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Sibos 2015: the headlines

Hyperledger won the 2015 Innotribe Startup Challenge at Sibos 2015, securing a $50,000 prize.

Hyperledger is a distributed ledger platform tailored for regulated financial institutions to eliminate reconciliation costs, prevent trade breaks and reduce settlement times and risk.

The Innotribe Startup Challenge Finale took place on 14 October. The 12 early-stage finalists selected during the regional showcases competed live in front of an audience of industry experts, venture capitalists, financial institutions and bank decision-makers to convince the banking sector at large to take on their innovative products and services.

Commenting on the win, Daniel O'Prey, founder of Hyperledger, said: "The Innotribe experience and team have been fantastic from start to finish. Progressing from the New York regional showcase was extremely valuable in our acquisition by Digital Asset Holdings."

"We have had amazing exposure to our target market and look forward to following-up on all the leads it has generated as well as having a closer relationship with SWIFT."

SWIFT made a string of announcements during Sibos 2015, including plans to expand its financial crime compliance portfolio with two new services in 2016.

Sanctions list management will enable financial institutions to access, manage and customise multiple sanctions list feeds on a secure platform hosted by SWIFT.

A new payments data quality assurance service will help banks evaluate the quality of originator and beneficiary information in the SWIFT message they send or receive.

These new services are a part of SWIFT's strategic roadmap for delivering a portfolio of complementary financial crime compliance solutions using the utility model, which increases standardisation and mutualises cost, it has argued.

SWIFT also launched a new analytics service that provides customers with a deeper analysis of their payments data.

Watch Banking Analytics Premium is part of SWIFT's Watch for Banking services, a set of online reporting and analytical tools that allows customers to look into their institution's message content to better understand the value behind messaging activity.

The new service allows SWIFT customers to access additional payload information that will enable them to benchmark to market practices, see initial ordering and end beneficiary countries, ensure better FX conversion practices, and map clearing business to determine potential new revenue flows.

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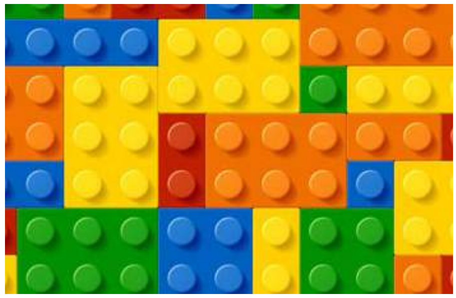

SWIFT announced plans to implement a global framework enabling ISO 20022 harmonisation during Sibos 2015, while the use of its messages for intra-day liquidity reporting received industry backing.

Financial market infrastructures (FMIs) including the Australian Securities Exchange, Canadian Payments Association (CPA), Euroclear, Clearstream and Russia's National Settlement Depository were among the first to commit to a charter that promises an industry designed framework for ISO 20022 implementation.

SWIFT established the charter with 23 FMIs earlier this year, promising to coordinate the rollout of ISO 20022 and provide the technology to facilitate harmonisation.

The payments market practice group (PMPG) also backed the use of SWIFT messages for intra-day liquidity reporting to meet requirements from the Basel Committee on Banking Supervision (BCBS) .

The group, which is made up of industry experts from the world's leading banks, endorsed the use of SWIFT messages for intra-day liquidity reporting following an industry-wide consultation earlier this year.

SWIFT messages underpin a rulebook created by the liquidity implementation task force (LITF) to support compliance with BCBS requirements.

The LITF, made up of 25 clearing banks, custodian banks and global brokers, aims to establish a common set of global best practices in the nostro and custodian space for the use of SWIFT intra-day liquidity reporting messages.

The LITF Global Market Practice Guidelines, also endorsed by the PMPG, address the challenges to be overcome in data collection to comply with BCBS 248, which calls for banks to implement monitoring tools for intra-day liquidity management by January 2017.

Under BCBS 248, banks must report retrospectively on their intra-day liquidity flows.

Finally, SWIFT expects to deliver a 57 percent price reduction on its messaging services by the end of this year.

The reduction beats projections set out in 2010, when SWIFT said it wanted to achieve a 50 percent cut by this year.

In 2010, SWIFT's strategy called for a 30 to 50 percent price reduction between 2010 and 2015, a goal it achieved in 2014. By the end of 2015, the total price reduction over the five-year period is expected to reach 57 percent.

Post-trade tech firm **SmartStream** was a regular the in Sibos 2015 headlines, making three announcements about upgrades to its products, as well as plans for a new utility.

SmartStream launched a new TLM Cash Management module for the front office, which aims to provide a global real-time view of cash positions across all settlement channels by trading business line, portfolio, book and product.

The new solution is a module of the existing TLM Cash Management solution, with the key benefit of real-time visibility for the front office. Cash is reconciled and consolidated to deliver a multiple view for trading desk and risk teams.

The system also provides alerts notifying the trading desk of any potential risk challenges.

SmartStream also launched a new TLM Collateral Management adaptor during Sibos 2015 to provide a full lifecycle of trading messages for the non-clearing over-the-counter (OTC) derivatives market.

The adaptor to TLM Collateral Management, which SmartStream acquired from IBM in February, will integrate the system with ArcadiaSoft's Margin Sphere clearing services.

SmartStream is providing full coverage of the lifecycle messages and events supported under straight-through processing, reducing the need for ad hoc manual activities at other terminals. The adaptor was delivered as part of SmartStream's latest release of TLM Collateral Management v5.2.10.

Goldman Sachs, J.P. Morgan Chase and Morgan Stanley teamed up with SmartStream to create a new reference data utility.

The SmartStream Reference Data Utility, informally known as Securities Product Reference Data (SPReD), will provide services for instrument reference data normalisation and validation across all asset classes. The founding banks will also become clients of the utility.

The service will provide clients with a multi-tenanted, auditable environment for data collection, cleansing, and change management based on customised integration standards to generate a flexible, bespoke security master database.

Leveraging common market processes, incorporating best practices and individual controls, consumers of instrument data across capital markets will benefit from savings and operations improvements as clients of the utility, according to SmartStream.

"The new SmartStream Reference Data Utility is at the forefront of what really is an evolution in the industry with the achievement of processing mutualisation, the reduction in operational risk and an increase in service quality within the reference data management domain," commented Philippe Chambadal, who is CEO of SmartStream.

"Our three bank members have embraced the utility model to ensure that the duplication of effort is minimised when addressing common market issues such as inconsistent data in regulatory reporting, costly trade breaks, and risk management."

Elsewhere during Sibos 2015, German exchange Börse Stuttgart chose to base its new exchange system on **Nasdaq's** Genium INET trading technology.

The new system, named Xitaro, will be used for trading of all asset classes, including equities, fixed income, exchange-traded products and securitised derivatives.

Nasdaq is also providing Börse Stuttgart with hosting and technical operations services.

Venture capital investment, accelerator programmes and allegiances with financial technology companies should be priorities for banks as new payment capabilities come to the fore, according to a new report from **BNY Mellon** released ahead of Sibos 2015.

The report, Innovation in Payments: The Future is Fintech, examines the growing influence of 'fintech' in transaction banking.

According to industry data, more fintech companies are graduating from the ranks of start-ups to multi-billion dollar-listed companies, leading to the creation of cutting-edge technology that could transform how consumers and clients initiate and process transactions.

"The fintech era is upon us and banks shouldn't merely be mindful of this; they should also have a clear strategy in place in order to adapt to and benefit from fintech-fuelled changes," explained Ian Stewart, CEO of BNY Mellon's treasury services business.

Stewart said: "While the banking industry is traditionally conservative about change, any hesitation or ambivalence here could be costly. In order to position themselves at the centre of the payments industry of tomorrow, banks must act today to understand, interact with, and cherry-pick from the full smorgasbord of fintech developments."

During Sibos 2015, **Volante Technologies** launched VolPay Hub, the third in the VolPay suite of products dedicated to enabling accelerated payments integration and processing orchestration.

The product enables financial institutions to support new digital payment channels, regulations, and transaction orchestrations that require new types of processing.

According to Volante, VolPay Hub allows the user to set business rules, orchestration logic and other parameters, including treatments and preferences for each payment channel and payment type being processed.

VolPay Hub, which can be implemented across major established technology stacks, also includes a management console with comprehensive search, audit trail and reporting functions on all payment processing activities.

VolPay Hub is being implemented at a bank in North America and another in Latin America.

Broadridge Financial Solutions expanded its services during Sibos 2015 to support end-to-end local market proxy processing in Germany, Italy, Belgium, Hong Kong, Australia and New Zealand.

The new service, Broadridge Direct Market Solutions (DMS), is designed to help custodians

extend their range of investor services and more efficiently manage the complexities and nuances of country-level proxy management.

The service extends Broadridge's Global Proxy Management service by adding tailored market-specific services for use by local or sub-custodians.

These include direct sourcing of meeting announcements and related materials, translation of shareholder materials from the local language to English, and execution of vote instructions in local markets through direct delivery of both local and cross-border voting instructions to the central securities depository, issuer, issuer's agent or registrar.

CSDs, as well as local and sub-custodians, can now use Broadridge's local services in Germany, Italy and Belgium, as well as its established services for the UK and Netherlands.

Broadridge also launched end-to-end local market proxy services in Hong Kong, Australia and New Zealand. It already has a proven local proxy processing service in Japan through a joint venture with Japan Exchange Group.

BNP Paribas Securities Services made intra-day liquidity data available via DNA, the bank's data visualisation platform, during the conference. The DNA platform, which provides its bank and broker-dealer clients with a minute-by-minute view of their liquidity positions, has been extended to meet new regulatory requirements such as Basel III.

The new interface will enable users to interrogate their data, analyse it and easily identify patterns relating to intra-day liquidity peaks and troughs, gross payments paid and received, and underlying time-stamped cash flow movements.

D+H Corporation rebranded Fundtech as its new global transaction banking solution (GTBS) business. Making the announcement during Sibos 2015, D+H confirmed that Fundtech, which it acquired in April, will be led by Edward Ho, who was previously COO and president of Fundtech.

D+H has is also integrating Global PAYplus, its global payment services hub, with Ripple's distributed ledger technology.

Financial institutions using Global PAYplus will now be able to link to a secure distributed ledger system, accessible only with permission, to connect inter-bank networks, move money domestically and across borders in real-time, regardless of time zones or time of day, and access cheaper liquidity through a distributed network of market makers.

International CSDs Clearstream and Euroclear Bank both appointed **BNY Mellon** to provide them with sub-depository services in the Asia Pacific during Sibos 2015.

The mandate will allow Asia Pacific-issued global notes to be deposited locally in Hong Kong with BNY Mellon.

Gary Lew, head of corporate trust in the Asia Pacific at BNY Mellon, said the decision to expand its sub-depository service is designed to meet the growing demand for bond and note issuances in the region.

"With bond issuance volumes in Asia continuing to rise, BNY Mellon continues to be invested in the development of its resources and technologies to broaden our offering in this area."

International foreign exchange broker Exness announced it had implemented **SunGard's** IntelliMatch Operational Control solution during Sibos 2015 to meet its new reconciliation and compliance requirements. SunGard has set the solution up to initially

reconcile Exness's internal records with those of multiple payment service providers. It will also meet the broker's key requirement to support client money segregation, according to SunGard.

Exness has implemented IntelliMatch Operational Control at a time when it is experiencing significant growth. In Q2 2015, its trading volumes increased by $111 billion to exceed $660 billion in total.

John Taylor, Exness's CFO in Singapore, said: "As we look to grow our global presence, not only in emerging markets but also in more established markets, IntelliMatch Operational Control will play a key role in supporting Exness's ongoing expansion and rising transaction volumes."

Northern Trust confirmed during Sibos 2015 that it has chosen **Clearstream** to handle the third-party fund processing of its investment fund activities.

The bank's decision to move providers was mainly motivated by Clearstream's Vestima solution for the processing of third-party funds, as well as its commitment to the funds industry and its automation.

Vestima is a commercial settlement system (CSS) and delivers full automation across order placement, deliver-versus-payment settlement and asset servicing.

This fund processing is supported from the same platform as the servicing of customers' fixed income, equities and warrants, ensuring a streamlined process for all asset classes.

Northern Trust's global fund services business provides custody, fund administration and investment operations outsourcing solution to investment managers across the globe and asset classes.

Finally, **BNY Mellon** announced it hadsautomated the notifications that broker-dealers send to mutual fund complexes when large trades in their funds are imminent.

Fund complexes require advance notification of large trades so they can manage their cash flow efficiently. The fund managers require cash when broker-dealers sell shares in mutual funds.

The managers also need to prepare for the cash inflows that result when broker-dealers buy shares in the funds on behalf of their investors. Prior to the introduction of the new service, broker-dealers would alert the transfer agent by phone or email that the trade would be coming, and the transfer agent would then contact the mutual fund manager.

Under the new system, the broker-dealer signs in to the BNY Mellon AdvisorCentral web portal and provides detailed information about the upcoming trade, including the expected trade date, trade amount, and the trade settlement timeframe.

Michael DeNofrio, managing director and global head of transfer agency services at BNY Mellon, commented: "This automation process reduces the communications period for the broker-dealers and the fund complexes, lowers the probability of an error, and streamlines the overall process."

"The industry need for automating this process has become more acute as mutual fund complexes have been lowering the threshold for requiring advance notification. In the past, advance notification was required for trades of at least one million dollars."

"Now, we are seeing fund complexes ask for advance notification for trades in the $100,000 range."

Asia is still Sibos-ing it

Movement towards Asia, regulation and fintech are the main drivers behind change in financial services, heard attendees of Sibos 2015 in Singapore

STEPHANIE PALMER REPORTS

Gottfried Leibbrandt, CEO of SWIFT, identified three forces that are shaping financial services globally during the Sibos 2015 opening plenary: the move from the west to Asia, government politics and regulations, and financial technology and cyber.

Addressing the move towards the east, he argued that the pendulum is still swinging in that direction. According to the SWIFT renminbi (RMB) tracker, RMB is currently the fourth most-used currency, after the US dollar, euro and British pound. Generally, Leibbrandt said, RMB and the Japanese yen jostle for fourth and fifth position, but he predicted that RMB would eventually win out.

While he noted the impressive rise of the currency—RMB was in seventeenth place just two years ago—he does not expect it to become a major, or even reserve, currency just yet. He said: "It will be a while before it gets there, but it will be very interesting to watch it rise."

With regards to regulations and politics, Leibbrandt argued that global banks have been hit particularly hard, affected by the first wave of regulation aimed at financial stability post-crisis, and then by the second wave, which tackled sanctions and financial crime prevention.

There is now a third wave as regulators demand more access to data. "The pessimists would hold the view that this is the end of global banks," said Leibbrandt, but he argued that they have invested in common infrastructures and these challenges are not necessarily new.

The final trend addressed was the digitisation of finance, including the emergence of blockchain and distribution ledger technology (DLT). Leibbrandt pointed out the benefits of DLT—it can be used to register ownership of practically any asset, and it is very secure. He also suggested that SWIFT could be well placed to take care of these ledgers.

He pointed out that ledgers do not record transaction information well, and that the premise of delivery-versus-payment would only work if there were significant assets and ledgers with liquidity. Distribution ledgers have the potential to be to transaction banking what trains were to transport, but they could still transpire to be the hovercraft, or even the jetpack.

Leibbrandt concluded by saying that banks will have to transform themselves and "absorb technology", saying that while change may feel risky, institutions have to accept it, while also providing good service.

Staying on Asia, Piyush Gupta, CEO of DBS Group, who also spoke during the opening plenary session at Sibos 2015, said that, despite the setbacks of recent months, the conference's location in Asia was "timely and appropriate".

Many of the biggest changes in the financial services industry have been happening more acutely in Asia, he said, with particular activity seen in China.

He put this success partly down to the population in Asia, saying: "People count for a lot." With so many people, and a relatively young population, people are becoming wealthier, and Asia is no longer the factory of the world, but the "marketplace of the world", said Gupta.

He also referenced the "digital natives" of Asia. According to Gupta, 50 percent of the world's internet usage is in Asia, and China alone has more smartphone users than there are people living in the US. He suggested that the most profound technological changes have been in the payments space, and again, this has been most evident in China.

Gupta stressed that growth in China is not just a "flash in the pan", pointing out that the country's economy is still growing, only at a rate of 4 to 5 percent, rather than in double-digit figures. Ultimately, growth and development in China is "good for the region and, frankly, good for the world".

Also high on the agenda at Sibos 2015 was the ISO 20022 messaging standard, with many concerned about fragmented implementation.

In a panel session in SWIFT's Standards Forum, Marc Bayle de Jessé, general director at the European Central Bank, said that the flight has already taken off in Europe, with ISO 20022 used for Target2-Securities (T2S).

Bob Masina, head of technology and operations at the Australian Payments Clearing Association, said that in Australia, "the plane took a long time to take off," while Nell Campbell-Drake, vice president at the Federal Reserve Bank in Atlanta, said: "In the US, our plane is at the gate. But we do have one engine that's started."

A common theme in discussion was that each jurisdiction was approaching the standards on a very local level. Campbell-Drake pointed out that local systems in the US are very different to those in other countries, and that stakeholders are particularly important, saying the Federal Reserve "has to make sure everybody has an opportunity to have their voice".

Campbell-Drake did add that the US is trying to get to grips with the correct strategic direction, observing the actions of other jurisdictions in order to help inform stakeholders. She said: "We are learning and we are continuing to listen to what other jurisdictions have to offer."

Bayle de Jessé pointed out that, in Europe, many local markets had already been brought together in order to try to best capitalise from ISO 20022, and that the standard is already used for T2S connectivity, and that it could be used for collecting information across jurisdictions globally.

From an Australian point of view, Masina considered that they could approach cross-border standards eventually, but at the moment the priority is to hit the deadline.

While he accepted the benefit of engaging with other countries, he said that the process is only just starting, and "everybody is at a different level". He then added, however, that a certain scale is required in order to feel the benefits of ISO 20022, and in terms of this, "the tipping point may have been reached already".

Finally, financial technology, or 'fintech', start-ups were widely debated throughout the Sibos 2015 Innotribe sessions.

The Future of Money session pitted representatives of small and youthful financial technology firms against speakers from large banking institutions. Moderator Udayan Goyal, co-founder and a managing partner of Apis Partners, began by pointing out that technology usage among customers has superseded that of the banks for the first time.

New technologies could start to disrupt credit distribution, and innovators and banks can "collaborate and compete at the same time".

Christoph Rieche, CEO and co-founder of Iwoca, pointed out that even after years of quantitative easing, lending to small businesses is still in decline. He put this down to the high cost structures in legacy systems, and the manual processes involved.

He suggested that data collection should be automated in order to reduce administrative costs, and that significant trade data is already available in electronic format through the online platforms that these businesses use every day.

SWIFT CEO Gottfried Leibbrandt was more matter of fact, saying: "I have learnt from banking that the hard part isn't making the loan, the hard part is getting the money back."

While Leibbrandt accepted that efficient use of data was a challenge for banks, he also questioned: "Are we allowed to use that data?" If so, he suggested that start-ups may be in a better position to make use of it than larger banks.

As the discussion moved to big banks, Claire Calmejane, director of innovation at Lloyds Banking Group, argued that while 'fintech' is an important area for investment, "it's not the only one".

She said banks can invest directly in financial technology, and highlighted that there are other important innovations also deserving of attention. While Calmejane advocated collaboration between banks and start-ups, she said that this collaboration should also involve governments, technology giants, and other areas of financial technology, pointing out that small start-ups will have to scale up their technologies.

Steve Ellis, executive vice president and head of the innovation group at Wells Fargo, also agreed that there is a need for innovation, and controversially suggested that large firms should be looking externally.

He said: "The smartest people in the world do not work for your company. They are somewhere else."

Finally, Alexander Graubner-Mueller waded in, saying that while he had heard talk about innovation from the legacy banks: "I haven't heard anything innovative".

He suggested that there is a "new ecosystem" developing in financial services, and compared the bigger banks to telecoms companies of today. Currently, cell phone users care more about their handset, operating system and apps than about their network provider, he said, and in the future bank clients will not care who their bank is, only about the services they're receiving, which fintech companies will provide.

'Disruption' and 'innovation' are buzzwords in financial services but the ethos behind them is often forgtton, said the co-founders of Wharton FinTech, speaking at a Sibos Innotribe session.

Daniel McAuley and Steve Weiner cited disruptive technologies, data collection and security and 'trust 2.0' as key to the future of financial services, and to serving 'millenial' clients.

McAuley said banks are the "most likely to be disrupted by millennial consumer preferences" and argued that as the technology of financial services is getting closer to the consumer, the interaction becomes more important.

"Banks of the future won't have customers, they'll have users," he said, adding that it won't be a case of human versus machine, but of working together and interacting with technology.

The pair also said that those of the millennial generation are less likely to pay attention to where their data is, and whether it is at risk, and so are more likely to have their data breached. This means that data management should be a priority, as well as collecting data from the 'internet of things', a new frontier for banks, which one delegate described as "heavily regulated and not known for their speed and nibleness".

Finally, the speakers argued that the nature of trust in banks is changing. While previously consumers might have trusted established banks, forming an emotional connection with them and appreciating one-to-one relationships, younger generations put their trust in technology, and would prefer a low-cost and effective service without interaction, while also relying on recommendations from family and friends. **AST**

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Growing up ungracefully

The Chinese market has taken a knock to its confidence, but despite its size, it is still merely an emerging market, and must take these setbacks in its stride

STEPHANIE PALMER REPORTS

Towards the end of August, China's stock markets had a little stumble, which quickly escalated in to a full-blown tumble, and cumulated in a crash that sent reverberations around the globe. For a few tense days stock markets in the US, Europe and Japan slid uncontrollably, while oil prices sunk even lower and even gold lost its gleam.

China was the centre of global attention for some time before this, however, with the renminbi taking global payments by storm, and the economy booming, at least for a while, at an unprecedented rate. But the jurisdictions surrounding this geographical giant and headline hogger have also been coming in to their own, albeit at a more modest, and arguably more sensible, pace.

Despite the rapid pace of its development, one of the key points to remember is that China is still an emerging market, despite its apparent importance to the global capital markets.

Laurence Au, head of the Asia Pacific at BNP Paribas Securities Service, points out: "Most other emerging markets have been experiencing a phase of slower growth for some months as a result of internal and external issues, and have gone through significant market adjustment already."

"It is unrealistic to expect China to not have to go through similar adjustments, although the timing and the way this adjustment occurred were a bit unexpected," adds Au.

Elaborating on this point is Deepak Lalwani OBE, founder and director of Lalcap, a consultancy that specialises in doing business in India. Lalwani also believes that the cracks started to appear not only because of the economic slowdown in China, but because the country is not yet a fully mature or developed market.

He adds, however: "Most of the players are private individuals rather than institutions, and a lot of the big companies are state-owned."

"Many private individuals there are basically gamblers," he says. "While the market is going up they are trading gung-ho, but when it goes pop, they all run for cover. This is what happened, and this is why we have seen such a steep fall. But this is part of the evolution in emerging markets."

Although the crash led to significant dips in the markets in Indonesia, Malaysia and Thailand, which all dropped between 9 and 20 percent, the Indian market remained fairly resilient, dropping by just 6 percent in the crash. In Q2 2015, GDP in India matched that in China, and predictions suggest that India's economy will grow 7.3 percent by March 2016, making it the fastest growing of the major markets.

According to Lalwani: "A lot of investors are now finally viewing India as taking China's place in the growth lead."

However, India's growth has been quiet and introverted by comparison, without all the bells, whistles and headlines associated with China, and without the global payments takeover, either. Being such a self-contained market has meant India has been relatively insulated against the crash. On the other hand, somewhere such as Hong Kong, for example, with strong ties to mainland China, could have been affected more.

Au says: "The Hong Kong market has also experienced a period of very high volatility due to its close economic ties with mainland China. But market behaviour was very orderly, reflecting its relative maturity."

"This again highlights Hong Kong's importance as a gateway to investment in China and as a testing ground for China's initiatives to integrate with the global capital markets."

Testing is perhaps the operative word, and in a bid to revitalise the stock markets, the Chinese government leapt to intervene, tightening up foreign exchange rules and banning large investors from selling shares for six months. Thus far, this intervention appears to be working, however unnatural the stability may be.

Lalwani compares these reactive restrictions to the Indian government's more proactive methods for boosting the economy. As well as a recent 0.5 percent interest cut, India hopes to introduce a goods and services tax, designed to create a common market for the entire country, similar to that in the EU. While the EU is made up of 28 member states and about 600 million people, India has 29 states and a population of 1.2 billion.

"Each state has its own laws and its own taxes, so it's chaotic at the moment," says Lalwani. "That will become unified. It will simplify things, and that will boost economic growth."

Similarly, Au supports the Chinese intervention methods, saying: "Unusual times require unusual measures. Government interventions occurred during the Lehman Brothers crisis and other extreme market situations in many countries too."

Now that the panic has subsided, there is a feeling that this collapse was merely a learning curve, and something that all emerging markets must experience in order to grow and to evolve. Au says: "[China's] authorities, its industry participants, as well as its investors will learn from this experience after the situation settles."

According to Lalwani, despite his previous comments, China still remains, along with the US, an important influencer on the global market. While controls may be required, this is all just part of the evolution.

The road ahead may still be volatile. China isn't quite back in the driving seat of its capital markets just yet—and its nearby neighbours may still be feeling the effects. But, while that first crash will always come as a shock, a little bruised pride is no bad thing. The markets will recover, and perhaps China will take that corner a little more carefully next time round. **AST**

MiFID II you, to me

Financial institutions need to start thinking about the 2017 implementation of the next Markets in Financial Instruments Directive, says Paul North of BNY Mellon

STEPHANIE PALMER REPORTS

What are the major changes that asset managers have to make in preparation for MiFID II?

The Markets in Financial Instruments Directive (MiFID) II has broad impacts across various different entities, so if an asset manager is part of a larger financial institution, then the regulation will have an effect on the rest of the institution as well. With that in mind, the impact can be divided in to a number of themes.

First, there are considerations around how investment firms are organised or managed, including how they're governed and the role of management bodies, their security requirements, product approvals and the recording of communications. Regulators are trying to level-set these governance and operating practices for all investment firms across Europe, and that consistency is probably a good thing. A lot of firms are fairly close anyway, but now there are explicit requirements and some clarity of the role of the authorities in each market—how they can authorise and intervene in the operation of a firm.

The second topic to consider is investor protection, and some people compare these provisions to the Retail Distribution Review

(RDR) in the UK, but actually it is broader than that. Here, considerations are around the way products are designed to meet the needs of clients, and the suitability of those products.

Firms have to provide evidence that they have considered product suitability, that this has been periodically reviewed, and that they are still in communication with the client regarding this.

There are rules around the language used for providing clear information to clients, with a focus on costs and the cost of advice for the product they're buying, and there is also a ban on commissions. The ban does allow for commissions or non-monetary benefits where they can be clearly shown to benefit the investor, but, in a practical sense, many people see this as a bit ambiguous and go for a simpler no-commission model anyway.

The third point is market infrastructure. There is regulation around bringing all trading venues under a consistent regulatory regime—and there are more than 250 trading venues in Europe. There is also provision for a new type of trading venue designed to promote business in small and medium-sized enterprises (SMEs), so we may see even more trading venues pop up as a result of MiFID II.

Finally, there is a focus on market transparency and the obligations for trading venues and investment firms to report trades. The reporting has to be done in good time and the data has to be maintained for five years. There will be more data to report, and the market data reported by trading venues will be made available, for free, to the market after 15 minutes. So, there is going to be a lot of data out there for people to get hold of and use in all sorts of ways.

What kind of benefits will MiFID II bring to asset managers? Will the positives outweigh the costs?

The benefits are probably the least discussed aspect of MiFID II, because for the moment everyone is focused on what it is and the immediate impact. They're planning, budgeting for resource, building project plans, mobilising projects, and trying to evaluate that impact—and realising that there are potentially significant material costs to be incurred. Not many people have got around to thinking about the concept of benefits to asset or investment managers.

A lot of people feel that regulations generally benefit the consumer or the investor more than the asset manager, but when you look at the likes of trading venues, having more data from trading venues might help firms find more liquidity at a lower cost.

On the other hand, there will be more variation in the liquidity between trading venues, so they will have to produce reports on trading costs and best-execution policies, which adds cost. At the moment, there may be benefits, but there's always a cost that goes with it.

If you look back to MiFID I, the benefits for asset managers were not initially clear, but as time went on the market adapted and changed, for example, we saw an increase in the number of trading pools, which could be considered a benefit. That was not a direct result of the regulation, but it was a consequence.

The benefits here are difficult to quantify, and will only become fully apparent some time down the road as firms adapt to the various changes.

There is a current drive from the European Commission to promote investments in the SME space across Europe, and that could create a new asset class or a pool of securities to invest in, and investments could flow freely across Europe as a consequence. I would have thought that someone would see that as a revenue opportunity, especially given the innovation in the asset management industry.

At the same time, MiFID II could spur new financial technology companies, which could actually pose a threat to some asset managers. It might be a joint opportunity for both sides to collaborate. Either way, it's not like other regulations that are clear-cut and focused. We are going to be talking about this and the impact it has for a few years yet.

How can firms adapt to manage these changes?

It is important that they recognise the interplay with the other regulations out there. MiFID II is a complex regulation to deal with, because it's broad in its scope and detailed in its aspects, and it's demanding on areas such as reporting, but you also can't look at it in ignorance of other regulations, which run in parallel. That just adds to the complexity and changes the way firms will organise themselves to address the changes.

With the RDR in the UK, there has been a lot of debate, discussion and work put in to transitional arrangements to move to an environment without commissions, and how to adapt to that. Then there are the number of trading venues, the liquidity in them, the associated costs, and all of the freely available market data to which they will have to adapt.

I don't think adaptation will come in 2016 or 2017, it will more likely happen in 2018 or 2019. Once firms are compliant, and all the moving parts have settled in the market, asset managers can see what consequential impacts there are and start to adapt to them.

One aspect that is causing confusion is the cost of data. They've seen it increase, and demands for using data are going up, so having free market data out there might make it easier to deal with that.

But there could be some that will grab this data and start trying to innovate around it, leading to new products and services in the financial technology space.

The new requirements are quite complex—what kind of pitfalls should asset managers be looking out for?

The first thing is the scope of the regulation. How do firms assure themselves that they've been through every article, and confidently say they understand which ones affect which parts of their business? There are a lot of different models out there and different configurations of firms, and there's no cookie-cutter solution to be applied here.

Secondly, we're talking about a European directive, not a regulation. Whereas a regulation is a hard and fast rule, a directive means there is scope for local interpretation and adaptation. Firms have to be mindful of this, especially those that work across Europe and distribute in to multiple markets—there could be pitfalls around local market interpretations of the directive.

There are also a lot of technical standards to come, and digesting those and working through them, making sure they've got the right people dealing with the right aspects of the business model is essential.

Some firms have plans in place. They have started analysis and made plans for implementation, and are probably in reasonable shape, but others are not. For small asset managers, the breadth of the regulation might seem quite daunting, but they often have simpler business models, and therefore the impact might be less.

The market is paying attention to MiFID II, and there are going to be a lot of questions, discussion and activity over the next 18 months. It's not all about being prepared for the deadline in January 2017. We're going to see transitional issues, and follow-on requirements, plus the consequential impact over the next few years.

While some firms are looking at the opportunities and advantages, others are just focusing on complying, but all asset managers have got the message that they need to start mobilising. AST

Paul North
Head of product management for the EMEA
BNY Mellon Asset Servicing

Ready, steady, outsource

Implementing the regulatory change agenda, increased outsourcing and improving efficiency will be keeping Multifonds busy in the future, according to Keith Hale

STEPHANIE PALMER REPORTS

We seem to be seeing more high-profile acquisitions and partnerships in the fund admin space. What does this mean for the market, and for the clients involved?

Mergers and acquisitions (M&As) seem to be an increasing trend, particularly over the last couple of years where the industry has seen large-scale consolidation in the administration space, with large global administrators increasing their coverage and offerings by acquiring smaller, niche providers.

This is driven by the need for fund administrators to reduce costs and maximise efficiency, essentially industrialising the asset servicing business. The regulatory agenda is also putting pressure on margins and adding costs that cannot be easily passed onto clients. Many administrators are simply not as efficient as they need to be. While fund managers enjoy reasonable margins, often the administration activities of global service providers are subsidised by custody and depository services. Where custody automation rates are in the region of 80 percent and higher, equivalent rates in administration are less than 40 percent in some cases.

M&A activities can also lead, unless they are fully integrated, to an administrator having

several platforms to service different parts of the business. The market is recognising the need for service providers to simplify their technology architecture and consolidate their operating models and systems as the way to reduce costs and increase efficiency.

As well as M&A activities between the administrators, there has been a good deal of activity in the vendor space with a number coming under new ownership, including ourselves—Multifonds is now owned by Temenos.

The acquisition activities of some vendors are having a particularly big impact on the market. There are vendors that have grown by acquiring other administrators, but they have also acquired a number of administration software products that are used by both competitor fund administrators and themselves.

This is a move that has raised a lot of debate, with vendors and competitors alike asking questions about vendor risk and for the administrators particularly, the risk of having their platform owned and maintained by a competitor.

Have you seen an increase in investment in alternatives?

Yes, a recent survey (Preqin Investor Outlook, 2015) showed that alternative assets, including hedge funds, private equity and real estate, have climbed to $6.9 trillion, an increase of about 10 percent in the last year.

Institutional investors are looking for diversified exposures and better returns in a low-interest rate environment, and so are increasing their asset allocation to alternatives, which is driving the institutionalisation of hedge funds. As a result, we continue to see evidence of the ongoing convergence between traditional and alternative funds.

New regulations in Europe, specifically the Alternative Investment Fund Managers Directive, are making structures that would traditionally have been thought of as hedge funds or alternative funds appear more traditional in their characteristics, such as complex instrument and performance fees, within a regulated structure.

As a result of this convergence, we are seeing polarisation between very large-scale brands, particularly in the passive space with exchange-traded funds, and at the other end of the spectrum, the niche funds that are performing well and achieving success with specialised strategies. However, ultimately it's the middle-tier asset managers that are feeling the squeeze.

If you consider the world of traditional and alternatives as a Venn diagram, we see the overlap getting increasingly larger; at some point we will reach the stage where funds aren't referred to as 'alternative' or 'traditional', they're just funds.

How have administration and servicing processes evolved to manage these sorts of developments?

Again, convergence is the ongoing theme. Historically, for institutional investors, the expectation of UCITS structures was tight controls for daily liquidity and detailed due diligence on fund operations. Whereas for alternatives, investors didn't have same expectation with regards to transparency—it was more about the jurisdiction and tax regime. Now, however, we are seeing alternative funds become much more long-only like, with daily liquidity and strict controls becoming more common.

The same is true the other way around. Retail investors are looking for other products and absolute returns, which is starting to bring onshore strategies into the more traditional UCITS-type world.

The outcome is that fund administrators increasingly have to be able to cater for both. Having completely different models and systems is increasingly uneconomic. This has caused some firms to divest alternative fund administration businesses.

Others have chosen to review and start to overhaul their global operations and IT strategy. It's causing them to assess which markets they should be in and how they service those markets efficiently.

Simplifying their technology architecture and consolidating operating models across asset classes on a common platform is increasingly seen as a way to achieve this—a platform that can deliver the control and efficiency associated with the long-only world together with the flexibility and asset class coverage for alternatives.

How important is technology in the modern market? Where does tech and automation come in to it?

It's absolutely critical. For fund administrators to service their clients efficiently they have to have the right technology in place, because technology is the enabler for automation. Administrators often have multiple legacy systems, as well as ancillary applications and spreadsheets filling functional gaps left by legacy systems.

The cost pressure of maintaining these makes it all about reducing the number of systems, especially the older legacy technology, and particularly in the current regulatory environment, which adds further cost pressures. Reducing the number of systems they have to maintain will lower their overall total cost of ownership and improve efficiency and control. Despite the advantages of this, we continue to see administrators investing in their existing technology. But older technology becomes less and less viable as reliability, ownership, flexibility, maintainability and upgradeability become more important.

Across the industry, financial technology is on the rise. What used to be a cottage industry a decade ago is now the one that everyone seems to be talking about. Even the governments of Luxembourg, the UK and Ireland are all talking about 'fintech' and the role that it can play in the future of our industry.

In an industry going through such significant changes, what are the biggest challenges facing fund administrators, and what challenges would you expect to emerge in the future?

The regulatory change agenda is still number one on the list. From Multifonds's perspective, it's not a matter of if we address regulation, it's how and when. Some regulations have a bigger impact than others on operations and technology—in some cases, it provides an opportunity for the administrators to introduce a 'product' to meet these regulatory challenges, but equally, in some cases administrators are asked to meet these requirements without any additional fees and find it difficult to pass on the costs to their clients.

Having to change multiple systems to comply with each regulation is a timely and costly exercise, and one that is greatly reduced by having a common platform.

Efficiency and coverage across asset classes are game-changers as long-only and hedge funds continue to converge. We are also seeing a continuing trend to outsource more and more, to reduce fixed costs, deal with regulation cost-effectively and focus on core competencies. Once a firm successfully outsources, it rarely goes back in-house.

So, in summary, implementing the regulatory change agenda, increased outsourcing, and improving efficiency—those are what will be keeping us busy for the next five years. AST

Keith Hale
Executive vice president of client and business development
Multifonds

Delivering technology solutions and securities market infrastructure to the African financial services industry

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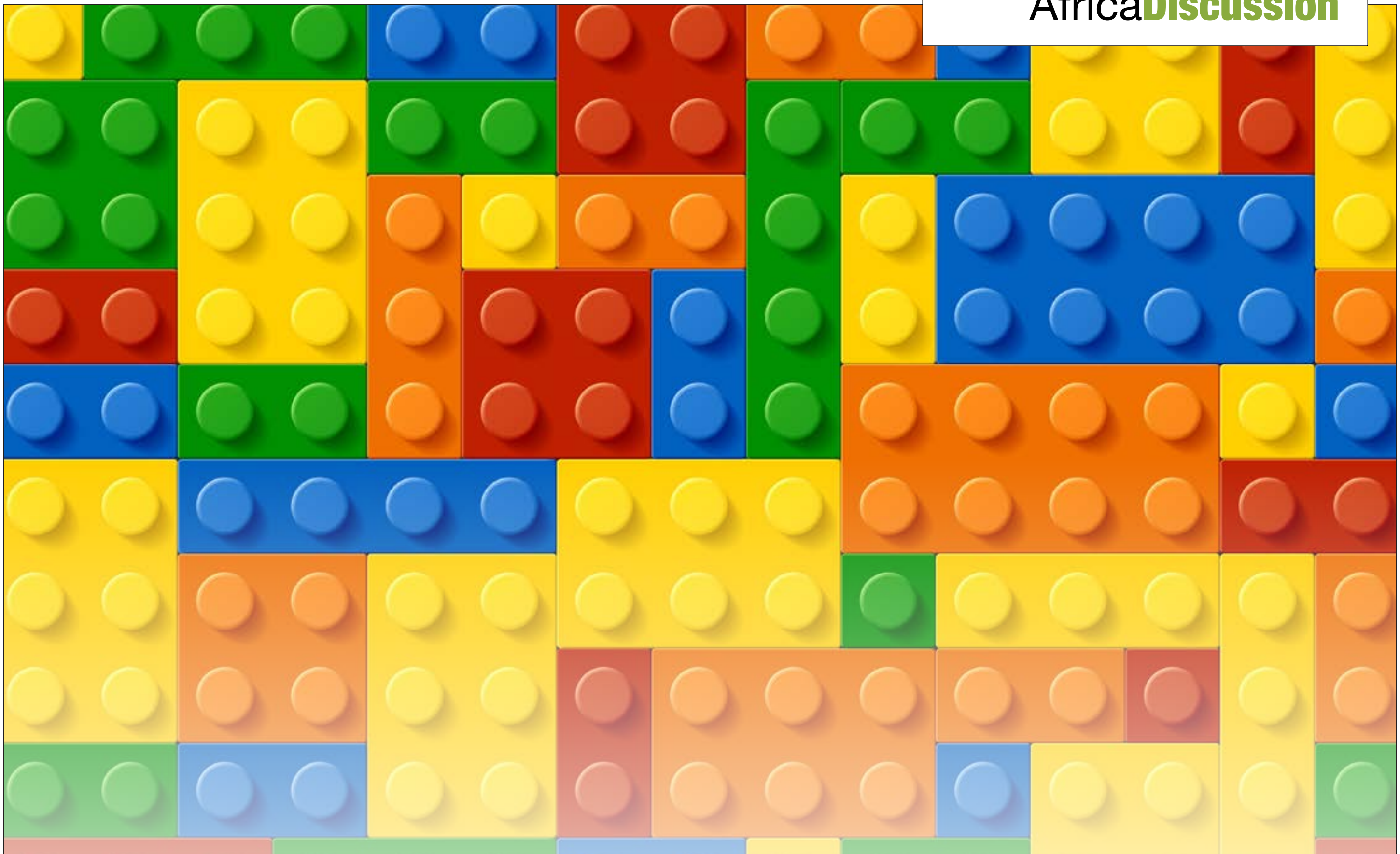

Building blocks

Cross-border infrastructure remains inadequate in Africa, but the foundations are there if the continent's countries can work together

STEPHANIE PALMER REPORTS

How does the clearing and settlement infrastructure in Africa compare to the likes of Europe and Asia?

Stephen Tetteh: The comparison can be examined in terms of international standardisations and global regulations, cross-border transactions, and the structure of the clearing and settlement infrastructure.

Recent developments in the clearing and settlement infrastructure in Africa are geared towards the adoption and implementation of international best practices. Over the years, the clearing and settlement infrastructures in Africa have consistently been developed in line with specific global requirements. The rational is to provide efficient and cost-effective clearing and settlement processes that are capable of eliminating basic fundamental market risks.

A number of African markets are adopting the principles for financial market infrastructures as a benchmark in developing their markets. Ghana is upgrading its systems to ensure true delivery-versus-payment in its settlement process that is linked to the real-time gross settlement systems of the central bank. The new system will utilise the SWIFT and FIX protocols to ensure easy communications interface with other external systems.

Even though the facilities needed to hold securities in dematerialisation format are presently available, some markets continue to accept securities holding in paper format alongside the electronic book keeping. The challenge facing Africa is the preference of investors to hold securities in paper format instead of book entry format. Ghana, as of the end of August, had achieved an 87 percent conversion of paper share certificates at the depository.

Clearing and settlement infrastructure in Africa is primarily composed of exchanges and central securities depositories (CSDs). As a result, clearinghouses and central counterparties (CCPs) that form critical components of the clearing and settlement infrastructure network hardly exist in Africa.

Cross-border transactions are also limited across Africa. Unlike Europe, which has successfully harmonised its clearing and settlement infrastructure to pave the way for cross-border transactions, Africa's clearing and settlement infrastructure is highly fragmented, hence its inability to achieve efficient cross-border transactions.

The challenge includes multiplicity of currencies, many of which are inconvertible, and the inability to harmonise the regulatory environment for clearing and settlement. Cash settlement is somehow divided between the use of central bank money and commercial bank money. While some jurisdictions use the central bank for cash settlement, others use commercial banks. In Ghana, for instance, there is a policy to settle both fixed income securities and equity securities using central bank money by the end of 2015.

What kind of technical standards are in place in your jurisdiction, and cross-border?

Tetteh: Technical standards in Ghana are determined by local regulators. The Securities and Exchange Commission is the authority responsible for setting the technical standards

> "The core objective of the regionalisation exercise is to implement technical standards and to integrate the various markets so as to facilitate cross-border transactions"

Stephen Tetteh, CEO, Central Securities Depository of Ghana

for clearing and settlement infrastructure in Ghana's securities market. The CSD Act 2007 (Act 733), the Securities Industry Law (PNDC Law 333) and the Securities and Exchange Commission Regulations 2007 (LI1728) also govern clearing and settlement infrastructure. The Bank of Ghana also provides regulatory oversight for dealings in money market instruments. The Securities Industry Law (PNDC Law 333) is being reviewed to take in new market requirements and standards.

Others technical standards are covered in the Companies Code and tax regulations, which are all undergoing reviews in line with modern trends. As a young market, the standards are now evolving as the commission is building its capacity to provide regulatory oversight and leadership in market development.

In addition to the local regulatory standards, the Ghana CSD was awarded an ISO certificate ISO 27001:2005 in 2013. In September 2015, the Ghana CSD migrated from ISO 27001-2005 to ISO 27001-2013. Studies are being carried out to develop a business case for the adoption of ISO 15022 and ISO 20022.

The CSD also conducts regular stress testing, penetration and vulnerability assessments on its systems to ensure the safety of its information assets.

Other important technical standards that bind the operations of the clearing and settlement infrastructure in my jurisdiction are the principles for financial market infrastructures. The commission has started preparation to enforce adherence.

Of course, cross-border transactions in Africa are limited. Most are limited to activities of global and local custodians that carry out transactions on behalf of foreign clients. Consequently, there are no unified technical standards for cross-border activities in Africa.

However, several attempts are being made to harmonise the existing technical standards in the various jurisdictions within Africa. In view of this, the continent has been divided into various sub-regions. The core objective of the regionalisation exercise is to implement technical standards and to integrate the various markets so as to facilitate cross-border transactions. The regional groups include the Southern African Development Community, the West African Economic and Monetary Zone, the Common Market for East and Southern Africa, the Arab Maghreb Union, the East African Community, and the West African Capital Market Integration Council (WACMIC), of which Ghana is a member.

Since 2010, WACMIC has instituted measures to integrate the various markets in the sub-region. The many focuses of WACMIC include establishing a harmonised trading, clearing and settlement framework, integrating the various trading platforms, synchronising listing and regulatory requirements, and appointing a qualified West African Brokers and Common Passport.

In view of this, WACMIC has set up a technical committee to develop technical standards for its trading, clearing and settlement infrastructure. The objective of WACMIC is similar to that of other regional bodies in Africa, though the approach may be different.

WACMIC, for instance, has developed what are called sponsored access rules and agreements. Under the sponsored access rules and agreements, brokers within the WACMIC region can trade and settle securities in markets other than their own, through local brokers. Other measures being implemented by WACMIC include the appointment of qualified West African brokers, which will have the flexibility to participate directly in the markets they wish to trade in across West African jurisdictions. The final step is the establishment of a fully integrated West African capital market where all the exchanges will be linked in a virtual West African securities market.

What are settlement times like for cross-border transactions? Could this be improved?

Kyari Abba Bukar: Settlement cycles have reduced considerably over the past 15 years, being driven by advances in technology, improved business processes and dematerialisation of shares/paper certificates into the CSDs.

The best international market practice is now considered to be a T+2 cycle and global markets are moving towards this protocol via regional or country level initiatives. Generally, European markets have moved to T+2. The Middle East operate a combination of T+2 and T+3, although Saudi Arabia operates T+0 using fully pre-funded model.

The move to T+2 and a shorter settlement cycle would mitigate credit, counterparty, operational, and settlement risks, and increase the ability to manage capital, boosting liquidity and enabling faster reinvestment of capital. T+2 would also increase market efficiency and straight-through processing (STP), and move towards a level global playing field.

Anthony Fischli: Markets across Africa settle on divergent cycles, contributing to increased rates of failure and higher costs and operational risks, particularly for cross-border transactions. At present, settlement times for domestic transactions vary from T+7 in Zimbabwe and Malawi, to T+3 in Nigeria and Kenya, to T+2 in Egypt and Rwanda. Although domestic settlement cycles can be shortened through automation, this fails to alleviate the inherent

> "Settlement cycles have reduced considerably over the past 15 years, being driven by advances in technology, improved business processes and dematerialisation of shares/paper certificates into the CSDs"

Kyari Abba Bukar, Managing director and CEO, Central Securities Clearing System

risks that accompany cross-border transactions in Africa. We find that cross-border settlement in Africa remains problematic given the overall lack of harmonisation across individual nations.

At present, most reform focuses on trade execution as opposed to securities settlement and clearing. Yet barriers to efficiency tend to be largest in the middle office, where trades are reconciled, matched and confirmed. In practice, it often takes days and/or weeks for cross-border transactions to be successfully executed, affirmed and settled. This often leads to significant slippage as delays in execution can lead to missed trading opportunities.

By taking a coordinated approach that is designed to improve the systems and infrastructure available for post-trade matching and confirmation of cross-border transactions, settlement cycles can be reduced and greater efficiencies can be achieved.

Tetteh: Since there are no organised cross-border transactions in Africa, settlement times for cross-border transactions fall under the domestic cycle. A number of jurisdictions are gradually reducing their settlement times to T+3.

In Ghana, for instance, equity settles T+3 while fixed income is T+2. However, T+0 and T+1 settlement are also allowed. This is to allow market participant the flexibility to choose the settlement times most suitable to their clients.

In terms of improvement, since the regional groups are integrating their markets, it is important that standard times are fixed for cross-border activities in Africa. This can be executed in the manner of Europe with the Target2-Securities programme.

How much disparity is there between the different African jurisdictions? What kind of complications does this pose?

Fischli: Although conditions are improving, there is still wide disparity across African jurisdictions as it relates to trading and settlement. Cross-border investment may be affected by differences in time zone, settlement cycle, share type limitations, ownership constrains and capital controls, among other items. For example, African investors must contend with foreign ownership limits in Mauritius, issuer-specific restrictions in Mozambique, indigenisation restrictions in Zimbabwe and statutory evidence of capital inflow or investment in Nigeria, among others. Cross-border investors must therefore employ robust internal controls, many of which are difficult to automate in practice. This can severely constrain the decision-making process and expose investors to exogenous policy-related risk.

We should also note that there are differences in the underlying brokerage, custody and statutory charges levied on cross-border investors. For example, brokerage in Malawi may be as high as 1 to 2 percent of notional, while brokerage in Morocco typically ranges from 0.3 to 0.7 percent, including statutory charges. Custodial fees also vary with safekeeping costs ranging from 0.2 to 0.5 percent per annum and transaction costs ranging from USD $75 to USD $250 one-way. Cross-border investors must take into account such complications when determining how best to initiate positions, exit investments or rebalance portfolios.

Tetteh: Africa is composed of 54 countries with each jurisdiction having its own currency. This generates huge disparity among the various currencies in Africa and therefore exposes the continent to foreign exchange risk. Most of these currencies are not tradable and therefore use other international currencies for settlement.

Another important disparity is in the area of regulations. Regulations such as tax policies are designed to suit local market conditions. The differences in the legal requirements of the various jurisdictions complicate the legal risk facing the market, particularly in the area of cross-border activities.

Bukar: Not much disparity exists between African jurisdictions in terms of CSDs. All CSDs meet to share best practices, so they operate similar post-trade services.

Having said that, the sophistication needed to deliver efficient post-trade services is lacking due to different levels of automation. Africlear will provide economies of scale in this respect through technology solutions. Differing market structures also mean that different account structures are used. Most African CSDs settle trades on a beneficiary owner model but a few also use omnibus accounts. Finally, all of Africa's CSDs are at different stages in complying with the principles for financial market infrastructures.

What would you consider the biggest challenge for securities services in the African continent? How about opportunities?

Tetteh: The biggest challenge is how to harmonise the various currencies within Africa. There are opportunities for Africa to establish international CSD and CCP clearing and settlement infrastructure that will provides multicurrency clearing and settlement services.

Africa is a huge opportunity for investment in numerous sectors. The poor infrastructure for water, energy, transport and communications, education, health and so on provide attractive incentives. Yields in Africa are now among the highest in the world.

Fischli: African investors face a number of challenges when attempting to access and/or exit individual markets.

Although many of these challenges can be addressed via improved technology and securities market infrastructure, each country suffers from its own set of legacy issues, ranging from outdated processes to insufficient power and connectivity.

In addition, many African countries suffer from a deficiency of skilled financial market professionals, a serious issue that can further hinder the speed and efficiency of investment processes.

Among the challenges often cited by investors are interest and dividend payment delays, impaired allotment procedures, and insufficient safeguards for the protection of shareholder rights.

Certainly, these challenges create opportunities for firms and individuals with sufficient skill, resources and expertise.

In our experience, we find that most central banks, local exchanges, depositories and regulatory authorities are open to ideas and suggestions that will open their markets and allow them to compete more successfully for investment from abroad.

Although improved connectivity, integration and alignment are key elements, we believe that solutions designed to offer increased transparency and control will deliver the greatest impact. AST

> “Among the challenges often cited by investors are interest and dividend payment delays, impaired allotment procedures, and insufficient safeguards for the protection of shareholder rights”

Anthony Fischli, Director, Africlear


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MiFID II: cost, transparency and the trader

Investment traders are under ever-greater scrutiny. Can firms account for their fees and costs? Chris John of Broadridge Financial Solutions takes a look

In Europe, regulators are demanding that asset managers are clear with end-investors as to where their fees are spent, and on what. Sell-side firms are feeling the knock-on effect of these transparency requirements.

The Markets in Financial Instruments Directive (MiFID) II, expected to come into force in early 2017, has fixed a timeframe for increasing disclosure and now businesses on both sides of the street face their greatest challenge: identifying those costs ahead of any regulatory demand.

Europe's equity market was transformed in 2007 by the first MiFID, and now that transformation is expanding. The review of the rules—MiFID II—follows the direction of the original directive by increasing transparency and pan-European standardisation in order to facilitate competition. However, it steps up the 2007 rules by being both more deterministic and broader.

MiFID II reaches across a wider set of assets, which creates new challenges in tracking the breakdown of costs for over-the-counter (OTC) instruments particularly.

It asks that commission outflow and best execution are analysed in order to give the end investor a clearer picture of their expenditure. Its demands are being supplemented by local rules, for example, the UK's market regulator, the Financial Conduct Authority (FCA) and the UK's Department for Work and Pensions (DWP) issued a joint call for evidence on the disclosure of transaction cost information in March for workplace pension schemes.

It's complicated

While transparency is broadly welcomed over the longer term, in the short term it is undeniably causing some pain. The ability of these firms to unearth their fees and costs and then lay them open to scrutiny is being watched closely by regulators and investors.

Collectively, these disclosure requirements create an operational headache for capital markets participants. Payments made by asset managers to broker-dealers are often bundled together so that execution payments are used to pay for research. Analyst firm Greenwich Associates has placed the amount of these 'soft dollar' payments as a proportion of total commissions in the US at around 40 percent.

Separating those payments out will require a structural shift in the finance function. This may mean changing the allocation of commissions, through models such as commission-sharing arrangements, in which credits are assigned via a broker to be used to pay for research. That will require a more nuanced perspective on commissions.

Firms are required to gain a better grip on their costs and revenues in order to work out the relative income and outgoings based on trading activity and research consumption, in order to establish their affordability. In an environment where each revenue stream is held to its own account, historical cross-subsidy no longer exists.

The complexity for both buy- and sell-side firms in getting that grip is the fractured nature of the systems that are often in place within the organisation.

Structural change

At present, the systems used to capture cost and revenue associated with a given business unit are often unique to that unit, or are specific to a group as part of a division.

These systems will often be a legacy of in-house development, technology acquired as part of a merger, or they will have been on-boarded for a particular trading desk. Their adoption will rarely be a consequence of strategic decision-making.

Single, multi-asset and multi-regional platforms can provide a seamless model for organisations that need a single enterprise-wide view. That does not mean that units or countries take a one-size-fits-all approach, but they can benefit from a homogeneous system that offers local configurations, yet can reduce error rates and increase cycle times by understanding the underlying data without running it through middleware to centralise it.

With greater pressure on firms to provide a granular understanding of revenue and expense, they must consider adopting an enterprise-wide strategy for their finance tools that allows for a single big picture. For instance, the end investors need to have reports to show to their board. This puts demands on the information that asset managers are providing them, not only on the volume of information but the level of granularity.

They in turn are then pushing disclosure requirements around costs and allocations upwards to the sell side. That does not mean squeezing the dealers dry on cost, but working with them to establish an equilibrium that will support clients and service providers.

Once costs and fees are fully understood it may be that the asset manager decides to provide more business to its dealer in order to deliver a sustainable relationship.

Beating down the barriers

The phenomenon of increasing transparency is far from unique to MiFID II. From CVM 555 in Brazil to the Alternative Investment Fund Managers Directive in Europe, the need for increased disclosure is growing and for global firms it is likely that they must follow the lead of the toughest market. Investors will expect that the highest standard a firm applies to itself will be its benchmark around the world.

At an operational level this represents quite a change for capital market participants. There has been no internal imperative to deliver such transparency before, and so the processes and technology underpinning the finance function in different regions and under different siloes will often be outdated.

MiFID II represents an opportunity for fund managers and banks to revamp their systems into a single lean, effective platform that can deliver cost savings and clarity across the business.

As an exercise, it will make them fitter, improve their ability to provide return on equity and create a stable base to deal with future demands upon the finance function. **AST**

Chris John
President, revenue and expense management solutions
Broadridge Financial Solutions

e-GEM of a system

Electronic GMs are the way forward, says Yakup Ergincan of MKK

Corporate governance practices are becoming more important to investors, especially when making their investment decisions. The quality of corporate governance mechanisms on which shareholders' incentives rely depends on the way general meeting (GM) participation is exercised.

GM processes are becoming more complicated and costly for investors, with the increasing institutionalisation and globalisation of share ownership. Financial cross-border services typically involve a long chain of intermediaries, and with additional barriers such as national laws that restrict electronic voting and market practices such as share blocking, the complexity of GM procedures has increased. Furthermore, manual workflows and non-automated exercise of shareholder rights increasingly create inefficiencies for issuers, intermediaries and investors.

In an ideal corporate actions management model, issuer entities that are the information sources should have direct links to the system used by shareholders and their agents. This would enable issuers to make GM-related notifications in a timely manner to allow custodians, shareholders and their agents to process and respond. Carrying out core GM processes such as issuer notifications, shareholder registrations, meeting day arrangements, proxy assignments and voting through a centralised and secure electronic platform would enable organisations and investors to work more productively, efficiently, consistently and securely within tight deadlines.

In this regard, central securities depositories (CSDs), being the central data warehouses for capital markets that maintain securities accounts at the top-tier level of the holding chain, are good candidates to operate platforms for corporate actions and GM processes. In particular, CSDs operating direct securities holding systems (that allow segregation of accounts at the level of beneficial owners) and can remove complexities regarding the exercise of shareholder rights. Intermediaries, banks and issuers develop services for the exercise of financial and managerial rights by shareholders due to their membership in CSDs.

A single electronic platform such as the Electronic General Meeting System, or e-GEM, which was developed by Merkezi Kayıt Kuruluşu AŞ (MKK), the CSD of Turkey, is an alternative solution to the relatively inefficient sub-processes and costs in all GM processes that are faced by all stakeholders.

MKK's e-GEM aims, first and foremost, to raise the level of corporate governance in Turkey to the level set by global regulations, industry standards and best practices. The system achieves this by introducing a platform for borderless participation to GM-related processes. In fact, e-GEM established a more effective practice by connecting issuer companies directly with shareholders, utilising the direct securities holding structure operated by MKK.

Improvements in corporate governance practices in Turkey brought by e-GEM are observed in the increasing number of GM participations for both domestic and foreign shareholders. Although the new regulation only requires Borsa Istanbul-listed companies to allow their shareholders to attend GMs electronically, following e-GEM's launch in October 2012, the first GM was held on e-GEM by an unlisted company.

Since the launch of the system in October 2012, more than 350 companies have conducted their GMs through e-GEM, with the total number of electronic GMs reaching 1,085 in the three years since the system's implementation. The total number of GM participations stands at 22,617 this year, a 148 percent increase over 2011. The average rate of foreign investors' GM participation via e-GEM is around 98 percent this year, a five-fold increase in foreign investors' GM attendance.

What e-GEM can bring to capital markets in Africa?

The efficient exercise of shareholder rights, such as in cross-border voting, is among the most important aspects of global principles and standards concerning corporate governance. Electronic GM platforms are widely recommended by global principles and standards as ideal systems that can improve corporate governance mechanisms. Increased transparency improves the level of corporate democracy by protecting the rights of minority shareholders.

As an electronic means of enabling management of GM processes, e-GEM provides considerable savings in time and operation costs, eliminates excess paperwork and redundant processes in assigning proxy, and gives the ability to attend (concurrent) GMs electronically with the capability of e-voting.

Above all, supported by the amendments made in the relevant legislations, corporate governance practices might be further developed and boundaries to cross-border voting could be removed in Africa, which may lead to increase in foreign investors' interest and willingness to invest in African capital markets. **AST**

Yakup Ergincan
CEO and board member
MKK

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Chasing Asia

Transfer agents must look towards global, cross-border systems to support a fully 'passported' Asia, says Ghassan Hakim of Riva Financial Systems

STEPHANIE PALMER REPORTS

How is Asia shaping up for transfer agents as a region?

Asia continues to be a strong and important area of growth for many transfer agents, both local and global. Over the past year, we continued to see sizeable increases in assets under management for the Asia Pacific fund markets along with various positive initiatives taking hold and progressing nicely.

Clearly, there is political impetus for creating a high quality funds sector throughout Asia, with a rather strong feeling towards introducing a 'local' flavour of the very popular UCITS brand for cross-border distributions.

When one combines the political drive within each jurisdiction, the opening up of the Chinese market, renminbi internationalisation, mutual recognitions, Asian passporting, improved infrastructure and a highly likely retail environment with large transactional volumes, it becomes obvious that local transfer agents and corresponding transfer agency system solutions must gear up for supporting this complex environment with significant automation and straight-through processing (STP).

What are the remaining challenges to be overcome in Asia?

While we see future convergence and homogenisation, the current diversification of Asia continues to present challenges for transfer agents. It is still a fragmented and heterogeneous market with a mixture of third-party service providers and asset managers performing the transfer agency function for both local and regional products.

All transfer agents are affected by the increasing impact of transactional regulations and face the same difficulties in deciphering the evolving regulatory framework in the region.

These challenges are not completely dissimilar to those that have been faced in other markets around the world, but most have disappeared or lessened over time as products, models, regulations and processes have standardised.

The lack of unification between countries presents transfer agents with difficulties when attempting to automate processes and lower their support cost while continuously improving the quality of their delivery to both investors and fund managers.

There is also a lack of proven global transfer agency system solutions available to local transfer agents that are able to cater to the myriad complicated local regulations and that will be able to accommodate the newer passport cross-border distribution arrangements.

The more traditional systems available can be expensive to maintain, are limited to single markets and quickly become obsolete in such an environment of regulatory change without significant investment.

What effect will the Asian fund passports have on transfer agents?

While it would benefit our industry tremendously if all of the regulators throughout Asia would agree on a single, cross-border Asian market with harmonised policies, all of the current initiatives are leading us to a more positive environment.

It will allow transfer agents to streamline their operations and offer cost-effective solutions to fund managers that have the opportunity to offer superior cross-border fund products and investors who will have access to enhanced choices, competitive products, lower cost, innovation and diversification.

Having said that, progress towards a regional passport scheme is slow and still faces major shortcomings that must be addressed and resolved in order to make these products attractive, whether it be in their tax and distribution rules, their restrictions on foreign investment, or their rules on omnibus accounts.

We believe that there is a still a long journey ahead before the European UCITS products are realistically challenged, and given their strong popularity with Asian investors, transfer agents will need to continue to support these products across the various Asian jurisdictions, along with the local products and myriad conflicting, redundant and challenging local rules and regulations.

Longer term, there is a real requirement for policymakers to offer asset managers an investment vehicle structure that provides the flexibility required to ease cross-border fund sales, marketing and servicing with streamlined fund approval and registration procedures, so transfer agents must invest today towards that future end-state.

Where is Asia at with automation?

We see real progress in STP volumes in the region now thanks to the involvement of regulatory bodies and the availability of industry utilities and clearing organisations. Unsurprisingly, the more mature markets of Hong Kong, Singapore and Taiwan have made more progress than others.

However, the improvement in STP rates is region-wide in general, with distributors, local banks, asset managers and service providers all processing more trades via electronic means than ever before. This is not to say that the traditional fax and manual input is minimal. There are still many more opportunities to offer improved automation in Asia.

How will the fund passports challenge transfer agents' existing way of operating?

The full impact of how the fund passport initiatives will challenge transfer agents' existing way of operating cannot be fully assessed until the outstanding questions on the initiatives themselves are answered.

However, based on the information known at present it is clear that local transfer agency systems will be challenged to meet the demands of the evolving operating requirements of transfer agents. These would prove very costly to enhance. Transfer agents must look now towards global, cross-border system solutions as well as investing the time to re-enwwgineer their operating model to support a fully 'passported' environment. AST

Ghassan Hakim
CEO
Riva Financial Systems

Industry appointments

RBC Investor & Treasury Services has chosen **Matthieu Herbeau** as its global head of foreign exchange execution, treasury and market services.

Herbeau, who also attains the title of managing director, will be based in London and responsible for leading the global development and execution of RBC Investor & Treasury Services' foreign exchange business strategy.

He will report to Elaine Skinner-Reid, head of Europe and Asia Pacific for treasury and market services, and globally to Chris Seip, global head of treasury and market services.

Herbeau brings 20 years of experience in foreign exchange strategy and execution.

Over the past 15 years, he has progressed through various senior roles with BNP Paribas Securities Services, where he was most recently global head of FX.

Brown Brothers Harriman (BBH) has chosen **Seán Páircéir** as its next global head of investor services.

Páircéir succeeds William Tyree and will assume his new position on 1 January 2016.

Páircéir has been with BBH for 15 years and joined as managing director in 2000 before becoming partner in 2010.

"Under Tyree's leadership, our investor services business has grown at more than double the rate of our peers. I am honoured to succeed such a leader and could not be more excited about the future of our business," said Páircéir.

"Our strategy to grow trusted, valued, and differentiated relationships with our clients continues to advance our leading position in the markets in which we operate and will serve our clients well into the future."

Allfunds Bank has appointed **Ugo Sansone** to head its business in Luxembourg to help drive the firm's international expansion.

Sansone has already been an active stakeholder in Luxembourg across the investor fund sector. He has spent his entire career at Intesa Sanpaolo Group, leading the international commercial activities of its asset management affiliate, Eurizon Capital, for the past 10 years.

At Eurizon Capital he led the international commercial and client services activities, with a relevant role at the company's SICAV management board.

Prior to joining Eurizon, he held several roles at Sanpaolo Group both in UK and in Luxembourg.

Gianluca Renzini, deputy manager of Allfunds Bank, commented: "We know Sansone very well as both a client and provider. He knows our company inside out and he can really extract the best from it."

"We consider Luxembourg strategic for our corporate development, as it is one of the most important financial centres at the heart of Europe, is a natural and logical evolution as Allfunds becomes ever more successful in following and supporting our clients and providers in their international expansion."

MUFG Fund Services has made **Tim Thornton** its new COO.

The appointment follows the promotion of previous COO Ken McCarney to CEO in March.

Thornton will be responsible for strengthening the operational and client focus within the MUFG Fund Services executive team, enabling McCarney to concentrate on leading the strategic growth of the business.

Working from the MUFG Fund Services London, New York, Dublin and Ontario offices, a key element of Thornton's new role will include identifying and mentoring the next layer of management to ensure the long-term success of the business.

Prior to his new role, Thornton held a number of leadership positions over more than 15 years with the firm and will retain his current responsibilities as its chief data officer.

His previous experience will help expand the firm's technology-focused and data-driven approach to fund administration.

McCarney commented: "Thornton's appointment reflects our focus on innovative, data driven fund administration, which is the future of the industry."

"He brings with him a wealth of knowledge, and his blend of industry and client experience make him the perfect candidate to drive our operational development." **AST**

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Published by Black Knight Media Ltd
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