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Trillions in assets on outdated systems

The investment management industry continues to over-rely on technology that is not fit for purpose, according to a new report from SimCorp.

The report shows many firms' existing systems are struggling to adapt to new demands and that asset managers are putting their investments—and firms' reputations—at risk, with trillions of US dollars in assets being managed by outdated systems.

The volume of trading data is growing quickly, increasing by an average of 60 percent every year.

According to the report, regulators are imposing more stringent requirements and there is an increased client demand for transparency, plus more trading in esoteric asset classes and geographic markets.

It also suggested that asset managers are under pressure to cut costs while delivering higher profits to shareholders.

Klaus Holse, CEO at SimCorp, said: "The frenetic pace of change in the industry is not conducive to continued usage of legacy systems."

"Firms run the risk of discovering that their IT infrastructure becomes a Gordian knot that becomes too difficult to untangle. Legacy systems were built for simpler processes and simpler times."

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Citibank banned from exiting Argentina

An Argentine court has forbidden Citibank from taking any further steps towards leaving the custody space in Argentina, as long as the dispute over unpaid debt settlements and bond repayments remains unsettled.

Citibank had revealed plans pull out as custodian of some Argentine bonds as a result of the ongoing disagreement.

The issue stems from Argentina's debt default in 2001. The majority of creditors agreed to accept exchange bonds at a write-down, however two US hedge funds won a lawsuit against Argentina for full repayment.

In March, a US district court judge ruled that Citibank should not issue interest repayments to Argentine bond holders, because of a previous ruling prohibiting institutions from assisting Argentina in servicing debt before repaying the hedge funds in question.

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Six-months' grace on CCP exposure rules

The European Commission has extended the transitional period for banks implementing the capital requirements for exposure to central counterparties for another six months.

The Capital Requirements Regulation (CRR) introduced a capital requirement for exposures of EU banks and their subsidiaries to a CCP.

After a previous postponement, the transition period was set to expire on 15 June. It has now been extended again to 15 December.

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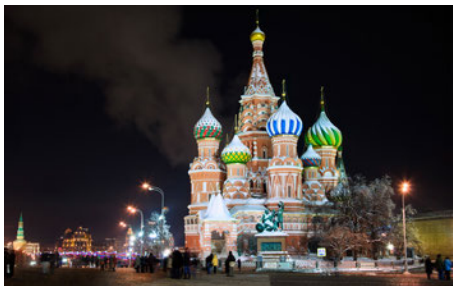

Trillions in assets on outdated systems

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According to the report, asset managers are not investing new systems because the project length surpasses the typical term. Brand new systems can also be seen as a threat to job security, however legacy systems are the primary driver of manual processes, which increase operational risk, increase processing times and delay business growth.

The report concluded that legacy systems not only result in a higher degree of manual processes but they also create the need to build interfaces and additional system layers to fill in the gaps.

It also suggested that creating new workarounds and spreadsheet-based solutions have potentially negative consequences such as a greater chance of trade failures and related errors.

Holse added: "With regulators in the US and the UK issuing huge fines last year which can be directly linked to what they describe as inadequate IT systems, the financial consequences of failing to invest in new technology are all too clear."

Citibank banned from exiting Argentina

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The Argentinian government announced in April it was suing Citigroup in Argentina over its failure to make repayments to Argentine bond holders.

Argentine president Cristina Fernandez has called on Citibank to "obey Argentine laws" in the matter.

Six-months' grace on CCP exposure rules

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Jonathan Hill, the EU commissioner responsible for financial stability, financial services and capital markets union, said: "The decision will give the market the legal certainty it needs for the next six months."

He added: "Meanwhile, we are continuing to work hard on solving the underlying issues."

The extension also applies to third-country CCPs seeking recognition in the EU—delaying cost increases for European trading through US CCPs.

KDPW_CCP clears first OTC trades in PLN

KDPW_CCP has cleared the first inter-bank market over-the-counter (OTC) trades denominated in PLN between Citi Handlowy and mBank.

The launch of the OTC derivatives and repo clearing service was required under European Market Infrastructure Regulation, whereby all OTC trade in derivatives certain classes must be cleared in an authorised central counterparty (CCP).

Iwona Sroka, CEO and president of KDPW_CCP and KDPW, commented: "KDPW_CCP has 14 participants of OTC clearing including the largest and most active banks on the Polish market. It should be noted that the banks use the OTC clearing system even before the start date of the clearing obligation."

Hans-Dieter Kemler, vice president of the management board for financial markets at mBank, added: "The clearing of liquid OTC derivative trades in a central counterparty clearinghouse is a key pillar of the financial market reform and will soon be mandatory in the EU member states."

"We believe that KDPW_CCP can handle the vast majority of such trades between Polish banks and in the future add active foreign banks to its pool of participants."

Big data means big innovation

Big data could be advantageous to investment managers if they innovate now, according to a whitepaper from BNY Mellon.

By bringing dark pools of data together with predictive analysis and behavioural finance, the investment industry could find ways to enhance product design, drive sales and improve prospective outcomes for investors.

The paper identified the characteristics of big data: "Volume, variety, veracity, velocity," and suggested that the pools of data available for analysis are still growing. It pointed out a need for smarter data analysis, and said firms should also consider 'social data'.

According to the paper, in an environment of shrinking margins and more powerful data analysis tools, the investment management industry has the opportunity to innovate, widening the scope of data-based solutions.

The process will involve experimentation and case studies, but could eventually prove beneficial for both investors and managers.

Daron Pearce, head of the global investment manager segment for investment services at BNY Mellon, said: "As the lines between the front, middle and back office continue to blur, smarter data management is essential for effective fund management. Big data facilitates that—but also poses challenges."

"Through an understanding of these opportunities and potential obstacles, the investment management industry can use their own data to design, manufacture and market solutions more effectively with a view to generating outcomes that are more aligned to investor expectations."

Mark Gibbons, chief information officer for Europe the Middle East and Asia at BNY Mellon, added: "While client, transactional and portfolio data is collected across the investment management industry for historical, regulatory and analytical purposes, most managers are yet to fully leverage these diverse data pools with a view to identifying key correlations and generating fresh insights."

SIX Swiss Exchange collaborates with Shanghai Stock Exchange

SIX Swiss Exchange and Shanghai Stock Exchange have made an agreement to

increase collaboration by regularly exchanging information and launching joint projects.

The deal underpins the free-trade agreement between Switzerland and China concluded in 2013, and the 2014 currency agreement between the Swiss National Bank and the People's Bank of China.

SIX has been offering trades in renminbi since 2012, and SIX has declared its aim towards further internationalisation of the Swiss securities market. SIX also supports the Swiss National Bank in its efforts to make Zurich a Swiss hub for renminbi.

The agreement also intends to improve mutual understanding of each market, promoting business relations and improving regulatory standards. The two markets will develop service offerings designed to benefit investors and create attractive conditions for mutual admission of financial products.

Urs Rüegsegger, group CEO of SIX, said: "We are laying the foundations for forward-looking collaboration between Shanghai Stock Exchange and SIX Swiss Exchange."

He added: "In this way, both sides will in future be able to offer even more attractive and more international marketplaces."

Phoenix Fund Services rebrands

Phoenix Fund Services in Ireland has rebranded as Inbhear Fund Services following its separation from the UK-based Phoenix Group.

Management completed a buyout of Phoenix Fund Services in 2013, and Gavin Gray will lead the new team as managing director

Gray said: "The decision to acquire the business was driven by a desire to refocus the long-term ownership and operating model of the Dublin business to better support our ability to provide a fund administration service that differentiates itself on the quality of service provided to our clients and their investors."

"We are focusing on those investment managers targeting the long-term growth of capital and we view our business as one we are building in partnership with our clients over the long term."

Bermudian bank chooses RBC Investor & Treasury Services

RBC Investor & Treasury Services has been appointed by Bermuda Commercial Bank's (BCB) custody division to provide global custody.

BCB is one of Bermuda's four licensed banks, established in 1969. It is Bermuda's only bank focused on corporate and private wealth clients, offering a range of bespoke financial solutions.

Chris Seip, COO and head of RBC Investor & Treasury Services in Canada, commented: "This new mandate recognises the quality of our services designed for corporate and private clients. We look forward to working with BCB and supporting their business objectives."

HedgeCoVest launches new platform

HedgeCoVest has launched its real-time hedge fund replication platform after four years of research and development and beta testing.

The platform offers advisors and all retail investors real-time replication of hedge fund strategies directly into their brokerage accounts.

It combines the liquidity, security and transparency advantages of a separately managed account with the long and short investment strategies of hedge funds.

HedgeCoVest has generated more than $80 million in committed capital for the platform and signed 45 investment management companies, including Fred Alger, The Boston Company, Cornerstone, Kovitz and Sandell.

The platform also offers 14 custom HedgeCoVest investment products including the industry's first real-time, investable hedge fund index. Investors can also create their own custom portfolio of hedge fund strategies based on their risk/return profile and objectives.

HedgeCoVest's platform is fully operational with Interactive Brokers and is in the process of completing integration with Pershing Advisor Solutions and TD Ameritrade.

Evan Rapoport, CEO of HedgeCoVest, commented: "We believe all investors should be able to benefit from hedge fund strategies with the transparency, liquidity, security and lower fees they seek. This is why we created HedgeCoVest."

The more the merrier, says Celent

The success of the Shanghai-Hong Kong Stock Connect hinges on removing barriers to participation, according to a whitepaper from Celent and the Depository Trust & Clearing Corporation (DTCC).

These barriers include features of the programme that restrict trading strategies, introduce risk and create operational complexity.

Institutional investors continue to cite issues such as limited support for short selling, using renminbi (RMB) as the sole settlement currency and the hybrid (T+0/T+1) settlement cycle as obstacles to increased usage of Stock Connect.

According to DTCC, this is compounded by remaining uncertainty over assets, shareholder rights and reporting.

Despite this, the paper noted that the initiative, which is supported by the China Securities Regulatory Commission and Securities and Futures Commission, has achieved significant inroads in the gradual opening up of China's capital markets to international trading.

Regulators and the Hong Kong and Shanghai stock exchanges are working to resolve the issues as well as to address a unique requirement to 'pre-deliver' shares for all sell orders.

The paper explained that improvements in these areas should enable greater participation; pave the way to more A-share representation in global equity benchmark indices, which will in turn lead to further investment in A-shares longer term, and open up the market to more trading strategies and investors globally.

"We estimate these 'workarounds' will drive international holdings of A-shares to $428 billion by 2017. Because they are committed to opening China's capital account, regulators can be expected to expand quotas to meet investor demand," said Neil Katkov, senior vice president in Celent's global Asian financial services group.

"Already, a Shenzhen-Hong Kong Stock Connect is slated to start later this year. Observers debate the extent to which this will be followed by links between Shanghai or Shenzhen and Taiwan, Singapore, Tokyo, New York and London."

Last month, Shanghai Stock Exchange, China Financial Futures Exchange and Deutsche Börse AG agreed on a strategic cooperation to launch a joint venture.

It has the objective to develop and to market financial instruments based on Chinese underlyings to international investors outside mainland China, meaning products will be offered in RMB.

Luxembourg teams up with Toronto

Luxembourg for Finance and the Toronto Financial Services Alliance (TFSA) have agreed to establish a partnership framework to develop their respective financial services industries.

The agreement contains provisions regarding the mutual exchange of research and information on banking, financial services, securities legislation and regulation in the respective jurisdictions, and on market trends in relevant international financial services activities and products.

Examples include the continued development of each jurisdiction as a hub for renminbi trading, Islamic finance and financial technology.

Seminars and training courses will also be organised through the partnership, as well as facilitating contacts for market operators, university institutions, and financial delegations. Future staff exchanges may also be explored.

Deutsche Bank China to be custodian for Hwabao Trust

Deutsche Bank China has been appointed as custodian for Hwabao Trust investments under China's qualified domestic institutional investor (QDII) programme.

As a part of the mandate, Deutsche Bank will act as local master custodian for the company's equities investment in the Hong Kong market.

Vicky Tsai, head of investor services in China at Deutsche Bank, commented: "We are pleased to be Hwabao Trust's custodian bank of choice. This QDII mandate underscores the strength of our transaction banking franchise in Greater China. We look forward to building a partnership with Hwabao Trust."

Perry Qiu, head of international department at Hwabao Trust, added: "It was important to us to choose a global bank with a good track record in servicing QDIIs and a seamless service, especially as we expand our clients' investments into new markets and asset classes."

SWIFT boosts data intelligence

SWIFT has launched Watch for Securities, a new business intelligence solution that helps securities market participants to monitor and

gain valuable business insights from their network traffic.

Watch for Securities is ready for use by local and global custodians, investment banks, asset managers and broker-dealers.

The new solution covers settlement and corporate actions flows primarily used to facilitate cross-border transactions between global custodians and investment banks and their counterparties, including local agents and asset managers.

Watch for Securities provides securities market players with additional independent and monthly aggregated global traffic information saving financial institutions the time and effort of gathering that same data from multiple proprietary systems and locations.

The analytics provided enables financial institutions to measure and benchmark their own activities with the overall activity on SWIFT, segregated by client type.

Stephen Gilderdale, head of new business development at SWIFT, said: "Driving business performance from data is no longer just a 'nice-to-have'."

"With massive amounts of unstructured data available, many financial institutions need to find new ways to turn data into meaningful business insights. We are pleased to evolve and extend this service to our securities customers, particularly in the areas of corporate actions processing and settlement services."

Fabian Vandendreydt, head of markets management, Innotribe and the SWIFT Institute added: "Through Watch for Securities customers can obtain valuable insights into how securities markets are evolving, and their share of activity in particular markets. The tool also measures the relative efficiency of a customer's operations against the market as a whole."

CACEIS opens Swiss branch

CACEIS is set to open a new banking branch in Switzerland to increase its presence in the market in accordance with its European expansion strategy.

The group has been active in Switzerland since 2006 via its subsidiary, CACEIS Switzerland, one of the top ten local management company service providers.

The CACEIS Branch in Switzerland will act as a depository for Swiss collective investment schemes, as a local and global custodian for pension funds, insurance companies and banks, and as a paying agent for funds domiciled abroad.

The branch is fully integrated with the group's operational platforms, giving Swiss clients access to the full range of CACEIS's asset servicing solutions.

Philippe Bens, CACEIS's senior country officer for Switzerland, said: "For many years, our clients have had confidence in our ability to deliver fund management and administration services in Switzerland."

"We are now enhancing our offering in the market by taking full advantage of the group's expertise in the field of depositary and custody banking services."

François Marion, CEO of CACEIS, added: "The launch of our Swiss banking branch demonstrates the strategic importance of this market for the group."

"It will allow our clients to benefit from the full range of post-trade services offered by CACEIS."

SWIFT extends KYC registry reach

SWIFT has expanded its KYC Registry to make it available to fund distributers and custodians as well as for correspondent banks.

The registry is designed to support institutions in fulfilling know-your-client (KYC) compliance requirements. Participants contribute a 'baseline' of data for sharing with counterparties, but retain all ownership of the information and control over who can access it.

The move comes in response to a demand identified through the SWIFT Community.

"Fund distributors and custodians face similar challenges to banks with KYC due diligence," said Mark Gem, head of compliance at Clearstream and chair of the SWIFT securities compliance working group.

"I am pleased that SWIFT is extending the reach of The KYC Registry, building upon its momentum in correspondent banking."

Paul Taylor, director of compliance services at SWIFT, added: "We are pleased to extend the KYC Registry to fund distributors and custodians, a move which is a natural extension of the KYC offering we have successfully put in place for correspondent banking."

He added: "As we continue to consult on our compliance strategy and roadmap we recognise that financial crime compliance is increasingly becoming a significant challenge for securities customers, and we are looking at broader ways of addressing those challenges, for example in the area of screening services."

Alignment and stress-testing key to CCPs, says DTCC

Central counterparties (CCPs) should be aligning management and clearing members and implementing standardised stress-testing, according to a new whitepaper by DTCC.

The paper, CCP Resiliency and Resources, looked in to governance, default management and continuity in CCPs in times of market distress.

It highlighted a need for CCP management to align with clearing members in governing risk management and default management processes, and suggested enhanced transparency and additional rules in order to improve clarity and certainty for members.

It also recommended that CCPs and regulators develop and implement a standardised stress-testing framework. This should reconcile the assumptions, parameters and governance of stress tests across central counterparties, but also allow for customisation, allowing for specific risks faced by individual CCPs.

DTCC operates two CCPs—the Fixed Income Clearing Corporation (FICC) and National Securities Clearing Corporation (NSCC). Both are designated systemically important financial market utilities (SIFMUs) in the US.

The paper suggested that DTCC would change the default loss waterfall for its own CCPs, moving towards a guarantee fund structure combined with limited clearing member assessments.

These changes are intended to enhance resources for the CCPs while also improving clarity for clearing members concerning maximum exposures in case of a counterparty default.

Murray Pozmanter, managing director and general manager of DTCC's SIFMUs, said: "DTCC understands its role as a critical infrastructure provider and continually seeks opportunities to enhance its CCPs to promote market stability."

He added: "We're encouraged by the increased industry attention to CCP issues, and we want to ensure that DTCC's perspectives can contribute to these ongoing discussions. We look forward to partnering with the industry and regulators on the appropriate next steps."

Chapman's Eye on the market

It's all Greek to me

The things I do for you, dear reader—your intrepid asset servicing eye(s) and ears has just experienced the privations of the five-star Divani Apolloni Palace Hotel & Spa in Athens to bring you this report on the 2015 NeMa Europe conference.

A cornerstone of Andrew Barman's hugely successful series of conferences dedicated to network management—the others being NeMa's Americas (Miami), Asia (Shanghai) and Africa (London!)—this was, by popular agreement, the biggest and the best to date. With some 500 attendees, there were of course a lot of the familiar names and usual suspects, both on the speaking platform and in the audience, but what made this particular conference stand out from some others in recent years was an underlying air of optimism and confidence which prevailed.

Yes, the volume and pressures of regulation were a talking point (and perhaps this is the banking equivalent of the Stockholm Syndrome whereby one falls in love with one's captors), but regulation is becoming an everyday aspect of life and people are being less antagonistic and defensive about it, treating it more as a commercial and potentially differentiating opportunity. In addition, request for proposal volume in the market is strong and the general feeling was that the industry is now truly coming out the back of an extended downturn.

The topic that cropped up most regularly was that of technology and the impact that it is having, and going to have, on the industry. Whereas only a couple of years ago the use of the terms 'blockchain' or 'bitcoin' would have gone both un-noticed and mis-understood, their use was endemic this year, along with 'disruptive technologies', 'distributed ledgers' and 'yottabytes of data'.

Markus Ruetimann, group COO of Schroders, gave a compelling and conference-defining presentation in which he outlined his vision of the future, a future which he believes will be with us sooner than we can ever imagine. Both Dr Chris Sier of KAS Bank and Phil Brown of Clearstream gave equally impressive overviews of the potential impact of disruptive technologies, with the explicit warning that no firm is too big to be destroyed by failing to adapt quickly to changing technologies. The Chatham House Rule was in place for several sessions, preventing me from sharing too much of the content, however, if you want to hear an exciting and well-thought-out vision of what the future might hold, then I'd urge you to catch Tim Howell, CEO of Euroclear, the next time he is speaking on the subject.

The increased industry confidence that I alluded to above resulted in a certain pushback on declining fee levels, with a consensus, from the providers at least, for what that's worth, that fees are 'on the turn'. Increased transparency of costs (and hence implicitly making easier the calculation of profit margin) were requested by the buyers and, in the main, offered by the providers. However, one attendee made the very valid point that if he buys an item in a shop, he doesn't ask, or need to know, the costs involved. He will choose the item based on the price offered, irrespective of the margin the shop is making.

Lack of space prevents me from expanding on these subjects but I'm happy to discuss offline as always. What of Greece and Athens themselves, I hear you ask? In a nutshell, the Grexit can't come soon enough.

Paul Chapman, managing director, HornbyChapman Ltd

The Herculean task

The pace of change may be slowing, but regulations still weigh heavily on the shoulders of financial services, according to NeMa delegates

STEPHANIE PALMER REPORTS

Regulation still dominated the agenda at the NeMa Europe 2015 conference in Athens, although delegates also showed concern for the human side of the business, emphasising the importance of relationships.

One keynote speaker said that while regulations may have made the business of banks and insurers more complicated, reform was necessary and things may now be looking up.

The change in market infrastructure means that banks and insurers have become more responsible for risk management, although, the speaker explained, it is banks that have taken the biggest hit to reputation.

He pointed out that in the new landscape, custodians facing problems come up against stricter liability and a reverse burden of proof. In the past, it was up to the client to prove that a custodian had done wrong. It is now down to the custodian to prove that it has done everything right—a much harder feat.

This "necessarily increases the risk" of having to pay out, he said, which leads to additional costs for the custodian, according to the speaker.

The speaker also commented on the increased importance of big data, saying that in the modern industry it is not just about the data, but about the results and how they are used.

He said it is important to identify counterparties and "understand the underlying structures", saying it was something they may have failed to do in the past.

The speaker concluded that after the crisis it was clear that something had to be done, and some consequences, while not unintended, came as secondary burdens. "The risks have changed," he said, from the operational to the statutory.

While there are still improvements to be made to the likes of cross-border operations, shadow banking, and working out who should have responsibility for paying for changes, the industry has merely had an eight-year gap in development, and ultimately, according to the speaker, the outlook is now "optimistic".

Despite this, there was contention over whether regulation played a part in due diligence. One panellist said that due diligence is not driven by regulation, while others maintained that they go hand-in-hand.

One speaker said the definition of due diligence has not really changed, and that what has changed is our understanding of risk and the emphasis placed on components of risk. He said changes to due dilligence have been driven by those in market infrastructure, the un-bundling of services and subsequent separation of risks.

UK regulation has instead been "an enabler" to due diligence by emphasising the risks.

"Regulation has allocated risk to parts in the chain that didn't have risk before, or didn't think they had risk," he said.

Another panellist, however, challenged this view, saying that while regulation was indeed an enabler, if due diligence programmes are driven by regulation then they can be ready as soon as new regulations come in to effect. This way, the mandated due diligence should be "reflective of what we've already got".

The majority of the audience also agreed that regulation and due diligence should be connected. When asked if regulators should give more guidance on the scope or structure of due diligence, 68.7 percent answered that they should be part of an industry exercise to agree best practice.

Only 12.6 percent said they should be kept away from the subject altogether, and 18.7 percent said they should clearly lay out their due diligence requirements.

In a panel discussion, regulation was also identified as the main driver of change in sub-custody, however speakers on the panel discussion were surprised at the relatively low number of attendees that backed its importance.

In an on-the-spot poll, 39.7 percent said that regulation is driving change, while 18 percent highlighted shrinking margins and 16.2 percent answered with competitor behaviour.

Buyer behaviour was also considered a driver by 9.3 percent, and 7.4 percent indentified the rising cost of collateral.

Although regulation was ahead by a significant margin, panellists suggested that it would have been considerably higher had the question been asked this time last year.

One suggested that concern around regulatory change has died down because "it's becoming part of our DNA". He said that a large part of a sub-custodians' objective is understanding what regulations mean for banks and their clients, and a lot of changes have been made.

The audience was also asked how they would describe the ideal relationship with a sub-custodian, and more than half, 53.8 percent, answered "a genuine partnership of equals".

Even so, the consensus on the panel was that, while having a good relationship with a sub-custodian is optimal, clients could still move away from a partnership in pursuit of a better price.

As one panellist put it, "cost is king", at least, until something goes awry.

The importance of relationships was also deemed to be important when it comes to staffing financial services companies.

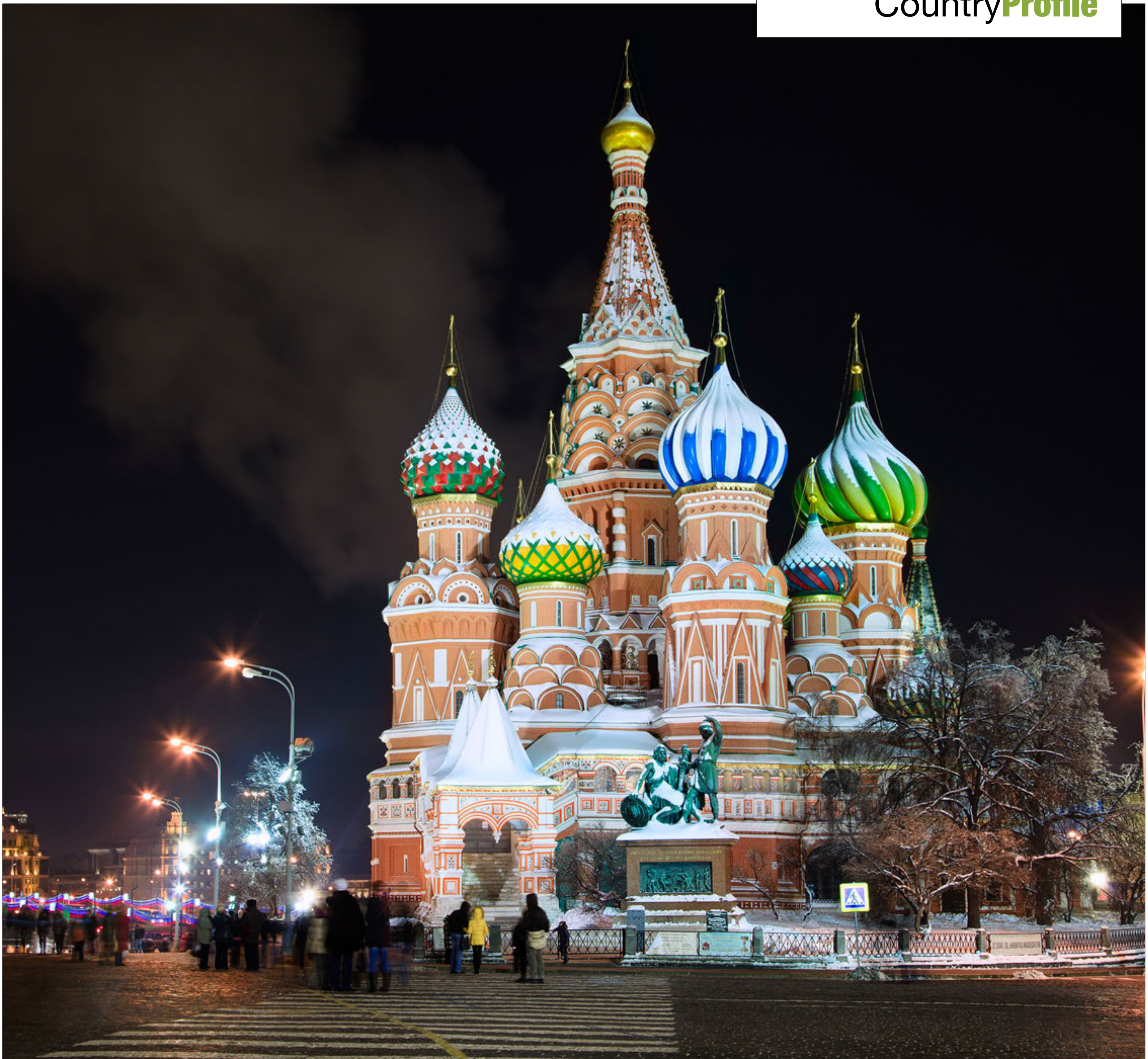
When asked what they regard as the most important competitive differentiator for a sub-custodian, 38.5 percent of the audience said it was the people, with the next most popular answer being the regional or global network on offer, which received 15.6 percent of the vote.

Financial strength was also a factor, with 15.1 percent of attendees citing this, while appetite for innovation also got a look-in with 9.9 percent of people choosing this.

One panellist pointed out: "Ultimately, people are going to drive those other elements."

He said the need for quality personnel in an institution is not going to go away, and that the right answer could be to holistically address all other components of the business as equally important.

Another speaker in the session concluded that, in a business based on balance sheets, "if you don't have the right people, there is not much you can do". **AST**



Reform and resolution

Russia's corporate actions reform if firmly underway, but there's a lot of work left to do, and the political landscape could mean it's going to be a rocky ride

STEPHANIE PALMER REPORTS

Of all the major changes in Russia of late, the corporate actions reform might not have been the focus of the mainstream media. However, international sanctions aside, this huge legislative change is set to alter the investment management space in a big way.

The reform is primarily designed to reduce risk in corporate actions, making the National Securities Depository (NSD), Russia's central securities depository, the single source for corporate actions communications, and creating electronic shareholder voting as standard. Rules are also set to change for international investors, all in aid of making the process automated and more cost-efficient.

Alexei Fedotov, head of securities and fund services at Citi Russia, calls the reform "the biggest area for improvement in Russia", adding that it will also lead to greater transparency and better corporate governance overall.

He says: "It will dramatically change the investment climate in Russia as it will significantly reduce one of the biggest operational and corporate governance risks in the market."

According to Maria Krasnova, deputy chairman of the executive board of NSD, these changes mean significant changes to the Russian marketplace as a whole. The current largely paper-based system will move towards automated services and straight-through processing. For the firms involved this means working together to create new standards, and Krasnova believes this is the first step towards reform.

“For now most of our activities are preparing the industry to move to new ways of interacting with each other,” she says.

“E-proxy is only the first step and it’s probably not that big from a market participant’s perspective, given the scale of the further changes.”

On a technical level, NSD introduced the ISO 20022 universal financial messaging scheme in April, and Fedotov anticipates the adoption of SWIFT and proprietary electronic systems in-house. While the effects of this might not be immediately obvious, it is, again, the beginning of a larger infrastructure change.

Krasnova says: “The difficulties now relate to establishment—engineering and the building up the new infrastructure.”

NSD also still supports ISO 15022 messaging for international parties that are unable to use ISO 20022, meaning it’s also providing a conversion service.

And there is much more in the pipeline. The Russian government is in the process of implementing a new law. It’s already had its first reading in parliament and, if all goes well, should come in to effect in 2016.

At the moment, corporate actions can only be processed using paper, and it’s clear that new technology is required—and available—to move the industry in to a new era of electronic messaging. According to Krasnova, the new law is required in order to ensure the new standards are implemented across the industry.

“It is important to get this law adopted as soon as possible so that the market participants are 100-percent sure that the changes are inevitable,” she says. “Only then can they start all the necessary preparation. What we intend to do will require major changes on their side both in legal and technological operations.”

It will be imperative that firms are ready for the final draft, in order to hit the ground running, but Krasnova appreciates the responsibility of NSD to keep them informed—in fact, NSD launched its online communication tool dedicated to the reforms in March, giving participants a space to voice any concerns and to make any suggestions.

Krasnova says: “When the law changes they will have to be ready. There is a lot of work to be done.”

“We will also have to be ready to communicate the new expectations regarding standards, so our participants can start development of their internal systems. They will need the information upfront so they can prepare, and it will require communication between the market participants and a lot of patience.”

Fedotov also highlights the importance of being properly prepared for the change, but suggests that it can be difficult to get things moving before the legislation is finalised.

He says: “Usually laws are followed by regulations which add details to principles stipulated by law. It is not clear whether such regulations will appear and when.”

“Global custodians and investors must get ready and adapt to new rules. That can only happen when the local market has all rules in place and procedures finalised.”

But Krasnova says that the Russian regulator is on board with the changes and even helping to push the new rules through parliament, ensuring that all changes are feasible and based on proper legal grounding.

Ultimately, he predicts a positive effect on corporate governance as a whole, as it establishes an infrastructure for electronic processing as standard in this area.

Under the current system, many shareholders find it too difficult to even cast their votes in significant decisions. The paperwork requires time and money to complete, authorise and return in time, and after a few missed deadlines, some are choosing not to bother at all.

Ordering electronic voting in law will mean that anyone with a right to vote will have relatively easy access to a quick way of doing so, either through a website or specialist online services.

Fedetov goes in to more detail, saying that shareholders can become disillusioned with the excessive administrative burden. He suggests that this red tape can even lead to inaccurate results from shareholder votes.

He says: “It is not a secret that the current paper-based corporate actions process is based on the 100-percent discretion of the issuer, which has the freedom to accept documents from the investor or reject them.”

“Anecdotal situations where investors are rejected due to the ‘wrong’ size of apostille on a document or a missing seal on a power-of-attorney are very well known, and are often used by issuers to manipulate corporate actions in accordance with their own agenda, or the agenda of a few major shareholders.”

“Streamlined electronic corporate actions procedures offered by the draft law eliminate issuers’ discretion and minimise corporate governance issue.”

And the new system is already proving to be in-demand. Sberbank, one of Russia’s largest shareholder-owned banks, has signed up to use NSD’s e-proxy voting in its 2015 AGM.

Krasnova says: “Sberbank was using voting instructions collected via our new ISO-based technology. They have been pioneering in this area, and the e-proxy voting is just the first step.”

Voting from a distance, even electronically, is likely to affect international investors, and it’s inevitable that politics must play a part. With international sanctions placing heavy restrictions on trade with Russia, it’s still unclear what the fate of Russian firms with international investment may be.

Nevertheless, the reform has been on the cards since before the political upheaval, and Krasnova maintains that the reform won’t be derailed.

She says: “We understand that some market participants may experience certain difficulties connected with sanctions.”

“We have to proceed with the reform—the changes we’re making are positive for both local and international communities. It is important to provide institutions with modern technology, so that when things get back to normal they are ready to maintain the volumes needed.”

Fedotov points out that, about a year ago, the Central Bank of Russia (CBR) identified more than 200 key performance indicators (KPIs), with corporate actions reforms featuring fairly highly on the list. If the sanctions are not lifted, then issuers will have to consider the way they deal with international investors—something that might be tricky to pull off in the middle of a reform process.

“Corporate actions reform is one of the top priority KPIs and both CBR and market participants continue working on it without any delays,” says Fedotov.

“Changes in processes will require a lot of time and effort, but are manageable. Prior to final approval of the law, it is still premature to say when all changes will be made, however, it is clear that the most challenging part will be on issuers’ side as they will need to seriously change their systems and processes, and changes cannot be invoked in the middle of any corporate action event.”

Whether the political landscape proves to be a blip or a deal-breaker remains to be seen, but it appears that NSD and industry players are keen to go ahead with the reform, even if optimism levels do vary. Either way, Russia is still relatively near the beginning of its corporate actions journey, and no adventure is complete without its setbacks. **AST**

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

Joseph Antonellis is to retire from State Street this summer, after almost 25 years at the bank.

He joined the firm in 1991 and held several key positions leading up to his role as vice chairman and head of Europe and Asia Pacific (APAC) global services and global markets.

Antonellis commented: “This has been an incredible journey for me and one that I have thoroughly enjoyed, particularly working with our outstanding team of professionals and clients globally.”

His role will be filled by his leadership team, and **Jeff Conway** and **Wai Kwong Seck**, both executive vice presidents and members of the management committee, will lead the Europe, Middle East and Asia business and APAC business, respectively.

The UK Financial Conduct Authority (FCA) has added to its team of executives, appointing **Mark Steward** as director of enforcement and market oversight and **Barbara Frohn** as director of risk and compliance oversight.

Steward is currently head of enforcement at the Hong Kong Securities and Futures Commission.

Frohn is managing director of public policy for Santander in the US, but is currently on secondment to the Institute of International Finance in Washington DC.

Both are expected to take up their new roles in London in autumn.

Martin Wheatley, CEO of the FCA, said: “These are two vital roles within the UK regulatory system and it says a lot about the FCA that we have been able to attract such high calibre candidates to fill them.”

“Mark and Barbara have built up excellent reputations for their work in financial services across the globe, and I am delighted they have chosen to bring their experience to the FCA.”

The appointments come shortly after a bout of directorship appointments within the FCA, including **Marc Teasdale**, who was named director of market oversight within the enforcement and market oversight division.

Jo Hill was also appointed as director for markets intelligence, data and analysis.

The shake-up represents the next stage in implementation of the FCA’s new strategic approach and leadership structure.

First Names Group has appointed **Pete Emery** as group COO in its London office, with immediate effect.

Emery will work closely with the group CEO, Cengiz Somay and the management team to deliver the group’s strategic objectives.

He will focus on developing a global operational platform to enable the firm to achieve continued growth.

Emery joins from Barclays, where he most recently served as managing director and COO.

Somay commented: “Emery has experience on both the client and support side, which has provided him with a solid understanding across a broad spectrum of disciplines.”

“I know he is going to be a great asset to the group and I couldn’t be more pleased to have him on board.”

Colin Brooks, global head of sub-custody and clearing at HSBC Securities Services, has left after more than 25 years at the bank.

Brooks joined HSBC in 1990 in Hong Kong and has helped to shape the bank’s securities services division in to a global business, from offering custody in a handful of markets to providing a range of products and services worldwide.

Brooks is thought to be considering his next move following his departure from HSBC Securities Services.

It is not clear who will replace him as global head of sub-custody and clearing. **AST**

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