risk associated with manual fund administration. We applaud Northern Trust's continued pursuit of ever increasing levels of service excellence towards its clients—which today took another step forward by leveraging our integrated, electronic order routing and settlement infrastructure."

CB operations affecting collateral markets, says CGFS

The effect of central bank operations on collateral markets is becoming increasingly more important as the regulatory landscape evolves and market practices change, according to a study conducted by the Bank of International Settlements (BIS).

The report suggested that many banks have left a footprint in markets for assets that also serve as collateral, following large-scale asset purchases and other unconventional policy tools over recent years. This has coincided with increasing demand for collateral assets.

It argued that operations could have a significant effect on the assets market. Whether the effects are material or not depends on the size of the operations in relation to the market for collateral assets, and on whether financial market participants are constrained by the collateral available.

Effects can also depend on the design choices at a central bank's disposal, such as the supply or pledgeability of assets, as well as policies, haircuts and counterparty access policies.

These options can be used to support collateral markets, and the report pointed out that they have been used in this way during the euro sovereign debt crisis and by the US Federal Reserve throughout the financial crisis.

A number of tools and metrics are available for assessing how markets for collateral assets are affected by operational choices, the report said.

It added that there are two main channels of impact, scarcity effects and structural effects, and suggested that there should be a broad and conceptual framework in place for analysing the differences.

The report distinguished between effects during 'normal' times versus times of stress. In normal times, the report found the effects of operations choices to be minimal.

Crisis times, however, are generally associated with greater scarcity of collateral in the financial system, when declined confidence in the market leads to a shift from unsecured to secured financing. In these cases, central banks could operate on a larger scale, which will, in turn, have negative, unintended side effects on collateral markets.

In times of crisis, banks will also be more likely to try to directly influence functioning of collateral markets, for example, by introducing facilities that allow banks to post illiquid collateral assets in place of liquid securities.

Finally, the report suggested that some aspects of operational frameworks should be examined to assess their preparedness for a crisis response. Any effects on collateral markets should be carefully monitored, especially in connection with unconventional monetary policies and exit from policies.

The study drew on case studies, surveys and interviews with market participants, and aims to facilitate discussion among central banks about their operational frameworks and their potential effects.

Eurex volumes up for 2015

Trading volumes at Eurex Exchange grew 10 percent in Q1 2015, while March's figures revealed an increase on last year's totals in most areas.

In March 2015, the international derivatives exchanges reported an average daily volume of 9.6 million contracts, compared to 9.4 million in March 2014.

Of these, 7.3 million were Eurex Exchange contracts, an increase from seven million in March last year, and 2.3 million were traded on the US-based International Securities Exchange (ISE), reduced slightly from 2.4 million in March last year.

In total, March 2015 saw 159.8 million contracts traded at Eurex Exchange and 50 million at the ISE.

In the equity index derivatives segment, Eurex reached 79.1 million contracts, an increase of 14 percent on March 2014's total of 69.4 million.

The interest rate derivatives segment increased from 50.4 million in March last year to 51.1 million this year, and the equity derivatives segment reached 27.9 million contracts, an increase from 26 million in March 2014.

Of these, 16.9 million were equity options and 11 million were single-stock futures.

Eurex Repo, which operates Euro Repo and GC Pooling markets, recorded an average outstanding volume of €208.8 billion in March 2015 an increase from €190.2 billion in March last year.

The secured money market GC Pooling reached an average outstanding of volume of €169.5, a 13 percent increase from the March 2014 total of €150.1 billion.

The Euro Repo market, however, reached an average outstanding volume of €39.3 billion, reduced slightly from €40.1 billion in March last year.

Alternative AuA on global high

Assets under administration in the alternative fund administration grew 16.8 percent in 2014 as investors continued to allocate more in the alternatives space, according to eVestment's Alternative Fund Administrator Survey 2015.

At the end of 2014, survey participants reported assets under administration totalling $6.86 trillion, an increase of 16.8 percent compared to $5.87 trillion reported at the end of 2013.

The total of private equity and real estate fund assets under administration grew by a significant 23.7 percent year-on-year, reaching $1.58 trillion.

Assets under administration in hedge funds increased 15.5 percent, and those in funds of hedge funds saw growth of 11.9 percent.

Those surveyed said estimated that more than 50 percent of private equity and real estate assets were administered in-house, while the vast majority of hedge funds and funds of hedge funds were still under in-house administration.

Participants did, however, predict that third-party administration could become more common as regulatory burdens increase.

Although there were varying opinions on the driving forces for mergers and acquisitions, there was a clear consensus that there is a need for a global footprint and for the ability to absorb rising costs of regulatory reporting services.

The most commonly cited trends included price competition, cost pressures for more robust offerings, and increasing client desire for operational knowledge.

Many also pointed out that the industry could see more segmentation between those servicing the needs of emerging investment managers and those servicing very large managers.

In terms of growth, administrators were generally more optimistic about prospects in North America and Europe, and expectations for growth in Africa also increased in relation to other regions.

Since the 2013 survey, administrators have seen an evolution towards transparency from investors and regulators, but also within institutions. The report predicted that they will now move on from regulation-related offerings to focus on other factors.

Expected key objectives include growth across multiple regions and asset classes, and independent offerings such as depository services and shadow administration.

The survey included information from a broad spectrum of the industry, and from firms of various sizes.

LCH.Clearnet offers landmark inflation swap service

LCH.Clearnet has become the first central counterparty (CCP) to offer inflation swap clearing, launching the service through its SwapClear offering.

Barclays and J.P. Morgan completed the first cleared inflation swap as two of the 11 members that are already live and trading.

Expanding the range of derivatives eligible for clearing is intended to help those market participants trading UK, European and US inflation-linked products to benefit from the efficiencies and enhanced risk-management associated with central clearing.

Participants could also benefit from improved capital, margin and operations through portfolio margining.

Nathan Ondyak, head of products and markets at SwapClear, said: “After thorough risk reviews and testing, we are proud to be the first CCP to secure regulatory approval under both the European Market Infrastructure Regulation and US Commodity Exchange Act regulatory frameworks for inflation swaps clearing.”

Simon Wilkinson, head of liability driven investment funds at Legal & General Investment Management, added: “Risk management is a top priority for fund managers. Central clearing significantly mitigates counterparty risk and we welcome industry moves to provide clearing services for inflation swaps.”

Clearstream continues 2015 growth spurt

Clearstream has sustained its growth throughout 2015, reporting significant increases in business across the board, including a 25 percent increase in domestic CSD transactions and a 12 percent increase in assets under custody.

Overall assets under custody increased by 12 percent, reaching €13.5 trillion in March 2015, compared to €12.1 trillion in March 2014.

In the international central securities depository (ICSD), securities held under custody reached €7.1 trillion, a 12 percent increase on the €6.4 trillion recorded in March last year.

In the German central securities depository (CSD), domestic securities under custody reached €6.4 trillion, an 11 percent increase on March 2014’s total of €5.7 trillion.

At the end of March 2015, the combined value of assets under custody year-to-date increased by 9 percent compared to the same period in 2014, rising from €12 trillion to €13.2 trillion.

In the settlements business, the ICSD processed a total of 4.6 million settlement transactions. This is an increase of 18 percent, compared to 3.9 million in March 2014. Of March 2015’s total, 81 percent were over-the-counter (OTC) transactions, and 19 percent were on the stock exchange.

The domestic CSD processed 9.3 million transactions, 25 percent more than last March’s total of 7.4 million. Of these, 35 percent were OTC transactions and 65 percent were processed on the stock exchange.

Year-to-date, combined settlement transactions on the German and international CSDs reached 37.3 million, compared to 33.1 million in the same period last year. This is a 13 percent increase, year-to-date.

The growth in the ICSD is partially attributed to the investment fund services business, as its corresponding transactions also registered a 19 percent increase.

Clearstream’s investment fund services (IFS) division processed one million transactions in March 2015, a 34 percent increase on March 2014’s total of 700,000.

Year-to-date in 2015, IFS transactions totalled 2.7 million, compared to 2.2 million in the same period in 2014, an increase of 19 percent.

These figures do not include the assets under custody or volumes of Citco Bank, which was acquired by Clearstream last year. These will be taken in to account once the bank has fully migrated its financial systems, a move planned for Q3 2015.

Chapman’s Eye on the market

It’s swing time!

Here at HornbyChapman Towers, we have developed a tried-and-tested mantra that we recommend people apply whenever someone is considering a new role, namely that they should always make sure their ‘head, heart and wallet’ are in alignment. That is, making sure that the move being considered is the right one strategically for their career and personal ambitions, that they can work with their future colleagues in a pressurised environment as well as enjoy a glass or wine or a beer after work with them, and that the remuneration is commensurate with what they’re looking for.

In many ways, the forthcoming UK General Election can be considered in similar terms, too. The broadcaster Matthew Paris recently said that the voting public knows that the Labour party have a heart but are questioning if they have a head—in terms of an ability to make the necessary financial decisions required to keep the economy progressing—and they also know that the Conservatives have a head but question if they have a heart, ie, the ability to be empathetic and appreciate the challenges of everyday folks.

The phrase du jour is ‘political cross-dressing’, in that the Labour party are now holding themselves out as the party in whose hands the economy will be safest, whereas the Conservatives are stating that they will spend freely and heavily, especially on vote-winning areas such as the National Health Service (NHS), although many people, even within the NHS, say that the issue is much more about poor management and weak business practices than a lack of cash.

According to almost all current polls, the election remains on a knife-edge, and while some 650+ seats are being contested, only a handful of swing seats will make all of the difference. Given that we have a first-past-the-post electoral system as opposed to proportional representation (such as that employed in Italy, with the resulting high turnover of governments and lack of consistency in decisions, and consequences for major projects and external policy), politicians will be focusing their attention and benevolent administrations primarily on those areas they need to either defend or win from the opposition. The issue of tactical voting will be of paramount importance in this election, and significant political sophistry is being employed in terms of tactics, such as “vote Sturgeon and get Miliband” by the Conservatives, or “vote Farage and get Cameron” by Labour (it is little wonder this is being termed the ‘Bogoff’, or ‘Buy One, Get One Free’, election, as no single party will have overall control).

This gives rise to the concept of the Kingmaker—the person or party heretofore relatively powerless who, by virtue of our electoral system, wields a disproportionate amount of power to gift sufficient numbers of MPs to create a coalition government. At the last election, it was Nick Clegg, but this time it might well be either Nicola Sturgeon or Nigel Farage.

Whoever wins will have a major impact on the City. Will it be business as usual, albeit with a small rise in the bank levy (proposed by the Conservatives), or a renewed and sustained period of ‘banker-bashing’ as espoused, albeit not in as many words, by Labour? Whether the required headwear will be top hats or crash helmets, we’ll find out very shortly.

Paul Chapman, managing director, HornbyChapman Ltd

Investor services: who are the top picks?

The R&M Investor Services Survey 2015 is the industry's largest survey

Client perceptions are everything. Word of mouth is by far the most lauded of marketing tools, because a recommendation comes with no strings or costs attached. Weight is also attached to a client comment, because he or she has been there and done that—a prospective client has it all to come. It is for these reasons that the R&M Investor Services Survey 2015, the largest survey in the industry, was conducted, so as to reveal which providers are meeting the demands of clients, and which are in need of improvement.

The survey reached a wide range of professionals across the globe who assessed the services of 30 different providers. Responding to 51 survey questions, respondents commented on settlement and safekeeping, tax reclaimation, corporate actions, proxy voting, client reporting, monthly accounting/valuation reporting, client service and relationship management, customer facing technology, the provider's network, service quality, securities lending, and miscellaneous areas including cash management.

The results are split into the experts and overall score, as well as the most improved overall on last year, and how service level has improved or declined. The results then break down into geographic regions by client type, with the UK, Europe, North America and the rest of the world featuring.

The Experts				
Respondents who surveyed five or more custodians				
		2015	2014	Change 15/14
1	BNY Mellon (2)	5.59	5.40	0.19
2	State Street (5)	5.38	5.06	0.32
3	RBC (1)	5.31	5.41	-0.10
4	Northern Trust (4)	5.26	5.08	0.18
5	J.P. Morgan (3)	5.21	5.13	0.08
6	Citibank (=6)	5.02	4.88	0.14
7	BNP Paribas (8)	4.87	4.83	0.04
	Overall Score	5.26	5.13	0.13
	(Last year's position shown in brackets)			

BNY Mellon and State Street have topped The Experts portion of the R&M 2015 Investor Services Survey, with fund managers backing the custodians.

Fund manager respondents who deal with five or more custodians scored BNY Mellon the highest, followed by State Street. Both banks improved on their 2014 results.

One respondent praised BNY Mellon's "high calibre staff", saying: "BNY Mellon's strength is its high calibre staff who are dedicated to delivering good service. We appreciate the efforts they have made to guide us and to work in true partnership."

Samir Pandiri, global CEO of asset servicing at BNY Mellon, said: "Our leadership in the key experts category underlines the depth and breadth of BNY Mellon's expertise and

What do they need to focus on in the next 12 months?

BNY Mellon: "Increase staffing levels to ease pressure on service delivery staff and to provide them with the support they need. To allow their good staff a little flexibility to deliver personal service and to avoid stifling with rigid and inflexible service delivery processes. The staff are enthusiastic and willing and should be allowed to exercise greater initiative to allow them to excel and achieve excellence."

State Street: "Improve quality and timeliness of responses to general queries. Improve accuracy and detail on daily cash statements."

capabilities when it comes to servicing large and complex clients."

"Those clients need a committed provider who can support an expanding range of asset types and financial instruments, across multiple markets and regulatory regimes. They need a partner who can combine proven, 'follow the sun' processing and servicing capabilities with sophisticated analytical and middle office tools; and who can deploy innovative solutions and technologies to help them navigate through today's complex and fluid regulatory environment.

"That partner must also be able to support their collateral, capital and liquidity needs and their distribution goals; and must possess a fortress balance sheet that will ensure the security of their assets."

"BNY Mellon is extremely well positioned to support our clients across this diverse array of needs, as they look to transform their businesses and seize new opportunities against a background of unprecedented market and regulatory change."

State Street was similarly praised, with one respondent, who "continues to receive a strong custody service at all levels" from State Street, described the bank as "proactive".

Pictet led overall results based on providers that qualified in at least three geographic regions, narrowly pushing RBC into second place. The Swiss bank enjoyed a 0.04 point increase over its 2014 score, achieving 6.31. "In our office, Pictet is hands down the best custodian that we work with," said one respondent.

"We never have to chase down requests. Their client service is top notch. We enjoy working with our servicing team as they are always prompt and accurate."

Overall Score	2015	2014	Change 15/14
Pictet (1)	6.31	6.27	0.04
RBC (2)	6.30	6.21	0.09
J.P. Morgan (6)	5.91	5.44	0.47
Northern Trust (5)	5.83	5.58	0.25
BNY Mellon (4)	5.80	5.66	0.14
BNP Paribas (3)	5.58	5.80	-0.22
State Street (7)	5.27	5.24	0.03
Overall Score	5.92	5.76	0.16

Another said: "We work with Pictet on one global equity relationship. We find the individuals with whom we work to be of the highest quality and the service level is exceptionally good. We have worked with Pictet for over four years now and we are very happy with the team and the firm."

Pictet Asset Services has reaped the benefits of the strategic choices that it has made in recent years, including economies of scale resulting from the creation of a single platform and the improvements to its operational processes.

Marc Briol, CEO of Pictet Asset Services, commented: "The result of the survey is further evidence that there is a demand for clients seeking tailor-made services, long-term relationships and independent advice. We have a strong service culture that focuses on our clients' needs rather than a short-term approach geared to product selling. Our philosophy has proved successful with both sophisticated asset managers and institutional clients."

What do they need to focus on in the next 12 months?

Pictet: "Give us a better understanding of the FX rates they are using as well as if there is a fee to execute them."

RBC: "Improve technology. Custody, recordkeeping [and] reporting systems need upgrading."

RBC achieved a score of 6.3 in 2015's survey, beating last year's score by 0.09. A respondent commented: "Over the past 25 years I have worked with every custodian and investment support provider in the Australian market—on domestic, international, equity and bond portfolios. RBC is still by far my preferred provider of these services."

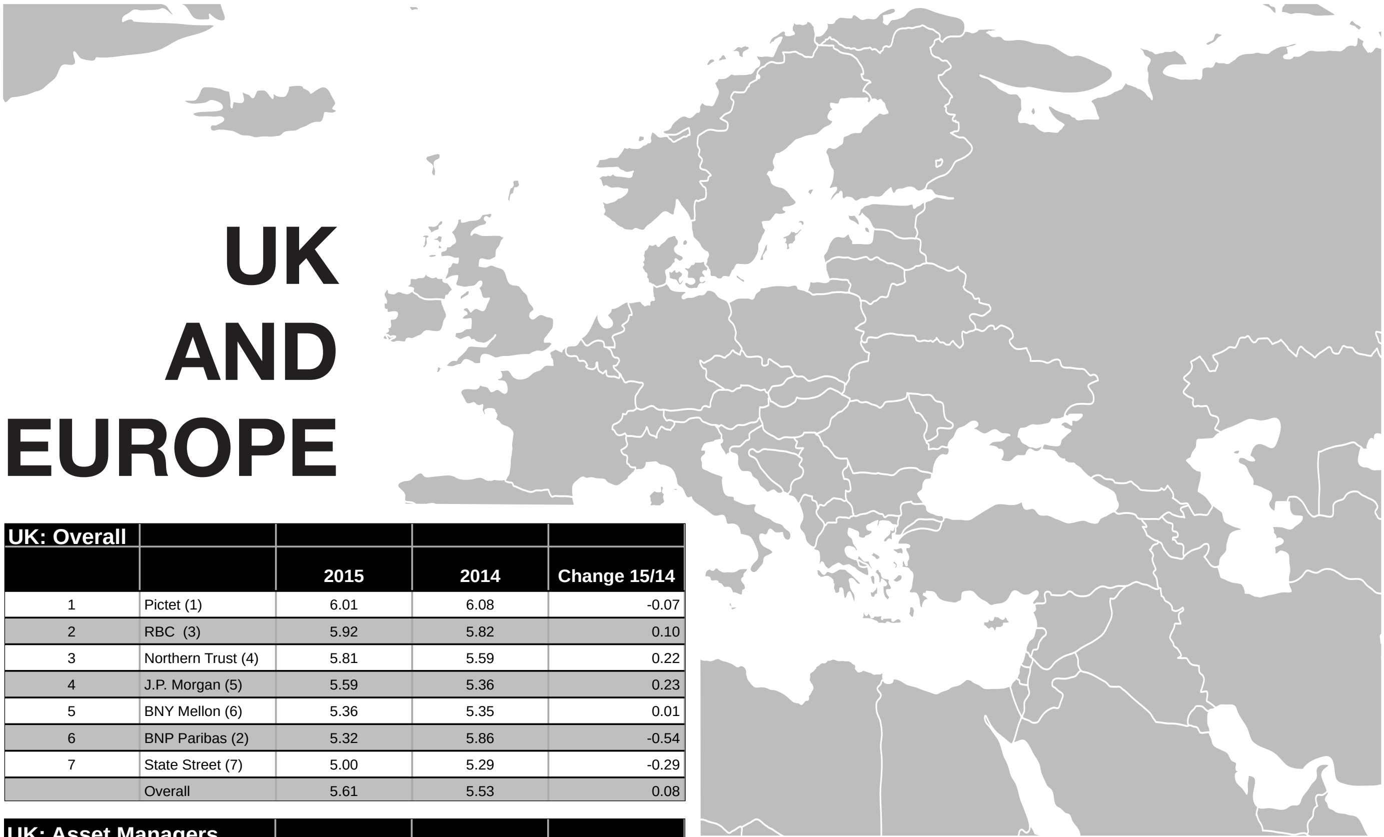
Joanna Meager, global head of client operations and head of investor and treasury services at RBC UK said "We are delighted the results of this year's R&M Investor Services Survey continue to endorse the attention we pay to addressing the needs of our clients." She added "The consistent value proposition and coverage model we offer our clients has helped us achieve the top-ranking in three categories in this year's survey."

Third-place J.P. Morgan enjoyed the biggest gains, improving its score more than any other provider, from 5.44 in 2014 to 5.91 in 2015.

A respondent commented: "J.P. Morgan has been our main global custodian since 2007 and has understood the needs of our growing business and evolving requirements. Their custodial ability is premium and, I believe, market leading."

Another added: "Based on our ratings, J.P. Morgan struggled with responsiveness on accounting, financial reporting and securities lending as compared to core custody (and sub-custody), but overall there seems to be a consensus that J.P. Morgan has improved as a service provider over the past year." AST

Most Improved		2015	2014	Change 15/14
1	J.P. Morgan (7)	5.91	5.44	0.47
2	Northern Trust (6)	5.83	5.58	0.25
3	BNY Mellon (3)	5.80	5.66	0.14
4	RBC (5)	6.30	6.21	0.09
5	Pictet (1)	6.31	6.27	0.04
6	State Street (4)	5.27	5.24	0.03
7	BNP Paribas (2)	5.58	5.80	-0.22



UK AND EUROPE

UK: Overall				
		2015	2014	Change 15/14
1	Pictet (1)	6.01	6.08	-0.07
2	RBC (3)	5.92	5.82	0.10
3	Northern Trust (4)	5.81	5.59	0.22
4	J.P. Morgan (5)	5.59	5.36	0.23
5	BNY Mellon (6)	5.36	5.35	0.01
6	BNP Paribas (2)	5.32	5.86	-0.54
7	State Street (7)	5.00	5.29	-0.29
	Overall	5.61	5.53	0.08

UK: Asset Managers				
		2015	2014	Change 15/14
1	Pictet (1)	5.99	6.01	-0.02
2	RBC (3)	5.94	5.77	0.17
3	Northern Trust (8)	5.66	5.17	0.49
4	J.P. Morgan (4)	5.52	5.37	0.15
5	BNY Mellon (5)	5.32	5.30	0.02
6	BNP Paribas (2)	5.24	5.81	-0.57
7	State Street (7)	4.89	5.19	-0.30
	Overall	5.55	5.40	0.15

UK: Asset Owners				
		2014	2013	Change 15/14
1	Northern Trust (1)	5.94	5.88	0.06
2	J.P. Morgan (4)	5.58	5.65	0.07

Europe: Overall				
		2015	2014	Change 15/14
1	Credit Suisse (2)	6.85	6.71	0.14
2	UBS (1)	6.84	6.78	0.06
3	RBC (4)	6.34	6.17	0.17
4	Pictet (3)	6.25	6.23	0.02
5	J.P. Morgan (6)	5.96	5.78	0.18
6	BNP Paribas (5)	5.89	5.90	-0.01
7	Northern Trust	5.81		
8	BNY Mellon (7)	5.46	5.73	-0.27
9	Citibank	5.09		
	Overall	6.23	6.30	-0.07

Europe: Asset Managers				
		2015	2014	Change 15/14
1	UBS (1)	6.95	6.93	0.02
2	Credit Suisse (2)	6.80	6.70	0.10
3	RBC (3)	6.32	6.06	0.26
4	BNP Paribas (4)	6.14	5.99	0.15
5	Pictet (5)	6.04	5.98	0.06
	Overall	6.44	6.35	0.09

Europe: Benelux				
		2015	2014	Change 15/14
1	RBC	6.49		
2	Northern Trust (2)	5.46	5.54	-0.08
3	BNY Mellon (3)	5.19	5.38	-0.19

Europe: Switzerland				
		2015	2014	Change 15/14
1	Credit Suisse (2)	6.85	6.72	0.13
2	UBS (1)	6.83	6.77	0.06
3	Pictet (3)	6.25	6.18	0.07
	Overall	6.64	6.55	0.09

Europe: Nordics				
		2015	2014	Change 15/14
1	J.P. Morgan (1)	6.09	6.00	0.09
2	Northern Trust (2)	5.97	5.84	0.13
	Overall			

Europe: Germany				
		2015	2014	Change 15/14
1	BNP Paribas (1)	6.20	6.39	-0.19
2	J.P. Morgan (2)	5.87	5.61	0.26
	Overall			

Europe: Asset Owners				
		2015	2014	Change (15/14)
1	Credit Suisse (1)	6.89	6.72	0.17
2	UBS (2)	6.76	6.67	0.09
3	Pictet (3)	6.30	6.31	-0.01
4	Northern Trust	5.71		
	Overall	6.46	6.57	-0.11

NORTH AMERICA

North America: Canada		2015	2014	Change 15/14
1	RBC (1)	6.60	6.48	0.12
2	CIBC Mellon (2)	6.37	5.74	0.63
	Overall	6.49	6.15	0.34

North America: US		2015	2014	Change 15/14
1	Pictet (1)	6.55	6.40	0.15
2	J.P. Morgan (5)	6.14	5.31	0.83
3	Northern Trust (4)	5.93	5.63	0.30
4	BNY Mellon (3)	5.87	5.77	0.10
5	State Street (6)	5.63	5.25	0.38
	Overall	6.04	5.72	0.32

US: Asset Owners		2015	2014	Change 15/14
1	J.P. Morgan (3)	6.75	5.68	1.07
2	Northern Trust (1)	6.10	5.96	0.14
3	BNY Mellon (2)	6.00	5.91	0.09
	Overall	6.27	5.85	0.42

N. America: Overall		2015	2014	Change 15/14
1	RBC (1)	6.59	6.39	0.20
2	Pictet (2)	6.55	6.38	0.17
3	J.P. Morgan (5)	6.14	5.22	0.92
4	BNY Mellon (3)	6.04	5.76	0.28
5	Northern Trust (4)	5.94	5.61	0.33
6	State Street (6)	5.45	5.12	0.33

US: Asset Managers		2015	2014	Change 15/14
1	Pictet (1)	6.55	6.38	0.17
=2	BNY Mellon (3)	5.81	5.66	0.15
=2	J.P. Morgan (6)	5.81	5.17	0.64
=2	Northern Trust (4)	5.81	5.41	0.40
5	State Street (5)	5.72	5.25	0.47
	Overall	6.02	5.67	0.35

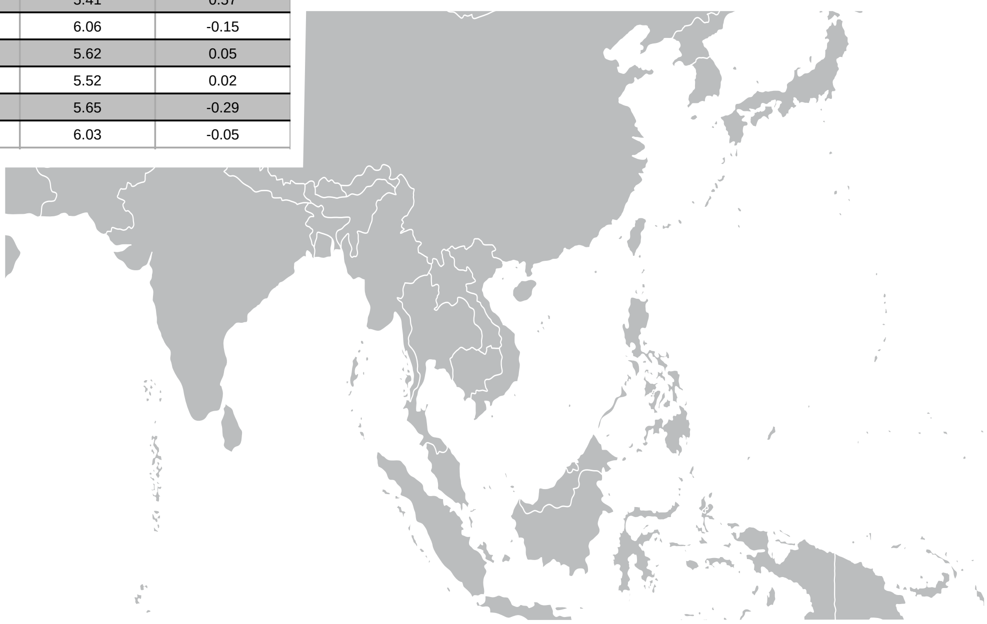
REST OF THE WORLD

Rest Of World		2015	2014	Change 15/14
1	UBS (1)	6.96	6.97	-0.01
2	Pictet (3)	6.54	6.67	-0.13
3	RBC (2)	6.52	6.81	-0.29
4	J.P. Morgan (8)	5.98	5.41	0.57
5	BNY Mellon (4)	5.91	6.06	-0.15
6	Northern Trust (6)	5.67	5.62	0.05
7	State Street (7)	5.54	5.52	0.02
8	BNP Paribas (5)	5.36	5.65	-0.29
	Overall	5.98	6.03	-0.05

Rest Of World: Asset Owners		2015
1	RBC	6.65
2	Pictet	6.41
3	BNY Mellon	6.01
	Overall	6.30

Using three or more responses

Rest Of World: Asset Managers		2015
1	UBS	6.95
2	J.P. Morgan	5.93
3	BNY Mellon	5.67
4	Northern Trust	5.53
5	BNP Paribas	5.22
	Overall	5.77



Ipanomates

While the rest of the world focuses on its beaches, fiestas and sports extravaganzas, Brazil's funds industry is feeling a little starved of attention

STEPHANIE PALMER REPORTS

Having hosted the 2014 World Cup, and with the 2016 Olympic games just around the corner, Brazil is no stranger to international scrutiny. In the asset management and hedge funds space, however, it's a lack of interest that's becoming notable. As the economy flags and growth predictions remain lacklustre, the industry is suffering a drought that's not looking to ease up any time soon.

According to Darius McDermott, managing director of Chelsea Financial Services, investment is South America is on the up, and Brazil is a large part of that, making up 42 percent of the Morgan Stanley Capital International Latin American index. Despite this, many investors still consider Brazil funds as too high-risk.

"We have yet to see large flows into single Brazilian funds," says McDermott.

"There have also been considerable tailwinds for the Brazilian economy and political upheaval which has deterred some investors."

The effects are clearly more profound for Brazilian firms. Ernesto Leme, COO at São Paulo-based Claritas Investimentos, has not only seen a lack of investment coming in to Brazil, but also Brazilian investors looking elsewhere.

He says: "Foreign flows to Brazilian funds have diminished in the past two years. This is due, mainly, to of the political and economic challenges that the country has recently faced."

"On the contrary, we are experiencing additional interest from Brazilian investors in foreign assets."

Leme has seen an increase in Brazilian investment in global fixed income and equities, while new regulations to be implemented in July will make investment in international assets easier by reducing the minimum investment. Funds are leaving Brazil at an alarming rate, without the inflow required to balance it out.

McDermott says: "Investment from outside of Latin America is vital for the growth of the markets. The injection of foreign capital investment drives employment, productivity, and helps to build more sustainable societies, while lifting many out of poverty as economies improve."

The implication is that it's not the markets that are causing the problem, or a lack of demand for funds in the region as a whole, as some South American markets are seeing an almost uncharacteristic uptick.

Culturally, however, this a hugely diverse part of the world, and its almost impossible to compare countries. It becomes particularly difficult when talking about the financial sector, and even more so when discussing investment.

McDermott says: "Latin America is a very diverse set of countries. For example, while Mexico may be booming, Venezuela is virtually un-investable."

Leme suggests that, at least partially, these are simply struggles that come hand-in-hand with a developed and sizable market. He says: "While some countries like Argentina, Venezuela and Brazil face important challenges, Colombia and Peru—despite being much smaller markets—are doing better. If we consider only sophistication and market liquidity, the Brazilian market is much more developed than the other regional markets."

It is this size that makes Brazil so hard to analyse on its own. Leme calls it "a country of continental size". At just over 8.5km square, it is larger than mainland US, and the fifth largest in the world in terms of both land mass and population.

It is, however, well positioned to receive investment from outside the Latin American region. Claritas sold 60 percent of its equity to Prinicpal Financial Group (PFG), a Fortune 500 company based in Iowa, in 2012. The company prides itself in its protection of its investors, and its experience in Brazilian investment.

"We have always prepared our company to receive foreign investors. The due diligent process that happened prior to PFG´s acquisition reassured that. We have a sound investment process in every asset class that we participate."

He added: "We are strong believers in diversification, not only in asset class diversification but also international diversification."

Through hedge funds, Leme argues, clients can achieve this diversification, creating a well-balanced and therefore safer portfolio. They are by no means risk-free, though, and, as McDermott says, until the Brazilian economy gets back on track, any investment at all comes with an element of risk.

Inflation in Brazil is expected to reach 7.8 percent this year, while growth is predicted to be non-existent a -0.7 percent.

"Brazil's stubborn high level of inflation has been a major concern," says McDermott.

"Brazil's economy has been shrinking for years, but the key risk is the newly re-elected government's failure to get economic progress back on track. Corruption and corporate governance remain a constant concern."

Leme echoes this, saying: "The main risks today are political and economic. Both of these risks have a direct impact not only in the currency valuation but also in the asset prices."

It seems that, for the time being, there is little that asset managers and fund administrators can do to encourage investment in Brazil, without the economy to support them. Perhaps though, such high-risk and questionable markets could actually lead to a new kind of investment.

McDermott says: "Brazil's exposure might now interest value investors, who will see the region as unloved. I think there are opportunities and some valuations look tempting."

"But, I would be cautious, as the region is so vulnerable to shifts in investor sentiment and the outlook is so questionable. The only way to make money will be to pick the right individual stocks, and there are some good Latin American equity managers out there doing just that." AST

The cybercrime squad

In the wake of February's billion-dollar cyber-heist, Kris McConkey and Vincent Villers of PricewaterhouseCoopers highlight how firms can protect themselves from a modern menace and keep their relationships intact

STEPHANIE PALMER REPORTS

How can financial institutions protect themselves from cyber attacks?

Kris McConkey: When we're looking at how organisations can defend themselves against attacks, part of it is about defending the network and reducing the likelihood that somebody can get inside of it, but it is also important to be able to monitor a network. They have to look at what is actually happening across the network, looking for evidence of legitimate activity being used in an illegitimate way. It's a combination of defences, monitoring and then responding.

There are some quick wins in implementation, but if security is not part of a formal strategy it becomes a bit like playing whack-a-mole. You're patching things up without fixing the root cause. When looking at security strategies, we try to get the foundation layers in place so that there is appropriate governance over the environment and a strong structure that employees can understand. Everyone in an organisation has to know how his or her actions impact the security of the network.

Vincent Villers: The difficulty for asset managers is that these concerns are far removed from them. They are analysts, they want to make their deals and act fast, they don't want to worry about the security, so it can be difficult for them to make it a priority. When they talk with partners and service providers, they want to know that those teams are capable of processing everything fast, and not worry so much about the security.

They may have a list of tools to implement in order to protect themselves, but it's not about that. It's about understanding the key data and the key risks, and while asset managers often consider this as important, they don't consider it the most important thing.

Who holds the responsibility for implementing these standards?

McConkey: Some organisations have it led by IT, but that is usually the wrong answer. IT departments will only focus on the technical component, and it is actually much broader than that. Some have it led by the chief information officer, but more frequently we're seeing it being led by the general council.

Firms are starting to look at it as a business risk. The general council can oversee elements in HR and IT, and coordinate them with the strategic element.

Villers: Of course, IT has to be involved at some stage as the technicians understand the underlying data and may be able to propose mitigating actions and tools, but the real strategic decisions should be made by someone who has a wider view of the organisation, and who can identify what really matters.

A chief risk officer can define what has to be done based on a wider view of the risks, and without looking in to the technical aspect of it. IT teams will participate, but they will not be heavily involved in leading the strategy.

Should there be regulations in place to help industry players to cope?

McConkey: The trouble with regulation is that you end up with compliance standards, and a lot of these are great practice, but compliance doesn't breed security, security should breed compliance. Any company that has a really good security strategy should tick all the compliance boxes, too.

Instead of looking at it from a compliance and regulation perspective, we can look at it from an information-sharing perspective. We are seeing an increase in this concept where information is shared by organisations in a similar sector, or even across sectors, so that if one gets targeted the information bleeds across the rest. When another firm is targeted in the same way they already have the defences in place for it.

The real challenge is that this kind of sharing only happens effectively when there's a degree of trust. When it's forced by a standards body, firms tend not to contribute as well as they should. The effective outcomes happen when groups know each other and collaborate just to help each other out. It's not without its risks, but there is a pretty active group for this in the financial services sector, and that is a positive step.

Villers: Dealing with security purely from a compliance point of view probably isn't going to solve much, but regulators could encourage sharing. In some parts of the financial sector, players aren't willing to share much because they're dealing with sensitive client information, or believe they can retain some competitive advantage by keeping closed. The regulators should stress the importance of sharing information and, without regulating, encourage this kind of collaboration.

On the other hand, in this sector regulation can often trigger projects that probably needed investment beforehand, but that managers have not invested in until they were forced to. It will be useful to find the right balance here.

What are the financial implications of an attack, and how are end clients affected?

Villers: Over the last year, we saw a significant increase in the average cost of an incident, which now sits at $2.7 million. This isn't a particularly significant figure for a large organisation, which means that some companies might be willing to invest more in advance.

Of course, investing in prevention and increasing monitoring doesn't mean that you won't be hit. It is just an effort to reduce the impact and accelerate response time.

The real costs are difficult to assess precisely, because beyond the spend on technology, assessment, legal costs, internal security, external consultants, and so on, there is the potential impact on future business, and more importantly, reputation.

It is probably not the incident itself that would harm the reputation of a company, but the way the company deals with the incident. It will depend on how they react, how they communicate and how they reassure their stakeholders. To do this well, they have to be prepared.

McConkey: When an attack happens organisations have to spend first on investigating it and repairing any damage, and then on security improvements to ensure it doesn't happen again. It's true that incidents at a banking level will often end up in fees somewhere, as the bank's insurance fees and losses go up, and eventually some of that filters down to credit card percentages and fees.

But there is always a cost differential in investing in this stuff. Organisations can invest early and avoid an incident when it happens, or incur the cost of the incident and invest afterwards. The cost of preparing in advance will always be lower than the alternative, it's just a case of how many incidents there are, and the reputational damage they could cause.

How can firms stay ahead of the hackers?

McConkey: There is always a risk that somebody is going to get in, but there is a key difference in the way defenders and hackers view success. An attacker views their hack as successful if they gain access to a network, figure out where the data is, access that data, and remove it. A defender considers an attack successful if it gains access at all.

The technology investment is becoming increasingly important, and organisations are starting to realise that there is really good technology out there to support them in this. They're realising that this is not optional anymore.

Villers: Some of our clients are defining scenarios of cyber attacks, and thinking about things that could happen outside of traditional risk. It requires some imagination, to not only look at what has happened in the past, but also at what could happen in the future.

Why is this kind of cyber crime such a hot topic now? Hasn't computer hacking been around as long as the Internet itself?

McConkey: Many things have changed over the last 10 years. Motivations of attacks have changed, it's not nuisance attacks anymore—it's espionage and organised crime that has evolved to this landscape.

There is also the change in IT environments. The whole network used to be in an office or data centre with a perimeter you could protect. Now, with cloud computing, what firms are protecting is more fragmented. This just means more opportunities for losing things and making silly mistakes, and the likelihood of hackers gaining access increases exponentially.

Villers: The asset management industry in particular has always been quite fragmented, with many people in a chain of responsibilities, and there are now even more pieces to the puzzle, more outsourcing, and more individuals.

To understand effectively who does what, and how that serves the purpose of a particular vehicle or a particular fund, it is very complex, and becoming more and more so. There are new technologies to articulate these flows and to make the industry more agile and more flexible, and some asset managers, particularly in the alternative area, want to be the first to use them. They want to get things done as fast as possible, so they might not take the time to ensure the system is robust enough and set up properly, which opens further opportunity to hackers.

McConkey: The bottom line is that anything an organisation deems of value to them will be of value to someone else, and should have a protection strategy in place. You can't protect everything to the highest degree, but companies should be identifying what matters most to them and investing in protecting it. **AST**

Kris McConkey
Partner
PwC UK

Vincent Villers
Partner
PwC Luxembourg

Industry Events

The 2nd Annual Practitioners' Forum on Valuation & Pricing for Buy-Side Firms

Date: 23-24 June 2015
Location: London

This conference focuses in on the governance and risk management challenges being faced by buy-side firms as they seek to meet regulatory expectations for valuation under AIFMD, OTC and EMIR.

FundForum International 2015

Date: 29 June - 2 July 2015
Location: Monaco

FundForum International will be welcoming over 225 Fund Buyers and Distributors in 2015, over 80 of whom will share their experience and knowledge as speakers.

Industry appointments

SS&C Technologies has appointed **Samuel Eckelmann** as vice president of strategic software development.

Eckelmann is software architect and consultant. He has previously worked at SS&C as managing director responsible for directing the ongoing development and maintenance of the CAMRA investment accounting system.

Timothy Reilly, senior vice president and general manager of the SS&C institutional investment management division, commented: “Eckelmann will leverage his extensive investment accounting expertise in the insurance and asset management industry.”

Citi has named **Adam Herrmann** as global head of prime finance.

In his new role, Herrmann will be responsible for all aspects of Citi’s prime finance platform including principal and agency securities lending, prime brokerage and delta one in partnership with equities.

Previously, he served as co-head of global equity finance at UBS, including responsibility for both sales and trading across stock loan, equity financing, exchange traded fund market making and delta one.

BCS Financial Group has appointed **Vyacheslav Smolyaninov** as chief strategist and deputy head of equity research.

Previously, Smolyaninov served as chief strategist and deputy head of research at URALSIB Capital.

Kirill Chuyko, head of equity research at BCS Financial Group, said: “[Smolyaninov] will be a key partner, especially when it comes to assessing market dynamics and consolidating sector analyses into an actionable investment strategy for the Russian market.”

Niklaus Santschi, division CEO of payment services, has decided to leave SIX Group to pursue a new professional direction.

Santschi has been in charge of payment services at SIX since October 2011.

The business area has recorded growth under his leadership. In particular, in the successful acquisition of PayLife Bank in Austria and as SIX’s stake in Cetrel in Luxembourg was expanded. Urs Rüegsegger, group CEO of SIX, will lead payment services on an interim basis.

Brown Brother Harriman (BBH) has promoted **Jean-Marc Crepin**, **Michael Keller** and **Jean-Pierre Paquin** to partner.

Crepin joined BBH in 2007 and is responsible for BBH Luxembourg, as well as the global relationship excellence discipline for investor services, the firm’s asset servicing business.

Keller joined the firm in 2005 and currently serves as co-manager of BBH Core Select. Prior to this, he had been a senior equity analyst for KeyBanc Capital Markets in New York, where he covered technology and business services.

Paquin joined BBH in 1996 and currently serves as co-manager of BBH Capital Partners. He has private equity experience and is actively involved in sourcing, investment evaluation, transaction execution, and providing post investment value-added oversight to portfolio companies.

Douglas Donahue, managing partner of BBH, said: “We are delighted to welcome Crepin, Keller and Paquin into the partnership. They are well recognised in their fields and have played important roles in moving our business forward.”

LCH.Clearnet has made **Steve Briscoe** its new group head of technology and operations.

Briscoe will be responsible for the provision of IT and operations across the group’s legal entities. He joins from RBS, where he spent five years, most recently as head of operations for the markets division, with responsibility for the delivery of all aspects of operational service for investment banks.

Suneel Bakhshi, CEO of LCH.Clearnet Group, commented: “We are delighted to welcome Briscoe to the group.” **AST**

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