AST ASSETSERVICINGTIMES

ISSUE117 WEDNESDAY 01.07.2015

assetservicingtimes.com

Target2-Securities: and so it begins

The Target2-Securities (T2S) platform launched successfully on 22 June, as planned.

Four central securities depositories (CSDs) are now connected to the platform for settlement of euro transactions. Bank of Greece Securities Settlement System (BOGS), Depozitarul Central (Romania), Malta Stock Exchange, and SIX SIS (Switzerland) all went live.

Yves Mersch, an executive board member of the European Central Bank (ECB), said: "This is a tangible step forward for financial integration in Europe."

He added: "After seven years of hard work to make this happen, T2S will benefit people in 21 countries and will support the creation of a true single capital market in Europe."

Between now and 2017, 17 more countries will connect to the platform, covering almost all euro-denominated transactions. The platform intends to reduce the cost of cross-border securities transactions in Europe, while making them more secure and efficient.

Italy's Monte Titoli was also scheduled to go live on 22 June, but, while a solution has been put forward, it was not deemed ready for migration and the ECB has approved an extension of the testing time. Monte Titoli is now scheduled to migrate on 31 August.

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SimCorp: asset managers mistrust their own numbers

More than half of asset managers do not wholly trust their own investment performance figures, according to a survey by SimCorp.

In a survey conducted in a webinar, 53 percent said that they are not confident that the figures they report are correct, while 80 percent said they do not receive investment portfolio numbers based on intra-day position calculations.

Less than 60 percent said they are able to see the trades, prices, FX rates and classifications that drive their portfolios' performance numbers.

According to SimCorp, a lack of accurate information could lead to asset managers misreporting performance data to investors and regulators. It could also mean they make ill-informed decisions on trades, potentially putting them at a competitive disadvantage.

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MUFJ IS acquires UBS alternatives business

MUFJ Investor Services has acquired the alternative fund services business of UBS Global Asset Management.

The acquisition is part of a wider growth strategy for MUFJ Investor Services, the global asset servicing arm of Mitsubishi UFJ financial group.

Junichi Okamoto, group head of the integrated trust assets business group and deputy president of Mitsubishi UFJ Trust and Banking Corporation, said: "[The business's] strong client franchise, global footprint, and notably its strong presence in Asia, are an excellent strategic fit."

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Target2-Securities: and so it begins

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This delay should aid the migration process for the Italian market, and will make sure that any issues with the new solution cannot affect the other markets on the platform or the market as a whole.

A detailed plan for Italian migration is now in development, taking in to account any potential effects to the live platform.

SWIFT's Value Added Network solution for T2S also went live as planned on 22 June, supporting the launch of the new pan-European securities settlement platform.

The migration was smooth, and the SWIFT network is now carrying live T2S traffic between the platform and a number of participants, including the four CSDs.

The Bank of Greece Securities Settlement System confirmed: "During the migration weekend all our activities were executed in accordance with the playbook and well ahead of the schedule."

Silvia Buicanescu, CEO of Depozitarul Central, added: "All internal as well as bilateral and multilateral tests with T2S and the T2S community were successfully performed."

SWIFT's Value Added Network solution is enabling T2S participants to connect to the platform for the secure exchange of business information in the ISO 20022 format with resilience and with minimal risk and cost.

SimCorp: asset managers mistrust their own numbers

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Marc Mallett, vice president of product and managed services at SimCorp in North America, said: "The investment process should be seen as an opportunity—the differentiator which enables your firm to add value for your clients. If performance data is not up-to-date, there is an inability to see what's actually driving the performance. This casts a large doubt on the accurate tracking of investments which does not inspire investor confidence."

He added: "There is a critical need for asset managers to have access to real-time and accurate performance data, and these survey numbers show a significant gap between the tools asset managers have available and what they require to make high-quality investment decisions."

The survey included 88 asset managers representing about $22.5 trillion in assets under management.

MUFJ IS acquires UBS alternatives business

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He added: "We are confident that our clients will benefit from the depth of combined resources and capabilities, and from our commitment to innovation coupled with [its] market-leading technology platform."

The transaction is expected to be finalised in Q4 2015, subject to regulatory approval and closing conditions.

Ulrich Körner, president of UBS Global Asset Management, said: "In light of the increasing drive towards scale in fund administration, we concluded that the future development of [the alternative fund services business] in servicing its clients would be best ensured as part of an organisation with a strategic focus on asset servicing."

He added: "MUFG's commitment to invest in the client franchise and the people, together with their strong focus on ensuring a seamless transition, were important factors in our decision-making."

ESMA delays final CSDR technical standards

The European Securities and Markets Authority (ESMA) has delayed its draft technical standards for the Central Securities Depositories Regulation (CSDR) in a letter dated the day before the standards were originally due.

According to the letter from ESMA chair Steven Maijoor, an early legal review was required before delivery of the standards, which resulted in more time being needed before ESMA could finalise and adopt the draft standards. The letter particularly referenced input from the European Commission's legal service.

Delivery of the technical draft standards was originally scheduled for 18 June, but it is expected they will now be ready in September.

In the letter, Maijoor said: "We are confident that this approach will ensure a smooth endorsement process of the technical standards, which in the end will lead to a shorter timeframe for the adoption and entry into force of the respective regulations."

HSBC custodian for Swiss Re's RQFII fund

HSBC has become the first bank in China to provide custody services for a Swiss renminbi qualified foreign institutional investor (RQFII) fund.

The bank will be the local custodian for Swiss Reinsurance Company (Swiss Re), which has been approved as the first Swiss investor in China under the RQFII scheme.

The move comes as an extension of China opening its offshore securities markets to overseas investors. In January, China extended its RQFII scheme to Switzerland, with an allocated quota of RMB 50 billion ($7.6 billion).

As the local custodian, HSBC facilitated Swiss Re's application to invest.

Sophia Chung, head of securities services for China at HSBC, said: "We are delighted to have been able to work with Swiss Reinsurance Company. This development is testament to the success and the progress of the RQFII scheme and we are very proud to now be connecting RQFIIs across eight markets to our network in China."

Guido Fürer, chief investment officer of Swiss Re, added: "Gaining access to the Chinese financial markets as they grow in significance has become vital for global long-term investors."

"The RQFII programme will further complement Swiss Re's liability matching investment capabilities. This is an important step in Swiss Re's business aspirations under our high growth market strategy."

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HSBC offers custody, clearing and settlement, and agency services in China, and as of the end of May, the bank was custodian for almost 46 percent of the total RQFIIs approved.

2017 US debut planned for T+2

The T+2 Industry Steering Committee (ISC) has released a suggested timeline for implementing a two-day settlement cycle in the US, with a plan to make the move by the end of Q3 2017.

The T+2 ISC is organised by the Depository Trust and Clearing Corporation (DTCC) and includes members from the across the securities finance industry. These include the Securities Industry and Finance Markets Association (SIFMA) and the Investment Company Institute (ICI) which both hold positions as co-chair.

According to a whitepaper, a move to T+2 in the US could reduce operational, systemic and counterparty risk while also lowering liquidity needs and providing greater efficiency and safety for investors.

It would also align the US with other T+2 settlement markets around the world and enhance the US market structure.

The US is currently on a three-day settlement cycle for equities, corporate and municipal bonds, and unit investment trades. A plan to move to T+2 was recommended after input from more than 600 industry participants representing 12 segments of the market.

The whitepaper also includes industry-level requirements, considerations, leading practices and other initiatives that organisations will have to asses, including configuring reference data and trade processing systems; matching trades in Real Time Trade Matching by 11.30am on Eastern standard time (EST); affirming institutional equity trades by midday EST on T+1 for straight-through processing; and aligning physical securities processing with T+2 settlement timeframes.

Market participants will also have to consider how T+2 could affect the resolution process for failed trades. It could also have an impact on securities lending, liquidity and collateral management, multi-listed securities processing, foreign investment or cross-border transactions and secondary insurance for municipal bonds.

Tom Price, co-chair of the T+2 ISC, and managing director of operations, technology and business continuity planning at SIFMA, said: “After rigorous analysis, the T+2 ISC determined that a move to a T+2 settlement cycle is achievable by the end of Q3 2017. The move to T+2 will yield critical and immediate efficiencies that will help mitigate operational risk and keep the U.S. competitive with global markets.”

He added: “The establishment of this timeline is a critically important step toward T+2, and much work remains to be done. Continued communication, socialisation and transparency with the broader industry and regulators will be essential to making T+2 a reality.”

Implementation still depends on support from the regulators to amend the applicable rules quickly, and on successful testing in Q2 and Q3 of 2017. However, SIFMA and ICI have submitted a letter to regulators outlining the specific regulatory changes that would have to be made.

The T+2 ISC will now drive regulatory outreach, communication, planning and industry-wide testing, while DTCC will provide project management support throughout the migration.

Sri Lankan bank chooses Intellect for India

The Bank of Ceylon, a Sri Lankan institution, has chosen the Intellect One Treasury Solution to provide treasury management for its Indian operations.

The solution provides front-,back- and middle-office functionalities to increase productivity and provide fast time-to-market. The implementation comes with a trend towards institutions looking for new treasury and risk-management solutions for streamlining global operations.

According to Intellect, increased controls and regulations on treasuries means management systems have become more complex.

The One Treasury solution is designed to help banks make the transition from merely managing their risk to using it to gain business advantage, thereby helping them to compete globally.

It also enables diversification of funding, regulatory compliance, integration of disparate systems and the agility required for new product development and risk visualisation.

K Srinivasan, Intellect’s executive vice president and geography head for the Indian subcontinent, Middle East, and Africa, said: “Bank of Ceylon is the largest bank in Sri Lanka and their choice of Intellect Treasury for their India operations is yet another testimony of our treasury solution’s superior functionality and our leadership in the treasury space in the country.”

Nihal Surawimala, country manager for Bank of Ceylon in Chennai, India, added: “Bank of Ceylon has always looked for a state-of-the-art treasury solution that has robust features and an out-of-the-box report framework to address the statutory requirements.”

“We are delighted to partner with Intellect for our treasury operations in India, due to their capability to provide not just India-ready solutions with an extensive experience of over 20 banks in India, but also with adequate globally acceptable treasury functionalities.”

Fast-track deployment of the solution is expected to begin in the last week of June in 2015.

LSE gets green light from Hong Kong

Hong Kong’s Securities and Futures Commission has given the go-ahead to allow Hong Kong firms to become members of the London Stock Exchange.

Trading firms will now be able to connect to the London Stock Exchange order book and to trade central counterparty cleared securities. They will also have access to the derivatives market, which provides trading and derivative contracts in UK securities and global depository receipts.

Alexander Justham, CEO of London Stock Exchange, said: “Hong Kong firms will be able to offer their customers access to the most liquid European market.”

“Like Hong Kong, London has always been a market open to the world and we are excited about the increasingly strong relationship being forged between these two exceptional global financial centres.”

The London Stock Exchange already has a relationship with China. Since 1 January 2014, seven Chinese companies have been admitted to the London Stock Exchange, 10 renminbi (RMB) bonds have been issued in London and six RMB qualified foreign institutional investor exchange traded funds have been listed on the market, including the first exchange-traded fund in Europe to be dominated in RMB.

CACEIS wins Luxembourg UCITS mandate

Twenty First Capital has chosen CACEIS as the asset servicing partner for its first Luxembourg UCITS fund, the TFC TACTICAL Long/Short fund, launched on 22 May.

CACEIS will provide depository services, fund administration, transfer agency, and clearing services, as well as listed derivative and cash equity execution.

Joseph Saliba, deputy CEO in charge of business development at CACEIS, said: “CACEIS has developed derivative execution and clearing services, thereby enhancing its offering for fund managers working within the framework of the UCITS IV or [Alternative Investment Fund Manager Directive].”

At the end of 2014, Twenty First Capital had more than €600 million in the fixed-income equity and emerging markets.

Stanislas Bernard, CEO of Twenty First Capital, said: “We were looking for a first-rate service provider to support the launch and international distribution of our first Luxembourg UCITS investment vehicle. We were convinced by CACEIS’s vast experience in European markets and its comprehensive range of services for investment funds.”

Clearstream’s assets under custody rocket

The overall value of assets that Clearstream held under custody for its customers increased 10 percent to €13.4 trillion in May.

Assets under custody were valued at €12.1 trillion in May last year.

Securities held under custody in Clearstream's international central securities depository, meanwhile, increased to €7.2 trillion last month—an 11 percent increase over May 2014's €6.4 trillion.

The German central securities depository saw its securities held under custody climb 9 percent over 12 months, from €5.7 trillion in May 2014 to €6.2 trillion in May this year.

Clearstream processed 3.6 million international settlement transactions in May, slightly down on the previous year by 2 percent. On the German domestic market, settlement transactions in May reached 7.2 million, beating the same month in 2014 by 10 percent.

Clearstream also enjoyed a monthly average outstanding of €622.5 billion for global securities financing in May this year.

The combined services of triparty repo, securities lending and collateral management collectively beat May 2014's €593.7 billion by 5 percent, although they were down on April of this year, when they had a monthly average outstanding of €628.4 billion.

Calastone wins Danish pension business

Denmark's AP Pension has chosen Calastone to provide order routing services, supporting the pension company's administration platform for cross-border trading.

The Calastone network should provide more visibility of the order lifecycle, reducing market risk without any additional implementation, integration or development costs.

It is designed to allow all parties in the process to connect through a single line of communication, translating messages in to a common form determined by AP Pension. Distributors will then gain access to every fund provider on the Calastone network.

The move comes as a response from AP Pension to the increase in automation within the global funds industry. It currently administers about 100 billion Danish kroner (£9.6 billion) in institutional assets from about 2,000 corporate pension schemes, including UCITS funds, internally managed funds and alternative investment funds.

Jon Willis, chief commercial officer at Calastone, said: "Smaller distributors, such as AP Pension, traditionally chose to remain on manual processing as they believed the implementation costs far outweighed the benefits of finding a straight-through processing order routing solution. This is no longer the case."

The mandate is also part of Calastone's move towards providing a more global market coverage.

German firm goes live with Broadridge solution

Portigon Financial Services has gone live with Broadridge's global post-trade processing solution for improving efficiency and unifying domestic and cross-border flows.

Based in Düsseldorf, Portigon will use the solution for both its German and international business across exchange-traded derivatives and securities. It aims to rationalise previous processes that were conducted on three separate systems.

The single solution also allows for consolidation across asset classes. It includes middle- and back-office transaction processing across asset groups, and supports processing of confirmations, trade reporting, corporate actions and more.

Portigon COO Klaus Bremges said: "Broadridge has helped transform the economics of our operational model, and will enable us to increase the quality, standardisation and functionality of our service as we support our client base and take on new business."

Tom Carey, president of global technology and international operations at Broadridge, added: "It is a great privilege to have been selected as Portigon's single multi-asset solution provider, demonstrating our capability to operate across multiple asset classes and implement solutions across Portigon's home market and international markets."

Isle of Wight mandate for BNP Paribas

BNP Paribas Securities Services has been selected to provide custody services to the Isle of Wight Local Government Pension Scheme (LGPS).

The move comes after BNP Paribas was shortlisted to provide its services in 2013.

Stuart Fraser, head of finance at Isle of Wight LGPS, said: "We were very impressed with BNP Paribas' service offering for custody, in particular their data management tools which provide us with interactive, dynamic information on our funds, and their commitment to client service."

"We have also been impressed by the level of support provided during the transition of this service from our previous provider."

BNP Paribas Securities Services currently has about $9 trillion in assets under custody.

Mark Downing, UK head of relationship management for institutional investors at BNP Paribas Securities Services, said: "BNP Paribas has a strategic commitment to servicing the needs of pension funds in the UK, and we are absolutely delighted to have been awarded this mandate."

He added: "Our offering is designed not only to safe-keep the assets of pension funds, but also to help them manage increasing regulatory requirements and enhance the way they manage their investments."

Industry associations endorse ISDA reporting principles

A group of industry associations from around the world has published a letter supporting a set of principles developed by the International Swaps and Derivatives Association (ISDA), aimed at improving consistency in regulatory reporting standards for derivatives.

The 11 associations signing the letter include the Alternative Investment Management Association, the British Bankers' Association, the German Investment Funds Association and the Australian Financial Market Association.

The ISDA principles call for derivatives reporting requirements to be harmonised across borders and for the further development and adoption of global data standards. They were developed to address challenges that have emerged in the cross-boarder implementation of derivatives reporting rules.

Progress has been made in meeting the G-20 requirement for all derivatives to be reported to trade repositories to increase regulatory transparency, an objective the associations support.

But a lack of standisation and consistency in reporting requirements within and across jurisdictions has led to concerns about the quality of the data being reported.

The associations believe the ISDA data reporting principles will result in greater consistency in the content and format of the data being reported, which will improve regulatory transparency. They also believe similar principles will benefit global trade reporting requirements beyond derivatives, and that lessons learned from derivatives reporting should be applied more broadly.

Dev Bhudia, vice president of product management at enterprise data management firm GoldenSource, commented: "The call for regulators to look at data accuracy and integrity comes at a welcome time."

He added: "But while looking for accurate data is all well and good, alone it isn't sufficient. The quality of data must be actively managed. This requires efficient workflows for data errors, as well as a framework for continuous improvement to ensure that the quality of information remains at acceptable levels."

SunGard's MarketMap to cover more ground

SunGard's MarketMap data solution has been enhanced to include additional social sentiment, reputational risk, short interest and research content.

The solution connects wealth managers, advisors and traders to service providers to help them find new opportunities and to react quickly to market changes and client needs. It can also help firms to differentiate their offerings from competitors.

New content includes: Heckyl, which tracks changes in the mood of the market, anticipating changes before price fluctuations begin to take effect; RepRisk Index, designed to quantify reputational risk exposure related to environmental, social and governance issues; and the BATS One Feed, which offers a view to reference quotes and trade data from all four BATS US equities exchanges.

It also offers access to SunGard's Astec Analytics Borrower Activity Rating, which identifies the most borrowed stocks using an indicator of short interest.

Douglas Taylor, founder and managing partner of Burton-Taylor International Consulting, said: "Market data is readily available. The differentiating value for a market data provider is to help its clients extract unique or unusual insights that enable them to uncover new market opportunities."

Harald Bina, head of product management for SunGard's global trading business, added: "There are enormous opportunities to dig deeper and wider to leverage broader access to unique value-add content and provide more value to customers."

"Such insights can lurk in all sorts of places currently present in existing platforms but are yet to be discovered. SunGard's investment in unique content helps provide more advanced tools to make the data more relevant to meet more sophisticated client demands."

Chapman's Eye on the market

Limited alternatives

There are several golden rules in life: never eat yellow snow, don't buy an Alfa Romeo in the dark, and try as hard as you can to not have a Travelodge Café as your only choice of breakfast location. I have to admit to breaking two of those rules in the past and wouldn't wish them on anyone.

Another golden rule is that any major project involving information technology will invariably over-run and go over-budget. This is certainly and increasingly true within the financial services world, where IT is the common thread running through all major initiatives, be it a new reporting or compliance system, improved trading mechanism, repair and ongoing maintenance of multiple legacy systems, or the integration of new acquisitions.

From experience, the major reasons for poor execution of these initiatives is a lack of communication from the outset, as well as a lack of shared vision between all relevant parties. Management would invariably like perfection—an all-singing and all-dancing solution that fully solves their problems. They usually don't appreciate—or can't articulate—the detailed requirements of the end product and likewise, IT folks invariably think like IT folks, meaning they understand the nuts and bolts but either aren't told or don't fully appreciate the big picture and what is trying to be achieved.

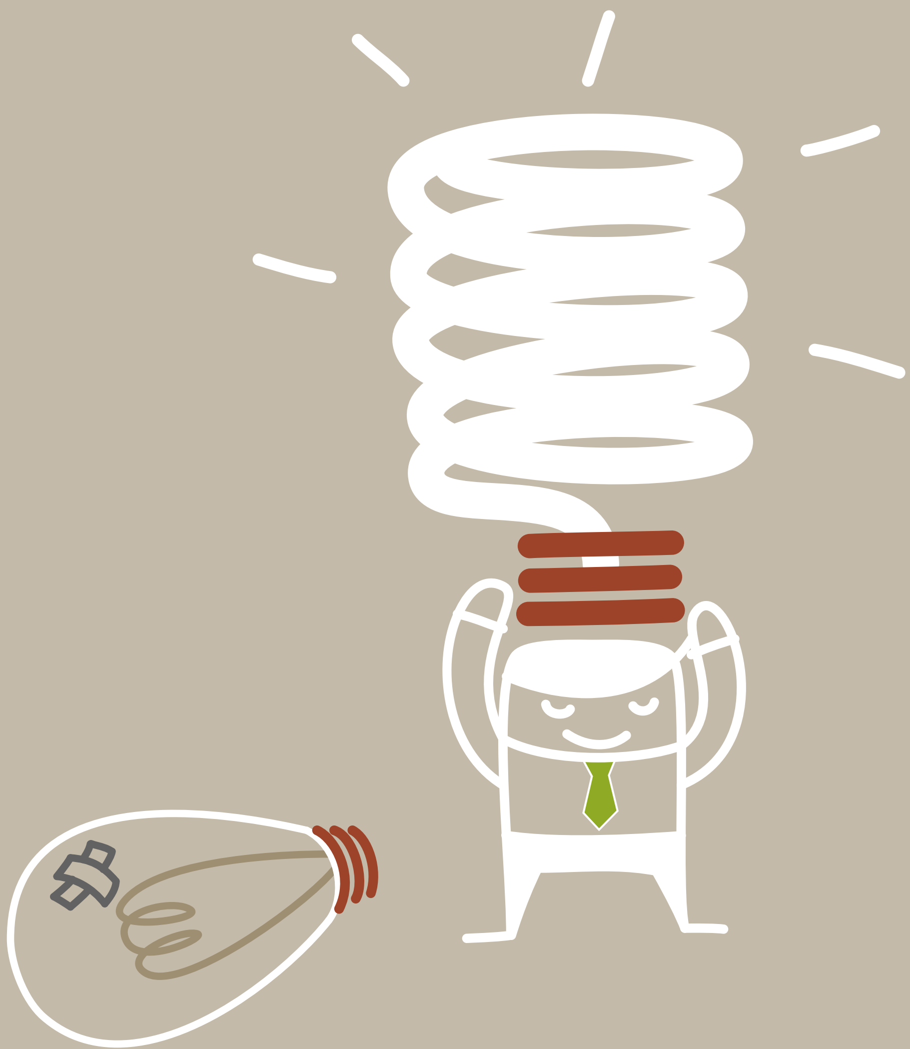
The end result is a solution that either costs significantly more than initially expected or falls short of the requirements, or both. With the emergence of disruptive technologies in our industry and an increased focus on return on equity to offset shrinking margins, smooth, efficient and timely implementation of technology projects will become pivotal to the success, or otherwise, of firms, be they expanding or simply trying to stay in business. Communicate, communicate, communicate, as Tony Blair might have said (but didn't).

Speaking of firms expanding, there is significant activity in the alternatives space, with BNP Paribas buying Credit Suisse's alternative fund administration business, Citibank exiting hedge fund administration and UBS selling its alternative fund services arm to Japan's Mitsubishi UFJ Financial Group. This pattern will surely continue and will allow some formerly middle-ranking firms to begin to play in the 'big league' and reduce pricing while making smaller firms, with their bespoke service offering and flexible approach, more attractive to smaller clients.

Supplier firms will not be able to sit on the fence and, in pretty short order, will be obliged to choose whether they wish to be 'monsters or minnows' in the business. Rather than these changes resulting in a lack of choice for the end client, this defined delineation will actually make the decision of choosing a supplier easier and clearer, which should be to the benefit of the industry overall.

Of course, I suspect that eventually the classic 'accordion' effect will take place whereby the bigger firms will be obliged to voraciously consume those smaller firms at over-inflated prices to keep their acquisitive momentum going, resulting in these firms becoming unwieldy, unresponsive and providing a limited choice to the client community then deciding to hive off arms as standalone units and thus, the process starts all over again. Such is life.

Paul Chapman, managing director, HornbyChapman Ltd



Driving innovation

WFC 2015 in Cancun saw central securities depositories unite to discuss how they are becoming the agents of change in today's financial markets

As hosts of the World Forum of CSDs (WFC) 2015, S.D. Indeval, the Mexican central securities depository within the Bolsa Mexicana de Valores (BMV) Group, welcomed more than 230 attendees from 80 countries to Cancun in May. The forum united all sectors of the post-trade market infrastructure industry, including not only CSDs, but clearinghouses, regulators, central banks, service providers, global banks and custodians.

One attendee, R Vivekanand, vice president of Tata Consultancy Services, called the event "truly world class", and said: "WFC has helped foster collaboration in the post-trade industry, by providing a platform for global players to share their experiences and help each other in managing change."

Soraya Belghazi, secretary general of European Central Securities Depositories Association (ECSDA) and a delegate and speaker at WFC 2015, said the event was "a good reflection of the current debates and future challenges facing central securities depositories worldwide".

The host keynote speaker, Jaime Gonzalez Aguadé, chairman of the Comisión Nacional Bancaria y de Valores (CNBV), opened the conference by addressing the impacts of new regulations on the financial market, while a second keynote speech, from Jaime de la Barra, a partner of Compass Group, set the global stage for WFC 2015 with a sweeping world tour of economic and market trends in both developed and developing markets.

The first panel, moderated by Rose Mambo, CEO of Central Depository & Settlement Corporation in Kenya and featuring panellists from ECSDA, Clearstream, DTCC, Singapore Exchange and SEB, included a lively discussion on settlement systems' experience and challenges in shortening their trade settlement cycles.

Members from Europe, which reached a unified T+2 settlement timing last October, shared their experience, noting the importance of regulatory coordination. Representatives from other regions discussed the benefits of a building-block approach, while US speakers suggested that the country is targeting its move to T+2 for Q4 2017. All the speakers agreed that managing fails and liquidity are critical factors.

Belghazi commented on the topical nature of this discussion, saying: "At a time where European regulators are trying to agree on a common settlement discipline regime for CSDs, sharing experiences and viewpoints from various regions of the world was particularly helpful to put the upcoming European reform into a global perspective."

Collateral management proved a compelling topic in the next panel, moderated by Michael Barrett, vice president of Genpact Headstrong Capital Markets in the US. Speakers discussed CSDs' responsibilities as secure, central hubs, and in providing efficient securities movements and asset servicing to help their member banks and other financial institutions meet regulatory mandates worldwide—to strengthen their securities and cash reserves in the post-financial crisis reforms. Specifically, the panel focused on various collateral management models and services.

Later, Lorenza Martinez Trigueros, managing director of the Bank of Mexico, outlined the strategic partnership that the Mexican central bank and Indeval have built. She highlighted the unique benefits gained through their integration of payment and securities settlement, which enables Mexico's financial market infrastructure to settle daily transactions valued at $230 billion.

In a panel moderated by Belghazi, panellists discussed the industry's progress in understanding, self-assessing and implementing the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO) Principles for Financial Market Infrastructures (PFMIs). This set of 24 risk-based standards for market infrastructures was jointly defined by central banking and securities regulators in the aftermath of the financial crisis.

The PFMIs were identified as a key focus for CSDs, as well as in payment systems, central counterparty clearing systems and trade repositories. The panel traced progress relating to the principles, which are designed to raise the bar in each jurisdiction. The PFMIs also represent the key global ratings criteria in the International Monetary Fund and World Bank Financial Sector Assessment Program.

"CSDs need to understand how regulation impacts their clients. That's why we firmly believe in the principle of increased collaboration between market infrastructure, their clients and their counterparties"

According to conference speakers, CSDs' spending on technology development is growing at a rate of 7 percent per year, which is predicted to continue beyond 2017. During a technology panel, participants discussed drivers behind this growth, the potential to leverage CSD data, expand beyond core services and support regulatory changes, as well as the arrival of potentially more globalised technologies such as block-chain.

Belghazi called the discussion on technology and cyber-security "very stimulating", suggesting that CSDs are encouraged to take a proactive approach to their systems and innovation.

"Given the 'borderless' nature of technological innovations, it is not sufficient for the debate to be held at national or regional level. While ECSDA is only starting to address such issues within the association, we expect global changes in technology to continue to figure high on the agenda of future world CSD conferences."

The impact of regulation on CSD activities was a recurrent comment throughout all panels. In one session, speakers discussed how new regulation, on one hand, creates opportunities for CSDs to expand their services. Banks, facing financial and regulatory pressures, may be more open to outsourcing in order to offer solutions such as collateral management, risk management and reporting. On the other hand, regulatory requirements pose challenges in terms of the economic viability of CSDs, which is driving them to consolidate further. Regulators also face challenges in addressing financial market infrastructure risks and complying with global standards.

Another panel addressed CSDs from around the world working together, as representatives from Spanish, Chinese, South African and Russian CSDs offered examples of successful collaboration. Participants highlighted trust, leadership and sustainability as key elements for success in a partnership among CSDs. A later discussion presented an optimistic outlook for the future of CSDs and other market providers, concluding that consolidation and industry collaboration will be the common view to the future landscape of CSDs.

A spokesperson for Euroclear commented after the event that this kind of collaboration can lead to greater support for the end client, saying: "The Euroclear group strategy is based on constructive dialogue with its clients. This has resulted in a focus on delivering greater efficiency risk management and cost effective services for the capital market as a whole."

"CSDs need to understand how regulation impacts their clients. That's why we firmly believe in the principle of increased collaboration between market infrastructure, their clients and their counterparties, and the pooling of resources to facilitate the development of highly sought-after added value services such as sophisticated collateral management tools."

Juliette Kennel, head of market infrastructures at SWIFT, also highlighted this as a significant point, saying: "The trend towards collaboration between CSDs was clear, with a common aim to drive efficiency, with discussions around standards, interoperability and common business activities."

Belghazi commented on the issue of account segregation and asset protection, saying it "emerged as a red thread" throughout the conference.

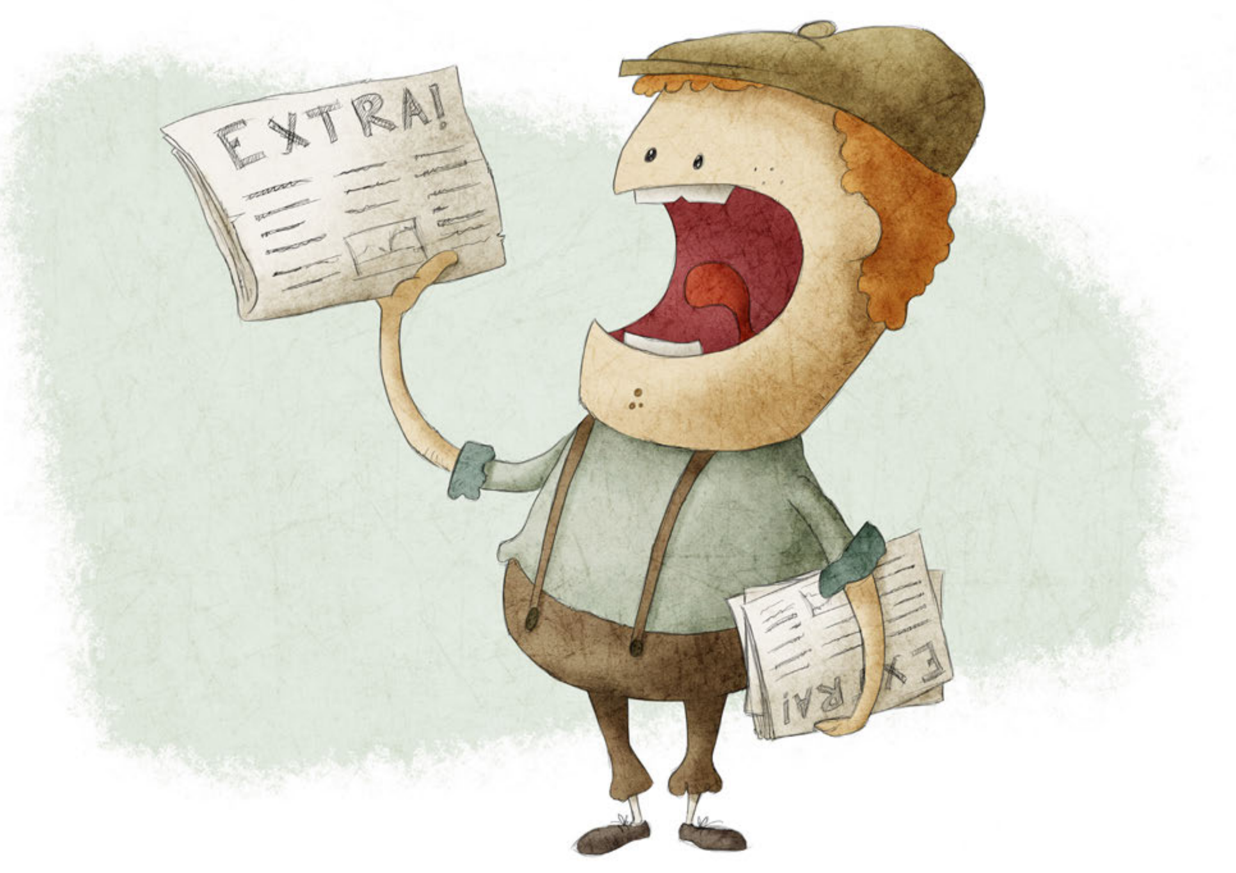
"Despite diverging national practices as regards omnibus and beneficial owner accounts, there is a common interest in better understanding the implications of using a particular account structure, whether from a legal, operational or efficiency point of view."

She added: "A joint exercise would be very valuable in allowing the industry collectively to have a clearer view of the array of existing practices worldwide."

Kennel summed up the mood of the event, citing the drive for collective innovation across both mature and developing markets.

She said: "The conference was full of CSDs driving innovation—new approaches, new technologies and new services, sometimes far from their core activities."

She concluded: "CSDs truly have become agents for change." **AST**



What's new in custody?

Unprecedented reform and a focus on automation will bring client benefits, says Tony Minchella of Bank of America Merrill Lynch

Like many other areas of the financial services industry, custodians continue to experience unprecedented levels of global regulatory reform and market infrastructure changes. From Basel III and the Security and Exchange Commission's (SEC) money market reform programme to Target2-Securities and UCITS V, regulatory changes are having a significant impact on custody services. Meanwhile, a continued focus on automation is enabling clients to benefit from cost reductions, efficiency improvements and better risk management.

All change

Upcoming changes resulting from UCITS V aim to increase the level of protection already offered to investors in the existing UCITS directives. The changes will need to be implemented by EU member states by 18 March 2016.

The Alternative Investment Fund Managers Directive (AIFMD) deals with reform for hedge funds and alternative investment businesses. In the past, hedge funds and UCITS funds have been regulated somewhat disparately. UCITS V brings a more consistent approach, which will provide greater transparency in terms of regulator-required reporting, as well as making the responsibilities of the depository more consistent in the two worlds.

One key area of focus is depositories. For European funds, custodians are required to maintain a depository in order to offer custody services for funds domiciled in jurisdictions such as Ireland and Luxembourg. By offering a depository service, custodians act on behalf of investors and provide a clear line of ownership of their assets. The service is effectively an independent body that oversees the operation of funds.

UCITS V enhances the responsibilities of depositories, thus more closely aligning with the approach taken in AIFMD. The directive introduced harmonised conditions and requirements on the structure and operation of alternative investment funds. From a depository perspective, these requirements included eligibility criteria, depository duties and an increased liability regime. UCITS V introduces a more detailed list of depository duties, as well as an increased liability regime, with enhanced reporting to regulators—effectively levelling the playing field between alternative investment funds and UCITS funds.

As a result of regulatory changes, reporting requirements across the industry have increased significantly across Europe—as illustrated by the Annex IV reporting required under AIFMD. This reporting is more extensive than Form PF reporting in the US, which presents investment managers with a dilemma. Investment managers can either re-engineer their processes to fulfil Annex IV and Form PF reporting obligations, or they can opt to outsource their Annex IV reporting to a third party, such as a fund administrator.

This is a complex decision: even if they choose to outsource their reporting, alternative investment fund managers will still retain responsibility for the returns submitted. At the same time, if those managers look for recourse to service providers, these may be unwilling to accept liability for errors in the return data provided.

In addition to these changes, the Foreign Account Tax Compliance Act and Tax Cost Basis regulations in the US have introduced new processes for custodians, while the UK's Financial Conduct Authority is introducing measures requiring significant infrastructure and policy changes.

Effect of the changes

For custodians, it is important to keep on top of these regulatory changes by participating in relevant industry forums and putting in place appropriate regulatory and risk frameworks. Successful implementation requires a number of different stakeholders throughout the organisation, so it is important to understand the implications of regulations and communicate the necessary information to all the relevant stakeholders at all levels throughout the organisation.

Custodians should also understand that new regulations are not always set in stone and it is not unusual for specific requirements to evolve over time. Custodians that are members of national and international industry associations interact with regulators as part of the evolutionary process that shapes regulatory developments at a local or an international level.

Key takeaways

- Custodians continue to experience unprecedented levels of global regulatory reform and market infrastructure changes.
- Clients and providers need to continually adapt in both strategies and operational models to keep pace with regulatory change.
- Automation brings clients valuable information that will help them achieve efficiency, and identify and resolve potential problems before they have actually happened.

The effect on clients and providers traversing through myriad regulatory reform, combined with the complexity of operating efficiently across geographies, is putting pressure on client revenues, and we do not see any signs of any of that easing over the coming years. Clients and providers alike need to continually adapt and show flexibility in both strategies and operational models to keep pace with regulatory change, while optimising capabilities and managing risk simultaneously.

The road to automation

Aside from regulatory changes, other dynamics are continuing to shape the custody business. One of these is the introduction of greater levels of automation. The days of faxing and manual touch points may not have disappeared entirely, but these processes now tend to be used as contingency measures in the event that clients experience business interruptions, such as systemic outages or a disaster recovery event. There is a clear preference among clients for automated processes, which bring numerous benefits, including risk reduction, cost benefits and greater efficiency in operational workflows for transactional activity.

Much has already been achieved in this space, but there is still room for improvement, and automation continues to be a key focus. The overriding goal of these efforts is to bring clients valuable information in a way that will help them to achieve efficiency, and identify and resolve potential problems before they actually happen.

SWIFT, an industry-owned association, offers secure bank-to-bank communications for securities, asset servicing and cash transactions with standardised formatting features that reach more than 10,000 banking organisations globally. Utilising SWIFT messaging brings many benefits, including a highly secure and resilient communication methodology that has a proven track record of performance and stability, increased straight-through processing levels, and an improved audit and compliance infrastructure.

Driving demand

Changes in the industry may place additional demands on custodians, but the overall effect of these changes is very positive. Demand for custody services as the safekeeping of assets through an independent custodian has increased significantly over the last few years. The turmoil of the financial crisis prompted more interest from investment managers and institutional investors, and regulatory developments are continuing to drive demand.

The EU passport available for EU-domiciled UCITS and alternative investment funds has led some investment managers to establish onshore funds, and this demand is likely to increase in the coming years. Meanwhile, the increased regulatory framework is bringing further opportunities. Capital requirements are driving the use of collateral, which is a good fit for escrow and custody products. **AST**

Tony Minchella
Global custody and agency services
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The road to Riyadh

As the Saudi Arabian stock exchange finally opens its doors to foreign investments, the influx from abroad will be in baby steps, not leaps and bounds

STEPHANIE PALMER REPORTS

It's arguably the largest un-tapped market in the Middle East and beyond, but this summer the international investment community gained access to the bounties of the Saudi Arabian stock exchange, Tadawul, as it invited foreign investors for the very first time. Huge in terms of landmass, wealth and population, it is estimated that Saudi Arabia accounts for about 45 percent of the total market capitalisation in the gulf region—amounting to $600 billion—as well as 67 percent of the trading turnover.

As Arindam Das, regional head of HSBC Securities Services in the Middle East and North Africa, says: "It's a large market by any standards, but by Middle East standards, it's huge."

Previously, some foreign investors could enter the market through not-particularly-popular mutual funds, or through swaps with big banks, but they wouldn't have direct ownership of any stocks listed on the market. As of 15 June, investors can use the new qualified foreign investor (QFI) route to claim ownership of stocks listed on the Saudi market in their own right.

It's a move that many have been anticipating for decades, but according to Das, the timing partially reflects the desire of the Saudi government to encourage institutional investment, which would in turn lead to higher standards of corporate governance in the Saudi market.

He says: "It's primarily a retail market and there has been a fear of 'hot' foreign money coming in when the times are good and going out when the times are bad, and of retail investors who are not so savvy being caught out. But obviously a lot of research has gone in to it, and the Saudi regulators and policymakers have looked in to it thoroughly, and have gained comfort that with the eligibility criteria they have stipulated for QFIs it is unlikely to lead to 'hot money'."

"Currently the market is about 90 percent retail, which means it's quite volatile. Retail investors don't tend to invest based on research, they often invest based on tips and rumours. Policymakers want to change the balance to be a healthy mix of retail and institutional, so that the investment climate changes."

He adds that an influx of institutional investors could lead to greater corporate governance, saying: "Institutional investors, foreign or domestic, do more research. They ask companies the right questions, and automatically the management and the corporate governance of the corporate sector improves."

Yasser Alharbi, head of asset management at Global Investment House – Saudia, says this has been a long time coming, and the opening to foreign investment is a result of years of planning to perfection, rather than a mere reaction to market trends.

"Tadawul has been working on various projects over the past decade to gear up for direct foreign investment," he says. "For instance, facilitating and encouraging listing of Saudi corporates to increase the market depth and breadth, making Saudi Arabia the largest and most active initial public offering market in the Middle East and North Africa region, and developing and enhancing regulations in terms of corporate governance and disclosure."

It's perhaps no coincidence that this invitation to investment comes at a time when the Saudi economy is healthier than ever. According to Alharbi, the country's fiscal reserve is around 100 percent of GDP, while debt levels are just 1.6 percent of GDP. The stock exchange is large and diverse, with approximately 170 stocks spanning 15 sectors, and on top of this, the Saudi demographics are compelling—it has a very young population (20 percent is under the age of 10, and only 5 percent is above the age of 60) and the population has quadrupled in one generation, says Das.

He adds: "The oil prices over the last decade have led to significant foreign exchange reserves, and have brought down the debt:GDP ratio, so despite the recent decline in oil prices, the government can continue with the spending programmes it had initiated earlier. The economic fundamentals, coupled with the depth and breadth of the market, makes it a very attractive market for investors to look at."

Alharbi agrees, calling the stock market a "fair representation the broader economy". He also insists that the market is still growing and that its "strong fundamentals" will act as an attraction to new foreign investors.

He points out that the opening of such a large market in the Middle East is likely to attract attention to the region as a whole. In 2014, the United Arab Emirates and Qatar were upgraded by MSCI from 'frontier' markets to 'emerging' markets, and if the Saudi market could eventually graduate to be included on the index, that could be the next step in making the region more accessible.

Alharbi says: "Many listed Saudi companies have exposure to, and investments in, other regional markets, and vice versa. It is expected that this move will bring extensive research coverage on Saudi sectors and companies, which is expected to extend to other regional markets with the same kind of macroeconomic environments, consumer dynamics and market characteristics."

While Das agrees that "over a period of time this will be a game-changer for the Middle East", he stresses that this is just the beginning of a long process. As it stands, asset managers have to meet strict eligibility requirements—assets under management must be $5 billion or more, the investor must be a bank, fund manager, pension fund or similar, and it must have at least a five-year track record in the securities business.

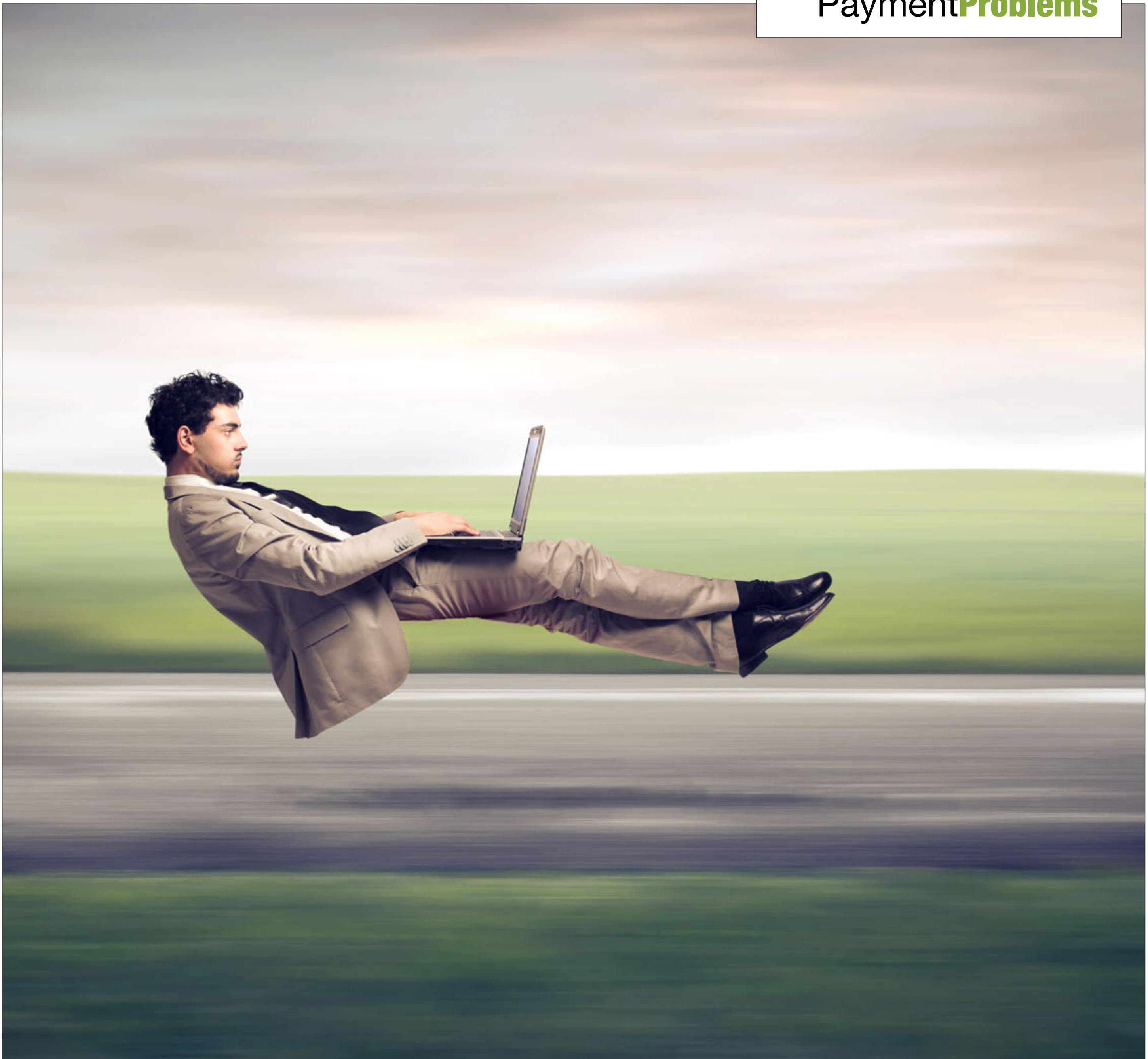
He says: "They are very clear about what type of institutions they want to attract, they don't want short-term money and they don't want small operators coming in, so they are targeting these large institutional asset managers and asset owners, namely pension funds, insurance companies and sovereign wealth funds. For such institutions, the threshold of assets under management or the track record criteria will not be a restriction."

He predicts that, while there may be a slow start, international investment will take off before the end of 2015, and that in the long run restrictions will be eased and new asset classes and products will be introduced.

Alharbi says: "We expect the Capital Market Authority to finalise the legal and regulatory framework necessary to enable listing and trading of real estate investment trusts. We also expect more products and initiatives on the debt markets."

While it's taken the first big step, the Saudi market has a long road ahead. But, by all accounts, once all the pieces are in place there is little to stop Saudi Arabia from taking the investments world by storm, even if it takes a little patience.

As Das says: "The plumbing takes some time to set up, but once it's done the water starts flowing." **AST**



Faster, stronger, safer

Fixing payment systems is tough, but the work needs to be done in the UK, says Guy Warren of ITRS, if banks are going to process transactions more quickly

STEPHANIE PALMER REPORTS

What kind of snags are payment transactions getting caught on?

The problem in the payments world is the number of routes that a payment can take to clear and settle, from a high-value back-bone such as the UK's Clearing House Automated Payment System (CHAPS)—a domestic system that's bank-to-bank but cleared through the Bank of England—to schemes such as BACS for non real-time payments at a lower price point. Then there are faster payments, which means there are three payments mechanisms in one jurisdiction alone.

With international payments, there are networks such as SWIFT, which mean banks don't have to have counterparty arrangements with every organisation around the world. In the end, there are seven or eight different ways that a payment can be made, all with different characteristics of performance, timeliness, cost and surety.

To an extent, the end-goal is different, too. An International Bank Account Number (IBAN) or SWIFT code means you can be sure that the money has arrived in the right bank account. If there are delays, for example, with BACS payments, which are batch-based, it could be the case that by the time the payment is ready to be deposited the bank account could be closed or the details changed.

Catering to multi-day clearing and confirmation is why we have the concept of un-cleared funds sitting in the banking system, and that's why we're seeing a move towards faster payments.

What can look like quite a straightforward payment from a corporate or retail point of view can end up being a relatively complex routing problem for the organisation to which they're giving the task. First, they have to work out which route it's going to take, maybe discussing it with the client, then they're making sure they have all the right information to make sure the payment goes all the way through.

Often, the burden is on the person trying to make the transaction to provide the data of the recipient—it is assumed that they know all the correct banking details. If they don't know them, or if they have some numbers the wrong way around, checking that at the point of origination isn't always easy. If a bank accepts an instruction in good faith and realises later that a particular code is not correct, then it will run in to problems. This inability to validate data sufficiently at a point of origination is one of the main reasons payments get stuck.

In my experience, 10 to 12 percent of payments don't go through without human intervention, and with the amount of payments worldwide, that adds up to a lot of cost. Banks often end up spending more on the payment than they charged to make it in the first place.

Another major problem is that often bank's don't know why a payment is stuck. They have to look in to multiple message queues, find which gateway it's trying to go through and where it's been routed. On a complex first-tier corporate, there isn't enough visibility to all the routing options, or around the reasons a payment hasn't been processed yet.

What can asset managers do to help make the process as smooth as possible?

Online validation is the key. Some of the bigger firms already have a direct connection through the portals that big banks offer, with 'golden-source' data. That validation needs to be as timely as possible, and the sender, the bank and the recipient have to stay in sync. It's important to have quality data throughout the lifecycle, and that generally means computer to computer. Clients shouldn't be faxing details or phoning them in, but having them immediately validated online. That way, if an IBAN is wrong then it will be rejected at the point of entry, and flagged up to the customer without going through a human. That's a key starting point.

System-to-system doesn't mean just producing a file and sending it on, it means a dialogue between asset managers' and the banks' systems to make sure the data is up to date. That increased straight-through processing (STP) means firms can drive down costs. If they make the investment in doing this, not only do they save money, but they will have fewer failed and late payments, and because of that they could get more volume.

It becomes a virtuous circle, not only does a firm pay less per transaction—it can end up with more transactions to process because it does it more effectively than the competition.

What are the implications of payment blockages for asset managers?

They can be as disastrous as missing a deadline—these companies are trying to manage liquidity so that they haven't got too much money in their bank accounts, and they want to optimise the cash that is there. To not receive a payment when they're expecting it, or for a payment not to go out to a counterparty, can make this difficult.

On the other hand, there is value in having a good STP rate. Customers will pay for it because in the case of a failure, the reputational damage is far greater than the additional transaction cost.

Some banks are making this investment and then trying to become a payments service provider. For example, one particular bank on the continent put a lot of effort in to getting European payments running smoothly in all countries and then offered this as a service to UK banks that couldn't justify putting domestic clearing in place for those European countries. They can turn it in to a business stream in its own right, which opens up even more potential business.

Also, interest rates have been so low since 2007 that banks can't really make much money on spread. They have moved towards transaction banking and transaction fees. Organisations have been trying to turn what was once just a basic infrastructure in to a revenue-gathering service, and therefore the investments in payments have been beneficial to both banks and asset managers. There is a return-on-investment in this, but not enough banks are getting it right yet. STP rates vary across the industry, but percentage-wise, none are in the high 90s yet.

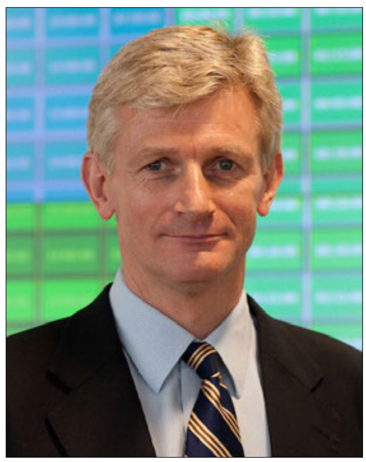
Do the benefits of faster payments outweigh the risks?

I think they do. There aren't actually many risks associated with faster payments—the infrastructure has proved pretty bulletproof, and we haven't seen many outages on the system. Generally, it actually reduces financial risk because counterparties don't have to wait to know if the funds have cleared, and payments are deducted instantly. The less time is involved, the less risky it is.

The only issue is that faster payments is the third payments mechanism we've got in the UK, after CHAPS and BACS, and that means that UK banks now have to support all three of them without getting jammed up. They'll all have to go through different computers and different gateways to do that effectively.

"There aren't actually many risks associated with faster payments—the infrastructure has proved pretty bulletproof, and we haven't seen many outages on the system"

It's hard to say whether payments systems will consolidate and maybe faster payments will eventually replace the others. CHAPS provides a high degree of surety about the counterparty and therefore risk management. It's administered through the Bank of England and it will only make a transaction if the funds are there. BACS is still used for the majority of end-of-month payments (standing orders and direct debits), but it would benefit from a faster processing window and any-time processing instead of being batch-based as it is today. **AST**



Guy Warren
CEO
ITRS

Industry appointments

BNY Mellon has promoted **Alan Flanagan** as global head of private equity and real estate fund services.

Flanagan will continue to be based in Dublin and report to Frank La Salla, CEO of BNY Mellon's alternative investment services business in New York.

He will be responsible for overseeing global business and driving growth in an area that has seen large recent deals.

Most recently, Flanagan was global head of product management for alternative investment services. **Robert Chambers**, who will succeed Flanagan, joins BNY Mellon from Balestra Capital, where he was managing director, portfolio manager, and member of the operating committee.

Nasdaq has appointed **Stacie Swanstrom** as senior vice president to lead its global corporate solutions business.

In this role, effective 1 July, Swanstrom will be responsible for leading the strategic direction of the business while managing the success and growth of Nasdaq's current investor relations, public relations, governance and multimedia offerings.

She will report to Adena Friedman, president of Nasdaq.

Swanstrom has worked at Nasdaq for more than 20 years, having held various leadership roles within the market services segment. She was previously head of global access services.

Nasdaq has also appointed **Anna Ewing**, executive vice president, to a strategic advisory role.

Denise Voss has been appointed as the new chairman of the Association of the Luxembourg Funds Industry (ALFI), replacing Mark Saluzzi.

Voss's new role is effective immediately and will run for a period of two years. She has been vice chairman for international affairs for ALFI since 2011, and a member of the ALFI board of directors since 2007.

She is also chairman of the European Fund and Asset Management Association (EFAMA) investor education working group.

She has worked in the Luxembourg finance industry since 1990, and is currently conducting officer at Franklin Templeton Investments.

London Stock Exchange Group (LSEG) has appointed **Donald Brydon** as its new chairman.

Brydon will succeed **Chris Gibson-Smith**, who announced in 2014 that he would retire after 12 years as chairman, effective 1 July.

Tony Buche has joined KNEIP to lead the relationship management team based at its headquarters in Luxemburg.

Buche will be responsible for all of KNEIP's existing client relationships worldwide and be charged with maintaining KNEIP's standards for client service.

He will report to Renaud Oury, chief sales and marketing officer at KNEIP, who commented on the appointment: "I am extremely happy to have Buche on board. His successful track record and experience both in operations and sales is a clear asset for KNEIP."

Prior to his new role, Buche served at Societe Generale Securities Services in Luxembourg, heading the custodian services department as sales director.

Padraig Hoare has joined Elian Fund Services as associate director.

Hoare has more than 25 years industry of experience, including 20 years in management positions in the financial services industry in the Cayman Islands.

His focus with Elian will be on providing governance and oversight services to alternative investment funds.

Prior to joining, he served as global head of risk management at Admiral Administration. He has also served at Dresdner Bank and Grant Thornton in Cayman. **AST**

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Provident House, 6-20 Burrell Row,
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