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ASTINBRIEF

FCA tackles competition in asset management

The UK's Financial Conduct Authority has set out the areas of focus for its study of competition in the asset management industry, with the role of consultants and motivation for cost control featuring.

The study will asses the way that asset managers compete to deliver value; whether they're motivated, or able, to control costs across the whole value chain; and the effect that consultants have on competition for institutional asset management.

Considering both institutional and retail asset managers, the FCA will also assess whether there are any barriers to innovation or technological advancement in the industry.

The study is intended to address potential issues, including the difficulty for investors to understand whether they're getting value for money, and to monitor their manager's performance.

It will also look in to conflicts of interest for investment consultants, and the ability for asset managers to control the costs incurred by investors—and their incentives for doing so.

Christopher Woolard, director of strategy and competition at the FCA, said: "Asset managers provide an important economic function, bringing together those with money to invest and companies and governments that need capital. Given the significant role they play in the economy, it is essential that competition works effectively for these services."

"The UK is a world leader in asset management. Our market study aims to ensure that both retail and institutional investors can get value for money when purchasing these services—which we expect to further strengthen the UK's position as a major centre for asset management."

The FCA is now preparing to approach market participants in order to collect the required information, and intends to publish interim findings in summer 2016, before a final report in early 2017.

Initially, the interim report will highlight areas of concern and how the FCA intends to address them, as well as pointing to areas where no issues, or very few issues, have been found.

SWIFT and EFAMA find automation on the up

Automation rates for fund processing increased in the first half of 2015, according to a report from the European Fund and Asset Management Association (EFAMA) and SWIFT.

The report found that in the cross-border fund centres of Ireland and Luxembourg, automation and standardisation rates of orders received by transfer agents were 83.5 percent in Q2 2015, compared to 82.6 percent in Q4 2014.

The total volume of cross-border funds increased by 11 percent, reaching 17.5 million in the first half of 2015, compared to 15.8 million in the same period in 2014. Of these, 53.2 percent used ISO messaging standards, an increase of 3.8 percentage points.

In the same time period, use of manual processes fell by 0.9 percentage points to 16.5 percent, and proprietary format use dropped by 2.9 percentage points to 30.3 percent.

In Luxembourg, the total automation rate of orders remained relatively stable, only falling very slightly from 81.3 percent in Q4 2014 to 81.2 percent in Q2 2015. However, use of ISO messaging increased from 57.9 percent at the end of 2014 to 63.3 percent in Q2 2015, and use of proprietary formats fell from 23.4 percent to 16.9 percent.

Irish transfer agents saw an increase in the automation rate of orders processed, hitting 88.3 percent in Q2 2015 compared to 85.6 percent in Q4 2014. The ISO automation rates in Ireland also increased from 29.5 percent to 30.7 percent.

According to SWIFT and EFAMA, the report highlights the advancement in automation and standardisation in cross-border funds, and the increasing use of ISO standards.

It was based on a survey of 29 transfer agents in Ireland and Luxembourg, representing more than 80 percent of incoming third-party investment funds in both markets.

Peter De Proft, director general of EFAMA, said: "Compared to five years ago, overall, the share of orders processed using [ISO] standards has increased from 36 percent to 53 percent. This is a very positive development which brings greater efficiency funds processing and lower costs."

Fabian Vandenreydt, global head of securities, Innotribe and the SWIFT Institute at SWIFT, added: "This report indicates the strong focus of the industry towards a more efficient and reliable process in the funds industry."

"The decrease of [proprietary format] usage and manual processing versus adoption of ISO standards keeps on drawing the trends towards automation and cost reduction. SWIFT and EFAMA will pursue their efforts to lower the manual process as much as possible and support the industry where and when needed."

ESMA asks for MiFID II delay

The European Securities and Markets Authority (ESMA) has requested a delay to the implementation of Markets in Financial Instruments Directive (MiFID) II, with chair Steven Maijoor saying that work on the regulation is "by no means finished".

ESMA published its final draft technical standards on MiFID II in September, and the next technical standards package is in the pipeline. Speaking to the Economic and Monetary Affairs Committee of the European Parliament, Maijoor said that although this package is not as large as the previous one, it will include standards for position reporting, which "represents one of the many significant implementation challenges for national supervisors and ESMA".

Maijoor suggested that building the IT infrastructures necessary to comply with these standards can only really begin once the standards are finalised, and argued that these systems will be integral to the successful implementation of MiFID II.

He said: "I am not going to surprise anybody in the room when saying that the timing for stakeholders and regulators alike to implement the rules and build the necessary IT systems is extremely tight. Even more, there are a few areas where the calendar is already unfeasible."

ESMA has therefore "raised these timing issues with the European Commission".

Specifically, Maijoor referred to the IT required for financial instruments reference and transaction data, pointing out that many investment firms, trading venues and supervisors are building reporting systems from scratch. He added that ESMA itself its building technology in order to collect this data.

"All these projects are large and complex," he said. "Probably more than those triggered by MiFID, which required three years of implementation."

In response to the requested delay, Grant Lee, an asset management partner at PwC, suggested that clients would welcome a longer timeframe for implementation.

However, he also said that, until the European Commission officially announces a delay, PwC will work with its clients towards the original implementation date of 3 January 2017.

Lee said: "The potential changes required by the directive and [Markets in Financial Instruments Regulation] are immense and with key text still outstanding, embedding the wholesale changes during 2016 is a massive stretch for the industry."

"This is before considering and working through the secondary impacts for asset managers from interaction with sell-side firms."

He added: "As the industry remains on tenterhooks, the timing of an announcement from the European Commission will be key, as the value of a delay erodes the longer it takes. If the delay were to be granted in mid-2016 this would be too late for most—firms are seeking clarification now on their timetables and deliverables."

Assets managers in a pickle over data quality

Asset managers are not particularly confident when it comes to quality and consistency in data management, even though they consider it important to their organisations, according to a survey from SimCorp and AIM Software.

Although 95 percent of respondents said that data quality issues are extremely important in relation to their daily operations, 69 percent said they are 'lukewarm' in their confidence that their organisation can deliver quality, and consistent, data throughout their whole operations.

Similarly, while 88 percent believed that a single book of record across the whole business could improve operational efficiency, only 45 percent said they have such a book of record.

Ian Grow, sales director at AIM Software, said: "The sharpened focus on risk management and transparency is driving the need for consistent and reliable data, as well as new regulatory and client demands for increased reporting."

"What many do not realise is that these needs can be met cost effectively, and when implemented properly, data management can improve profitability due to higher business efficiency, increased agility and cost reductions."

Marc Mallett, vice president of product and managed services at SimCorp North America, said: "The value of data management as a competitive tool should not be underestimated by buy-side firms."

"The search for alpha continues and investment decision-makers in the front office need an intra-day updated view of their positions, activities which require accurate and timely data."

SEC proposes new alternative trading rules

The US Securities and Exchange Commission (SEC) has proposed new rules intended to improve regulatory oversight and transparency of alternative trading systems (ATSs) that trade stocks on national market systems.

Under the proposed rules, those ATSs would be obliged to file disclosures about their operations and the activities of their broker-dealer operator and affiliates. A new mandatory form would include information on trading, types of orders and the market data used, as well as execution and priority procedures.

The information would also be made publicly available on the commission's website, allowing market participants to better asses ATSs, and to be better informed when evaluating the order handling decisions made by their brokers.

The SEC would be able to qualify systems for exemptions, and to review disclosures, declaring them either effective or ineffective, as well as reviewing amendments.

SEC chair Mary Jo White said: "Investors and other market participants need more and better information about how alternative trading systems work."

"The proposed changes would represent a critical step forward in delivering greater transparency to investors and enhancing equity market structure."

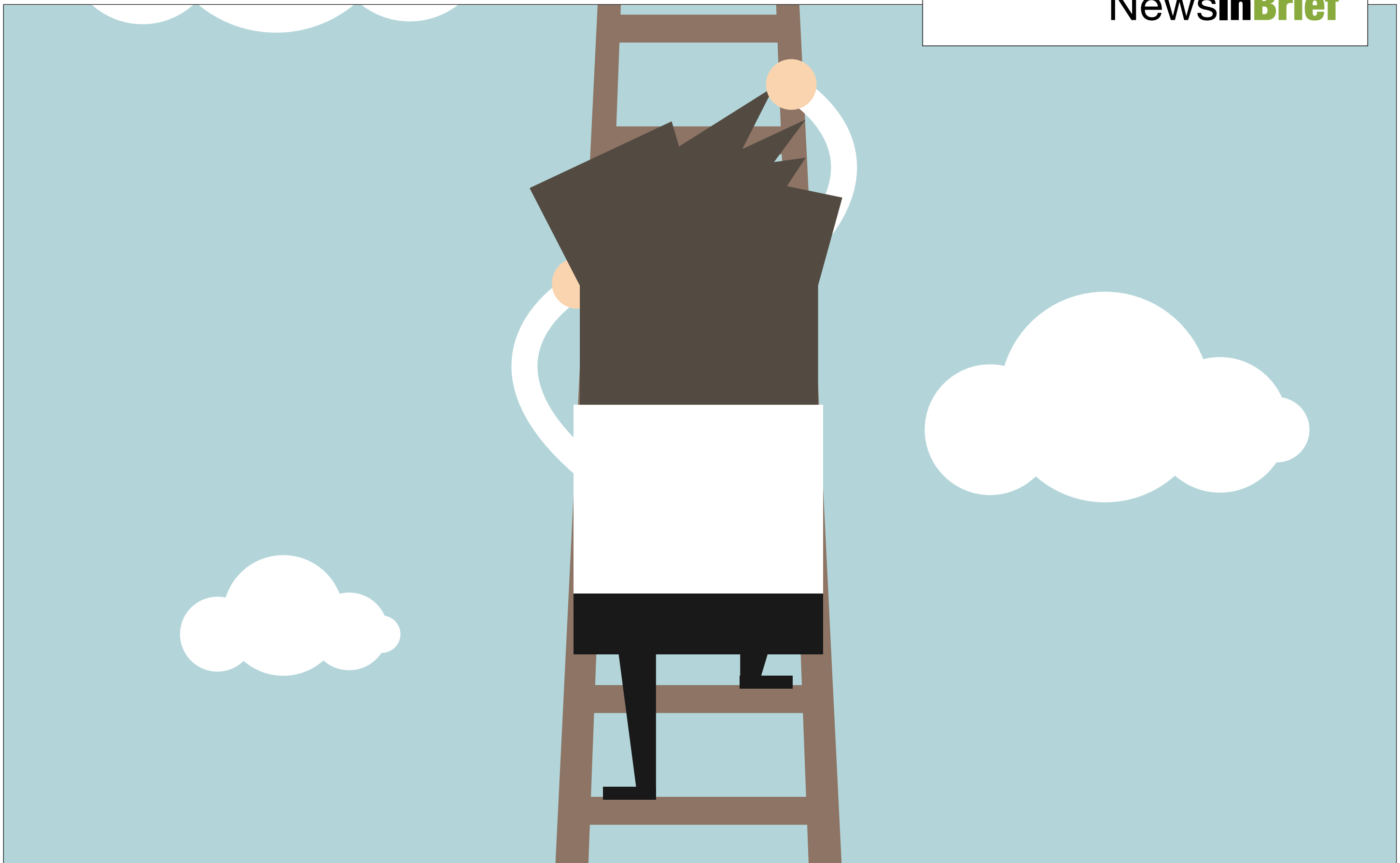
Markit mandated for valuations

Global investment manager Aberdeen Asset Management has chosen Markit to provide valuation services for hard-to-price assets for positions within limited market data.

Markit's independent hard-to-price valuation service prices seldom-traded assets, private placement debt and unlisted equity positions using high-quality data and proprietary methodologies.

The service is designed to adhere to post-trade statutory and policy requirements of regulators, investors and auditors alike.

Carolyn Baker, global head of data management



at Aberdeen Asset Management, said: "Markit's service enables us to value hard-to-price assets which are held in a number of our portfolios. Outsourcing this function brings independence and operational efficiencies to an area which requires specialist skills."

"We are impressed with the quality of service Markit offers and are convinced that this helps us to deliver a best in class solution to our clients."

Kevin O'Connor, head of private equity services at Markit, said: "The increasing scrutiny on hard-to-price positions from auditors and regulators places a significant burden on asset managers, one which is expected to grow over time."

"To help address this challenge, Markit offers an independent valuation service which provides transparent reporting when clients need it."

Healthy growth in UK AUM

UK assets under management reached a record figure of £6.8 trillion at the end of 2014, marking the sixth successive year of growth, according to a report from TheCityUK.

The figure represents a 9.7 percent increase on the end of 2013, and a 60 percent increase on the pre-crisis peak.

Funds managed on behalf of international clients increased by 14 percent year-on-year to £2.5 trillion at the end of 2014.

The report also estimated that funds managed in the UK in the first half of 2015 increases by 4 to 5 percent year-on-year to an estimated 7.1 trillion, while the figure for the full year is expected to increase by 9 percent.

TheCityUK also reported an increase in institutional clients in the UK such as insurance funds, local authority and pension funds, which now account for two thirds of assets under management.

Assets of retail clients accounted for £1.1 trillion, while private clients accounted for £705 billion and alternative funds, such as hedge funds, property funds and private equity funds, accounted for £700 billion.

TheCityUK CEO Chris Cummings said: "The UK fund management industry is diverse and sophisticated, respected globally and has seen a remarkable recovery post-crisis."

He added: "We welcomed the re-launch of the Financial Services Trade and Investment Board earlier this year, and would like to see the fund management industry remain a priority area of focus for the new government."

Green mandate for BNY Mellon

BNY Mellon has been appointed by the Vermont Educational and Health Buildings Financial Agency (VEHBFA) and Saint Michael's College as trustee, paying agent and registrar for approximately $18.5 million in green bonds.

The bonds are the first green bonds to be issued by a higher education institution in Vermont, and will finance construction of a new hall of residence for students, which is being designed to use less energy.

The new halls will replace older buildings that are more expensive to maintain, and will incorporate sustainable building practices.

BNY Mellon's social finance products are designed to help investors to achieve return, while considering the environmental, social and governance (ESG) impact of investments.

Antonio Portuondo, head of BNY Mellon Corporate Trust's public and not-for-profit business, said: "Green bonds continue to gain momentum as issuers and investors see their importance in confronting climate change."

He added: "In addition to appealing to retail investors seeking more sustainable investments in their portfolios, green bonds benefit institutional investors addressing ESG mandates. This had been a challenge for fixed income investors prior to the emergence of green bonds."

BlackRock gains migration partners for 20 exchange-traded funds

BlackRock has partnered up with Euroclear and Clearstream to migrate 20 exchange-traded funds (ETFs) to an international issuance and settlement structure.

BlackRock issued its first ETF with an international security structure in 2013, and

since March this year it has launched all of its new funds on this platform. The migration marks the first time that pre-existing funds will be transferred to the new model.

The 20 iShare UCITS ETFs account for $2.9 billion in assets under administration, as of October 2015, and are denominated in US dollars, British pounds and euro.

In the centralised post-trade structure, issuance and settlement of ETFs is carried out by an international central securities depository (ICSD) in a single location, simplifying post-trade processing and allowing market makers to offer more competitive trading spreads to investors.

Leland Clemons, global head of iShares capital markets at BlackRock, said: "As the global demand for European-domiciled ETFs continues to grow at pace, the ecosystem supporting the industry has never been more important."

"Our partnership with Euroclear and Clearstream to create a multinational central settlement and clearing venue for European securities is testament to our commitment to making ETF trading more efficient. We hope to build an industry consensus around this simpler model."

Stephan Pouyat, global head of capital markets at Euroclear, added: "What we are doing is effectively simplifying the European issuance and settlement process for this much sought-after investment product. The huge growth in European ETFs shows no sign of abating, and it is critical that the infrastructure providers like Euroclear have the right platforms and processes in place to manage the increasing volumes."

Bernard Tancré, head of business solutions for investment fund services at Clearstream, said: "A significant advantage of this ICSD issuance model is that it utilises the well proven and efficient settlement infrastructure for Eurobonds that market participants from around the world have been accustomed for more than 40 years."

He added: "Seamless connectivity is crucial to the user experience, and we are proud to provide this system alongside our domestic issuance model."

SGX and EBS Broker Tec pair up for futures

EBS BrokerTec and the Singapore Exchange (SGX) have signed a collaboration agreement to launch SGX FX block futures in the EBS market.

EBS BrokerTec, the FX and fixed income business of ICAP, will use its venue for e-trading currencies for FX trading, after both businesses saw growth in the Asian trading volumes.

The collaboration is intended to bridge the over-the-counter (OTC) and futures markets, allowing market participants to access an enhanced liquidity pool for trading Asian spot and futures instruments on the EBS market.

Trades will be cleared through the SGX trade registration system, Titan OTC, offering customers automated straight-through processing for trades, which are matched electronically on the EBS market. Central clearing through SGX also means increased capital efficiency.

Michael Spencer, group CEO of ICAP and chairman of EBS BrokerTec, said: "Our partnership will allow us to develop new business opportunities and product offerings, and significantly strengthen liquidity in the FX OTC and futures markets. This is an exciting opportunity for ICAP, our customers and for the financial markets in Asia and we look forward to the launch next year."

Loh Boon Chye, CEO of SGX, added: "This collaboration is a sign of our commitment to innovate and grow the Asian currency futures market. It will also provide a mutually beneficial market for both our customers, given the strength of EBS's network and SGX's risk management and clearing tools."

"We look forward to further collaboration with ICAP and EBS BrokerTec to develop new products and services that complement and grow the FX OTC and futures markets in Asia."

The collaboration is part of a long-term strategic partnership between EBS BrokerTec and SGX. Listed FX block futures should be available to trade on the EBS market in Q2 2016, subject to regulatory approval.

Clearstream grows AUC in October

Clearstream enjoyed an 8 percent boost in its assets under custody (AUC) in October.

AUC hit €31.2 trillion in October 2015, compared to €12.3 trillion in the same month last year.

Securities held under custody in Clearstream's international central securities depository (ICSD) increased by 9 percent from €6.6 trillion in October 2014 to €7.2 trillion in October 2015.

Data for ICSD settlement transactions showed a 15 percent decrease, compared to October 2014's figures.

Last month Clearstream saw 3.4 million international transactions, down from four million in 2014.

Of all international transactions, 84 percent were over-the-counter transactions and 16 percent were stock exchange transactions.

The investment fund services (IFS) business contributed to this growth in the ICSD business as its corresponding transactions registered a 12 percent increase.

IFS transactions grew to 8.2 million transactions for the period year-to-date October 2015, up from 7.3 million in 2014.

However, IFS also experienced an 11 percent drop-off for October compared to last year's figures.

IFS processed 700,000 transactions in October 2015, down from 800,000 in 2014.

BT Global Services calls on Volante

Volante Technologies has been selected by BT to provide its suite of financial integration and processing software to members of the BT Radianz Cloud community.

A secure networked financial service community, BT Radianz Cloud members include brokers, institutions, exchanges and clearing and settlement houses, which gain access to various applications.

The pairing with Volante intends to help the BT's global financial markets customers to improve the reliability of clearing, settlement and payment transaction processing.

Tools and applications include Volante Designer and the VolPay products, designed to simplify payments processes and to translate financial messages between different standards.

Volante allows clients to cut costs and reduce the risk of errors, while communicating more effectively with those using different messaging formats.

Volante software also complements BT's Radianz Messaging, an end-to-end financial messaging platform for confidential and authenticated information exchange.

Vijay Oddiraju, CEO of Volante Technologies, said: "The combination of Volante Technologies's software and BT Radianz Messaging services will help firms deal with the diverse, complex and ever-expanding mass of data message formats, standards and protocols generated throughout the lifecycle of every financial transaction."

"This helps to keep customers abreast of developments in the market and removes the burden of updating systems."

Panama on board with KYC

The Panama Banking Association has endorsed SWIFT's Know-Your-Client (KYC) Registry. The association has membership of 71 banks, including domestic and international institutions.

The KYC Registry is a centralised repository that maintains a standardised set of information for KYC compliance. Participating banks contribute a 'baseline' set of data which is validated by SWIFT and shared with other counterparties.

Banks retain ownership over their information, and control over who can view it, and are currently not charged for contribution.

More than 1,500 financial solutions in 179 countries now use the registry to help comply with KYC regulations.

Mario de Diego, executive vice-president at the Panama Banking Association, said: "The endorsement of SWIFT's KYC Registry by the Panama Banking Association is a clear illustration of the association's steadfast commitment to collaborate with the international community to prevent financial crime and to attain financial inclusion."

KDPW_CCP gains traction

PKO Bank Polski, the largest Polish bank, has joined the clearinghouse KDPW_CCP for clearing over-the-counter (OTC) derivatives denominated in Polish złoty (PLN).

The first OTC trades in PLN were cleared through the central counterparty (CCP) in May 2015, and 11 polish banks now clear interest rate derivatives through it.

KDPW_CCP has now cleared trades totalling more than PLN 24 billion (€5.6 billion).

Poland's OTC derivatives clearing service was launched to address the European Market Infrastructure Regulation (EMIR), which mandates that all OTC trades in particular classes must be cleared in a CCP authorised by the EU.

KDPW_CCP was authorised by the EU in April 2014, and currently offers the clearing of forward rate agreements, interest rate swaps, overnight index swaps and basis swaps.

Iwona Sroka, president and CEO of KDPW and KDPW_CCP, said: "The services of an authorised CCP improve the security of the national financial system and the security of each bank. The credit risk of a counterparty to an original trade is taken over by the CCP, which operates an EMIR-compliant system of trade clearing guarantees in the event of default of a direct participant."

She added: "We expect that active participation of PKO Bank Polski will spark the growth of the Polish interbank market as the bank is one of the leading market players."

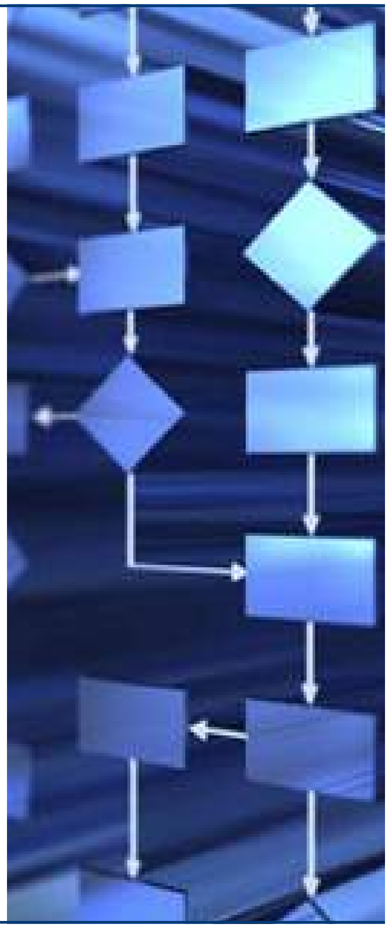
Jakub Papierski, vice president of the management board supervising corporate market and investment banking at PKO Polski, said: "Trade clearing in KDPW_CCP is yet another step in building shareholder value."

"With the central clearing functionality, our bank reduces capital requirements, mitigates clearing risk and counterparty credit risk, and fulfils all regulatory requirements which are now European in scope."

"I do believe that the new form of clearing for the biggest local bank in a Polish CCP directly supports market liquidity, transparency and depth, and consequently enhances confidence in the quality of the interbank market in Poland."

Former Goldman Sachs employee in hot water

A former Goldman Sachs employee hired to develop software for preventing misconduct has been charged by the US Securities Exchange Commission (SEC) with using his knowledge to conduct insider trading, allegedly making $450,000 in illicit profits.



Yue Han is accused of using confidential emails between Goldman Sachs investment bankers to gain information on firms that were on the verge of being acquired, and to purchase securities of these companies

He was an associate of the bank's compliance department at the time of the alleged offence, where he had access to merger and acquisition information before it was made public.

He was working on developing software for monitoring employees for misconduct such as insider trading.

Han allegedly used this information to purchase securities in at least four companies that were shortly to be acquired; Yodlee Inc, Zulily Inc, Rentrak Corporation and KLA-Tencor Corp.

Joseph Sansone, co-chief of the SEC enforcement division's market abuse unit, said: "We allege that Han's employer gave him access to confidential information so that he could help the firm detect and deter illegal activity, but he betrayed that trust by using the information for his own profit."

The case was brought to light by the SEC analysis and detection centre, which uses data analysis tools to detect suspicious patterns such as improbably successful trading across securities over time.

Sansone commented: "Fortunately the SEC staff's probing analysis uncovered Han's suspicious trading and enabled us to obtain an asset freeze before he could dissipate his ill-gotten gains."

The SEC has now obtained an emergency court order to freeze Han's assets and the accounts that he allegedly used to place the trades, one in his own name and one in his father's.

Goldman Sachs said in a statement: "If the allegations are true, Han violated our trust and ignored extensive training that he received so we are pleased that the authorities are pursuing action against him."

CACEIS selected for RMB UCITS

Bank of China in Luxembourg has chosen CACEIS to provide services for its Luxembourg renminbi (RMB) qualified foreign institutional investor (RQFII) UCITS fund.

CACEIS will provide custody, depository and fund administration for the fund, which gained approval in China in October.

The Bank of China in Luxembourg has become the first institution to take advantage of Luxembourg's RMB 50 billion ($8 billion) RQFII investment quota, granted in April.

The RQFII programme is designed to allow foreign investors access to the Chinese financial markets, and this Luxembourg-domiciled fund now offers access to the Chinese inter-bank bond market.

Lihong Zhou, CEO of Bank of China in Luxembourg, commented: "We are keen to bring the benefits of the RQFII initiative to our investors."

"In selecting CACEIS, Bank of China in Luxembourg is proud to have created this winning partnership between two front-running entities in their respective fields."

"We believe this venture will enable us to significantly advance our goal of building up our own asset management platform whilst bringing great value to both our entities."

Joseph Saliba, deputy CEO of CACEIS, added: "We are delighted to be in a position to support Bank of China in Luxembourg for the launch of its first Renminbi-related Luxembourg investment product."

"As a leading European asset servicing provider, CACEIS will leverage its extensive market experience to ensure that Bank of China in Luxembourg is able to invest its Renminbi quota securely and effectively, distribute its products efficiently and provide professional reporting services to its investors."

DTCC launches Data as a Service

DTCC has launched its Data as a Service product, which has already been adopted by a top-tier bank.

The new service is designed to offer insight in to trading activities across multiple asset classes, working with DTCC's clearing, settlement, asset servicing and derivatives trade reporting solutions to provide new insights in to data.

It allows access to reliable and unique financial markets and reference data, and gives subscribers access to their own firm-specific transaction data and positions aggregate data, plus tools to customise their views.

DTCC Data Products was created as a response to client demand for fast access to various sources of market and reference data.

The new data service brings additional risk mitigation, efficiency, and cost reduction to the offering, while helping clients to meet regulatory requirements.

The top-tier bank, which has not been named, has adopted the new service for the data capabilities of its fixed income and government securities division, in order to keep track of its activity, analytics and benchmarking, alongside the overall industry and dealer activity.

Ron Jordan, DTCC's managing director of data products, said: "Our clients are becoming more data-centric in everything that they do and have asked DTCC to help them meet their data and regulatory challenges by enabling them to view and analyse their transaction data across multiple DTCC sources."

He added: "Working closely with our participant firms, and using data sourced from DTCC's central clearing, settlement and data repository engines … Data as a Service allows subscribers to view their own firm-specific data and compare it to market aggregates."

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Amenable to change

Shifts in collateral and regulatory pressures mean there are new options for beneficial owners, as long as they are willing to be flexible, writes CIBC Mellon's vice president of global securities lending, Jeffrey Alexander

Securities lending and alternative strategies have gained prominence in recent years. The practice continues to provide much-needed market liquidity in a capital-constrained world, as well as excellent risk-adjusted returns for owners.

On the flipside, both unintended and intended regulatory challenges continue, such as the use of short sale bans, as in Greece, which for all their good intentions have historically shown to do more harm than good.

Even in highly developed lending markets such as Canada, the regulatory environment can create an uneven playing field—for example, the domestic NI 81-102 regulations prevent mutual funds from taking equities as collateral in securities finance transactions, in contrast to the flexibility afforded to pension and insurance players.

Some of the largest impacts for the securities lending industry, however, stem from outside pressures: velocity of regulatory change, new capital requirements and the resulting growth in the importance of high-quality liquid assets (HQLAs). These pressures are transforming the opportunity equation for beneficial owners, as their own programme choices around collateral, terms and structures either open up large volumes of new business or turn formerly fertile grounds hardscrabble.

Pre-2008, the market was comparatively flush in collateral. Global banks and other traditional borrowers were long on quality collateral, and able to structure an array of transactions using their own balance sheets. As a result, the market didn't support nearly the same level of demand for HQLAs held by insurance companies, pension plans, and mutual funds, which in turn were able to set their collateral requirements in a multitude of structures without so substantially affecting the uptake and overall returns of their securities lending programmes.

Today's regulatory environment has changed the equation. Banks now face expanded requirements to hold HQLAs on their balance sheets, even as they undertake activities that further bolster demand for those assets.

Pension plans, mutual funds, insurance companies and other beneficial owners are in position to fund this need—if they are willing to collateralise their securities lending transactions in ways that will aid this new market demand.

Constrained by their own balance sheet requirements, broker-dealers are looking to borrow securities against less traditional collateral instruments such as equities, exchange-traded funds, corporate bonds or alternative forms of debt, creating vast new demand for the HQLAs that beneficial owners hold. Choices around collateral have grown in focus and importance—a trend that we expect to continue to gain importance as a driver of securities finance activity.

Canadian owners are well suited for the new collateral environment given their generally conservative holdings (and a home bias which has proven justified in recent years).

As opposed to global uptake of general collateral, with utilisations around 10 percent depending on the market and the season, usage of short-term US treasury instruments often exceeds 70 percent usage, while Canadian government issues under 10 years regularly approach 80 percent usage of available instruments.

For beneficial owners holding highly sought-after instruments, flexibility can help owners' programmes more fully realise their holdings' potential for lending, while adding an important return in persistent low rate environments.

For those holding high-quality government assets, being willing to consider transactions across a wide array of collateral choices or terms such as evergreen trades can enable owners to capture a greater share of the available demand.

We fully expect this demand to continue, with the increasing march of regulatory and balance sheet pressures strengthening demand. Liquidity coverage ratios and net stable funding ratios have affected the way borrowers need to structure securities finance transactions, as well as their broader business. In the years ahead, flexibility will likely play an even greater role in determining revenues, with direct fee and pricing impacts shaped by collateral acceptability, term length or central counterparty usage.

At the end of the day, the only reason owners participate in securities finance transactions is because there is value in the programme and they have confidence that the relevant collateral, contracts and counterparties appropriately protect the assets in question

Agent lenders must spend the time necessary to work with owners to help them understand the controls in place as well as the tenor of the opportunities available.

Ultimately, it is up to agent lenders to help beneficial owners and borrowers capitalise on changing opportunities in supply and demand with confidence.

Collateral usage has changed substantially over the last five to 10 years, and will no doubt continue to evolve in line with the changing demands of borrowers, regulators and other market participants.

The overall returns in the securities lending market may remain comparatively stable, but opportunities will increasingly accrue to those owners willing to move with agility and flexibility to meet the market's changing demands. **AST**

"Collateral usage has changed substantially over the last five to 10 years, and will no doubt continue to evolve in line with the changing demands of borrowers, regulators and other market participants"

A-UK

The regulatory storm can be hard to predict in the UK, but whether it's any more blustery than the winds in France or Germany remains to be seen

STEPHANIE PALMER REPORTS

Often likened to a burden to carry, a mountain to climb, or, a little over-dramatically, an unstoppable tsunami, there is no doubt that in the UK, as with everywhere, there has been an awful lot of regulatory change to keep an eye on.

EU directives and regulations, as well as technical advice and standards from the power that is the European Securities and Markets Authority (ESMA), are implemented locally through changes to the likes of the Client Assets Sourcebook (CASS), the rulebook that sets out the law of the UK for custodians. It's certainly a turbulent environment for custody banks, and no matter how you like to look at it, it's not getting any lighter, any less steep, or any more stoppable.

A spokesperson for the Financial Conduct Authority (FCA), the UK's financial services regulator, acknowledged that these banks face "considerable pressure", but stressed that, amid cost pressures, rules, specifically those around transparency, are there to help the end consumers.

"Strategies and consequential changes in business models may lead to harm to consumers, as firms are pushed to exploit areas of profitability," the spokesperson said, adding: "We want to investigate the transparency of secondary services to establish whether investors are being disadvantaged or charged excessively."

The same spokesperson, however, also drew attention to the volume of rules that custody banks have to follow, pointing to the 326-page CASS.

At the same time, however, other changes, like pension reform, are shaking up the market in a more positive way, allowing custodians, both local players and global institutions, to get a bit more creative with the services they're offering their clients.

According to John Campbell, head of global services for the UK, the Middle East and Africa at State Street, there's no risk of custodians exiting the market as long as their clients stay there.

He says: "Most global financial managers have a presence in the UK, so clearly they see it as an important market too. It's a sophisticated market, so both international and domestic asset managers are distributing there, and are well aligned to do that."

These financial managers are embracing the likes of pension reform. As retirees now have the option to invest in to other structures, fund managers can also diversify the kinds of structures they have to offer.

Campbell says: "People are now actively seeking fund structures that suit their lifestyle. As custodian to many of the institutions offering those structures, State Street is therefore a part of that service offering."

However, as in all EU member states, the regulatory situation in the UK has been potentially over-complicated by the dual-leadership of the UK and EU regulators.

Daniel Simpson, head of research at independent regulatory think-tank JWG, refers to the "dual regulatory framework" between the UK and the EU, noting that a lot of the regulations implemented by the FCA can be traced back to EU initiatives.

> "The overriding feeling is that the UK is setting a precedent for best practices"

He says: "The EU has a complex rule framework in that it has a broad and harmonised regulatory procedure, but in some cases some jurisdictions move earlier and others move later. The FCA has a good record of front-running aspects of some EU legislation and trying to implement similar rules in the UK as early as possible."

According to Simpson, many of the FCA's regulations come back to the 93-point plan set out by the G20 in 2009. Over the last six years, in the wake of the global financial crisis, the majority of the new regulations can be traced back to a point on the original plan.

Eventually, the same kinds of rules are extending not only outside of the EU, but also outside of the G20 member states.

He says: "It's hard to say whether the FCA is putting in place tougher rules than others—certainly other jurisdictions, France and Germany, for example, have similar initiatives that are ahead of EU mandates."

"The point is that different jurisdictions are implementing regulations looking at similar issues and tying back to similar themes, but no one is doing it in precisely the same way."

For global institutions, operating across various jurisdictions and regulatory catchment areas, however, even slight differences in the regulatory landscape can make things complicated, not only for the custodians themselves, but also for their clients and their clients' clients.

For example, State Street's primary regulator is the Federal Reserve in the US, but it also has large operations in the UK, regulated by the FCA, and operations all over the world.

To manage the regulatory demands in so many regions, the bank aims to meet the highest standard, simply to cover all bases.

Campbell says: "As a global organisation we have to aim to meet the highest levels of regulation and impart that across all of our locations. Even if one area demands less regulation, we would still try to meet the highest standards."

Citing the UK and the US and having two of the most stringent regulatory regimes, Campbell put the two on a similar level, saying: "I wouldn't see the UK as being more burdensome."

For smaller firms, however, and their clients, it will be very difficult to have a fully harmonised EU-wide regulatory rulebook. As Simpson says: "Part of it is about political agreement."

Partly for this reason, the EU is starting to use a framework where they will publish legislation partly as a regulation and partly as a directive—regulations apply across all EU member states, while a directive is largely implemented nationally, allowing regulators such as the FCA to implement the rules in their own way.

"In Europe, harmonisation is generally desirable," says Simpson, "but can be politically difficult, so rules are being split off in to parts that are completely harmonised and parts that will always have some jurisdictional variance."

The overriding feeling is that while the UK may have tighter regulations than other parts of the EU, they are either pre-empting regulations that are likely to spread, or setting a precedent for best practice—one that could hold some weight among clients from all over the world.

"As a global organisation we have to aim to meet the highest levels of regulation and impart that across all of our locations," says Campbell. "Even if one area demands less regulation, we would still try to meet the highest standards." AST

Inputting collateral corrections

Nothing exists in a vacuum, even the untouchable collateral function

STEPHANIE PALMER REPORTS

A buzzword of financial services, 'optimisation' is practically synonymous with 'obvious'. But for collateral, so long forgotten in the depths of the back office, it's only recently that banks are dusting off the inefficiencies and giving operations a spruce-up.

Of course, this attention can be traced back to regulation. With institutions forced to tighten their belts in all areas of their business, any improvement on efficiency, and any reduction in assets wasted, is welcomed.

Nick Nicholls, a principle consultant at GFT, and contributor to GFT's collateral optimisation whitepaper, suggests that banks should take a more holistic view of the way they price their collateral. Currently, derivatives traders calculate cost of collateral with their counterparties and price this in to their transactions, while the optimisation process goes on behind the scenes, as back-office teams strive to meet the trader's expectations.

"I don't necessarily think all firms are looking at the whole picture," says Nicholls. "Some of the tier-one institutions definitely are, and some are doing it better than others."

"While some have been managing collateral as part of a holistic model it for years, many have yet to start, or are focusing their efforts in siloes or in support areas, rather than bringing the functional responsibility for managing the economics regarding collateral into a single cross-divisional trading area."

He refers to the whitepaper, saying: "GFT is talking about breaking down the siloes and sharing an inventory pool across all the divisions; having one overall process, or a central hub for managing collateral as part of the capital, liquidity and financing arm."

Such a structural change, however, will likely prove challenging. With so many regulations to address, and requirements changing so frequently, for large firms it can be hard to manoeuvre quickly enough to stay both efficient and up-to-date.

Ted Leveroni is chief commercial officer of DTCC-Euroclear GlobalCollateral, a joint venture intended to help firms identify, mobilise and optimise their collateral. He highlights challenges such as Basel III and mandatory clearing, suggesting that, although banks have made progress in enhancing their capabilities, "achieving the scale and technological capabilities needed before these regulations enter into full force is a complex undertaking for even the largest organisations".

While focusing on the value of mobilising and optimising collateral, Leveroni suggests that some institutions might be better off looking to utilities to help them with their strategies—optimising the industry specialisation in order to benefit all players.

He says: "Firms should be carefully assessing what should be done in house and what is better left to a community based, utility solution which allows for the industry as a whole to solve these challenges once, instead of each firm coming up with their own individual solutions."

Another provider of such a utility is Torstone Technology, whose Inferno trade capture platform integrates middle- and back-office processes.

According to Torstone's global head of sales, Jonny Speers, the platform brings a certain sophistication to the way firms organise their collateral, bringing several data feeds together to generate collateral calls, while staying ahead of regulation.

He says: "Clients have been able to reduce the burden of regulatory compliance and avoid having to make the multiple changes required to in-house collateral management systems as additional regulations come into effect."

Unsurprisingly, regulation is one of the most cited drivers for an operational overhaul. "Collateral optimisation has reached the top of the agenda following the global financial crisis," according to Speers. "The move to central clearing … as well as margin requirements for uncleared derivatives, is forcing firms to think more strategically about how they manage their collateral."

Leveroni points specifically to derivatives regulations as the primary driver, pointing out that these rules, while already a part of business-as-usual in the US, are spreading, and that institutions won't be able to ignore them for much longer.

"In the US, central clearing has been underway for some time, while in Europe we expect to see similar mandates implemented towards the end of next year. Looking further afield to Asia, regulators are following closely behind," he says.

However, sometimes it is the regulatory by-products that drive real change. Andrea More, managing director of the markets group at BNY Mellon, suggests that not only do regulations not mean the same for all institutions, but that a lot will depend on how much collateral they have to pay out.

More argues that collateral optimisation will be an important issue when a bank has several obligations, such as a number of currency and derivatives trades, and so may be unaware of the full extent of their collateral responsibility. She also points out that, for many institutions, optimisation is driven by a mandated move towards non-cash collateral.

She says: "A lot of the new regulations require segregation of collateral, and you cannot segregate cash in the European market. Cash is intangible, and it's not considered as safe as an aligned physical asset in a depository."

"Cash will become less common as collateral as it's not an optimal asset any more—it will cost more than it's worth to have it there."

Similarly, Nicholls doesn't place as much importance on regulation itself, preferring to focus on the benefits of change. While regulations may be a primary driver, they could be considered simply as the catalyst for things that, perhaps, should have been in the pipeline already.

"What banks should be looking at, now they have to manage their risks more closely, is how to do that more efficiently," he says. "Without efficiencies throughout the collateral process, they're going to lose a lot of money."

He adds: "Core to this is transparency over the entire firm's assets, and a business structure that centralises ownership and economic management of those assets. The more everything is in one place, the better the banks can see everything, the better their decisions are going to be, and the more adaptable they will be."

But it's an evolutionary process. It can be easy to assume a technology plug-in will revolutionise collateral management and solve the optimisation, efficiency, transparency and compliance challenges in one fell swoop, but, as always, the reality is much more complicated. Even technology providers concede that their offerings aren't the definitive answer to the optimisation challenge.

Leveroni says: "While enhancements to technology and market infrastructures have certainly been a prerequisite to collateral optimisation, they are no longer the only means to improving collateral management."

"The challenges we will face in the collateral space over the coming years will be quite substantial. Therefore all tools including technology, infrastructure, operational re-engineering, and standards will need to be deployed in a coordinated fashion in order to overcome them."

Nicholls adds that, while technological developments can give collateral optimisation a boost, and provide a sustainable strategic framework for a core collateral hub, it can be the smaller, and cheaper, operational changes that make the big difference.

He explains: "A change in business process, however small, can bring dividends in terms of savings or cost reductions—even revenue in some cases. There can be a tendency to jump to a technological solution too quickly, when actually a lot can be done through process change."

Taking a different viewpoint altogether, More points out that technology can only help if the existing processes are robust enough in the first place—the most important thing is knowing what collateral is available, and that comes down to a traditional back office.

"You can build computer systems, but if you physically didn't receive the collateral in to that account, then you're trying to optimise assets that you don't have," she says. "It's not easy to connect the back and front office—there are a lot of reconciliation and data factors there."

However, she accepts that, with the move away from cash as collateral, other assets move to fore, and with them come additional complexity and more data sets. Those systems designed to cope with cash are unlikely to be able to manage these factors.

But this kind of technology is not only in place for managing collateral, it also proves integral for credit and risk exposures.

If there is a change in the market, institutions have to be able to know what their exposures are, and more importantly, what to get rid of, as quickly as possible.

As More puts it: "Let's face it—that's a technology game now. No bank has staff that can file things that quickly."

While many may know what they need to do—investing in technology or overhauling internal processes—for global institutions, having a plan is only half the battle. Even minor changes can prove a huge endeavour for the largest banks, and that can give more nimble firms a chance to get ahead.

"Small firms are likely to have fewer issues, and will have less of a vested interest in the siloed approach," says Nicholls.

"They can be broken down more easily, and will have fewer systems, smaller infrastructures, and fewer people to gather around a table, meaning things can be sorted out faster."

"Actually, the tier-two firms and smaller buy-side firms such as hedge funds are in a good position to make these changes earlier—they have much more flexibility."

But that's not to say that the big institutions aren't making changes. There is movement among the giants, but it's perhaps more calculated, more meticulously planned and, by necessity, implemented in a more staggered and cautious manner.

More concludes: "It's a slow burn with some organisations, and some are just getting to the point where they realise they have to start looking at this. I don't think there is a one-size-fits-all solution for all of them, or for every region. Everybody knows it's not something they're going to build overnight." **AST**

Investment foundations

Local markets will do what's best for them, but that must include attracting foreign investors, according to Mark Kerns of Standard Bank

STEPHANIE PALMER REPORTS

Africa is vast and diverse—what are the key investment management trends in the region?

Generally, South Africa is a very mature market in terms of financial infrastructure, while other markets are in various stages of development. Standard Bank operates in 20 markets in Africa, while the investor services business works in 15 of these, and generally most markets have an exchange, a central securities depository and a capital markets authority, but they're all in growth mode.

That growth is stimulated on a local level by an emerging middle class, which is generating a requirement to invest savings. There is also the development of pension systems, which creates a demand for investment in securities, and there is a developing insurance market. All of this leads to a growing pool of assets, which require an investment destination, and this stimulates the need for investment. Some markets are trying to encourage more products to be listed on their local exchanges, which could come through initial public offerings, from vehicles such as exchange-traded funds, and through other products that provide additional investment destinations for pension funds and asset managers.

Additional products create demand, and that demand drives the development of the capital markets. In more mature markets, this has led to very active derivatives and securities lending markets. In the rest of Africa, we are starting to see more stock exchange activity, more liquidity and more products, either because they're allowed through regulation, or just because there's greater interest and greater demand.

Are you seeing interest from international investors, as well as local interest?

Africa is very much part of the global economy now. As such, it's affected by issues that happen in other markets of significance, whether that's exchange rate devaluation in China or interest rate speculation in the US. Because of the domestic demand, the markets are growing often at a double-digit rate, and international investors are attracted by that. They're looking for additional return on equity, and additional yield from fixed income, and there is a lot of opportunity, even in a difficult environment.

It's a balance. Any economy is going to focus on doing what is best for the local market, such as pension structures, savings structures, improving employment and industrialisation, but another big component of that is attracting investors. Whatever the case may be, international investors are important. Still, the main driver is really what has to be done domestically, and how international investment supports that agenda.

What are the main differences between investing in a developed market such as South Africa and emerging markets?

Fundamentally, the infrastructures in the emerging markets we're active in are similar to those in developed markets. The challenges are that some of these markets are trying to control their growth—managing the currency and liquidity tightly. In markets such as South Africa or Nigeria, liquidity is high, so there is a lot of trading activity, but elsewhere, where capital markets are relatively small, one of the challenges for an international investor is finding what is available to invest in. In a small equity market with high demand, there is often not an investment destination, even if the desire is there.

Similarly, because of the requirements to fund development, be it in infrastructure or in other ways, a lot of African governments issue debt. The demand for this is quite high, which can lead to it becoming oversubscribed.

However, in some of the emerging economies, corporations are growing and listing on the stock exchange for the first time, while governments are selling parts of their government-owned entities, which will also be listed. Not only will this stimulate more liquidity, but these corporations will require funding and capital raising.

There is also the jurisdiction's credit rating and country risk rating to take in to account, and that's something that international investors will have to consider. Many asset managers or hedge funds are looking at these regions as destinations that provide return. It may be a challenge, but risk ratings are all part of the investment decision.

There is strong investor appetite for Africa, but it can be tricky to find the destination for that investment, whether it's debt or equity. That can be where Standard Bank comes in. We provide custody and related services, but we're also active in the local markets, so we can provide that local expertise and local advocacy that can be critical.

Why have pension funds been increasingly looking to banks for custody services in Africa?

A lot of the markets we're active in are in the development phase of their pension systems. Most have a government employees' or industry pension fund, but they're also encouraging corporations to create pension funds.

Consequently, companies and individuals are making contributions to pension funds, which is creating a pool of assets, but those assets are typically managed by two or three asset managers. To safeguard the assets, administrators are appointing banks to centralise the process.

In addition to the custody service, a lot of pension funds are seeking consistent and consolidated reporting for all of their asset managers.

Banks are appointed not only as custodians, but as master record-keepers, providing the likes of investment accounting, evaluation, performance measurement and compliance monitoring.

That is a well-established model in developed markets such as the UK, the US and the Netherlands, but it's in its infancy in Africa, because a lot of these markets are still in the development stage.

We are seeing demand for that model emerging, and I would anticipate that to be an area of significant growth as pension funds get larger and become the norm. AST

Mark Kerns
Head of investor services
Standard Bank

Reference dating

SmartStream's RDU is here to revolutionise the reference data scene for securities, and to bring institutions together, says Darryl Twiggs

STEPHANIE PALMER REPORTS

What is the story behind the Reference Data Utility?

The Reference Data Utility (RDU) is a new innovation for the industry as a whole, as every firm has to deal with reference data around securities, which could be anything from definition of instruments, and pricing, to legal entity identifiers, corporate actions, and holiday calendars.

Typically, firms consume data from vendors and we found that the majority take that data and make it worse, simply because there are manual processes involved which means there are bound to be mistakes.

For five years SmartStream has offered its own RDU, and using our own algorithms we have been able to improve that data significantly, increasing our trade settlement success level from about 80 percent to the high 90s.

This just highlights the issue of trade breaks due to poor reference data—around 20 percent of industry trade breaks occur because of this.

We put a lot of technical design and information in to the RDU model. It's a multi-faceted platform that's scalable, agnostic to asset types and referential, providing integrity throughout the data set.

Every client has its own data and its own team to clean that data and make decisions about what is correct and what is wrong, before delivering it to their various systems. There are a lot of stages where mistakes can happen, and in a time of economic restraint, that can be very costly, both in terms of time and money.

What benefits will clients see?

The utility allows SmartStream to act as an agent to clean and validate data and to present it in whatever form the client requires, at the highest possible quality. Improving the quality of the outputs reduces trade breaks, which are measurable, but there are other less tangible benefits in the way that the process is governed.

Currently, every firm has its own operations procedures and ways of dealing with errors, and the way they do research can vary dramatically, which can influence the delivery time and quality of data.

There are discrepancies in how long it takes each firm to find an error, to recover it, and to republish good data. The utility offers more efficiency here, with governance over the whole process.

Finally, it has the flexibility to deliver that data to the client in whatever shape they require, and on whatever schedule they're working to. We take clients' data and simply pass it through the utility for processing.

We improve and enrich the quality of the information, and there is an obvious mutualisation benefit across all consumers.

If we find an error in one piece of data, it is much faster for us to filter that error out of their counterparties' data too, simply because we're already aware of it and we have the equipment to do that quickly.

The utility provides high-quality data with a high degree of governance in a timely fashion, with the shortest time to identify and resolve an issue, and the shortest time-to-market. And if two participants are using the same data, there will be no trade breaks.

What is the cost of broken trades?

It can be billions of dollars. Once a trade goes downstream with the wrong asset code on it, for example, it can be processed by numerous custodians and counterparties that may or may not find the error.

It can flow through the whole settlement process, which can have 10 or 15 steps, and the error could be identified right at the end.

And that will only be because someone doesn't get paid because they can't figure out what the unrecognisable asset is, and the trade has to go all the way back to the beginning.

It has been estimated that an error can cost $40 to recover, compared to just a few cents for the original trade, so a lot of money can be saved. That data should be perfect.

Three large banks have signed up to the utility already—J.P. Morgan, Goldman Sachs and Morgan Stanley. What is the significance of these players working together?

It's interesting because market data vendors have been competing for years and it's impossible that they would get together to form a utility. It took innovation and thought leadership to properly understand who the best parties would be to form a partnership and establish a utility that could be used fairly.

For the banks themselves, they're not in competition in the way they clean and process data—that's the competition between the data vendors—so they could meet to discuss how the process should operate.

SmartStream had the technology already, so by working together we were able to deliver a whole new capability to the market.

It is quite forward thinking, but when you're dealing with three major banks, it can get very complex, too.

Will we see an increase in this kind of utility model for data processing?

We will certainly see banks outsourcing reference data and subscribing to the same service as their clients for a harmonisation of mutualised data. The concept of utilities is taking hold of the industry and I think they will become the general standard of operation.

Firms are starting to look for a consortium of players that each contributes its best efforts or technology, creating benefit for all of them, and for their clients.

Technology has been an enabler—and a lot of the security and cyber-security questions have been resolved. There will still be challenges, but firms are accepting that there is a problem here and they're starting to find ways to resolve it.

It will be important to pay attention to who is participating as well—those who are not embracing this will be the ones that wither. **AST**

Darryl Twiggs
Executive vice president of product management
SmartStream

Me, my funds and my transfer agent

Dedicated UK transfer agents are becoming few and far between, but the opportunity exists for them to look to other jurisdictions and industries for disruptive ideas, says Andy Chesterton of Bravura Solutions

MARK DUGDALE REPORTS

How competitive is the UK transfer agency space at the moment?

At the moment, I would say the UK transfer agency market is less competitive than it has been in the past, particularly around third-party administration (TPA) services available to transfer agents.

Up until about 2013, the transfer agency space was full of blue-chip providers that were fully committed to transfer agency in the UK and so it was a very competitive market with clients having a lot of choice to move around. But that choice has fallen away over the last few years for a number of different reasons, with many TPA providers deciding to focus on their offshore business and UK institutional. Those TPA providers that remain are finding themselves having to juggle their priorities between new and existing customers, something that has an impact on customer service.

This shrinking marketplace, in combination with the other forces exerting pressure, such as the pace of regulatory change, is making transfer agents reconsider the services they are providing—as well as how they are providing those services—and think about the ways in which they can move forward.

What is it about the UK that transfer agents are finding so challenging?

The UK has always been quite paper-based. I had a conversation with the representatives of a Polish transfer agent a few weeks ago and they were discussing the antiquated UK market. In the likes of Poland, Luxembourg and Dublin, transfer agency is entirely subject to straight-through processing (STP). Outsourcing is still king in those jurisdictions, but their transfer agents provide a service that is completely automated.

We have customers that bridge two jurisdictions, such as Luxembourg and the UK, and the Luxembourg operations team does not understand why the UK team has all of this paperwork to deal with, across anti-money laundering and know your customer, right down to setting a client up and proving identity. The likes of Luxembourg, Dublin and Poland are much more pragmatic than the UK, where there really needs to be a relaxing of the regulations, or at least an enhancement to the service where it meets the customer.

In what way can the UK achieve this state of affairs?

Fund managers, distributors and end investors have all suffered from a lack of customer-facing technology. Transfer agents are looking at how they can improve their technology in this respect, so that they can reduce their costs and the costs of their customers. This could be through introducing more STP, which could include connectivity to the likes of EMX and Calastone, as well as promoting more self-service—another area where the UK retail market has not really participated.

> “Transfer agents and organisations are asking how they can reduce their costs and manual processing by enabling the end investor and distributors, and promoting a far greater level of self-service”

The transfer agents and organisations we are working with are all asking how they can reduce their costs and manual processing by enabling the end investor and distributors, and promoting a far greater level of self-service. It's an interesting fact that this market lags behind what we, individually, have been more than happy to do for a long time. We do online banking, we use the internet to buy almost anything, but the purchasing of investments is still something that neither fund managers nor transfer agents have promoted that heavily.

How keen have transfer agents been to check out self-service?

We've had extremely good feedback from transfer agents and the organisations we work with directly, as well as fund managers and their end customers. We can test and develop for the customer journey, to make sure that everything is easy to use. Fund managers in particular see the benefit of no longer having to produce statements every six months for more than a million investors. Now it's just a case of uploading a PDF and sending it to the relevant distributor or investor. They are accepting that it's the way forward.

What has uptake been like for Bravura's technology?

In the past we had a basic front-end product for a small number of distributors. We now have taWeb, which we've been developing for the last few years. It allows transfer agents to have a single view of all investments. All of their deals are presented in a single format, including processing settlements and statements, so the transfer agent can consolidate its operations into a single place. This gives them consistency of process, which in turn allows efficiencies.

This also improves the customer experience and quality of service, so the number of queries and complaints put to the transfer agent's call centre is reduced. Remember, a transfer agent's call centre could potentially be supporting 15 to 20 clients and the transfer agent's representative has to be regulated, so he or she is under enormous pressure, particularly if they have to remember the details of dozens of fund managers with dozens of funds each. But if the number of calls coming in decreases, that means the customer experience is improving, which equals a reduction in complaints and breaches—the majority of the paperwork that a transfer agent has to complete. AST

Andy Chesterton
COO, EMEA
Bravura Solutions

Wait and CEE

Those providers that are able to cover the CEE region as one complex market are taking advantage of the economy of scale, and mean to make the regional coverage concept the long-term and continuing trend, says CSOB's Marek Začal

STEPHANIE PALMER REPORTS

How has sub-custody business developed in the CEE in the last few years? What trends are you seeing?

Sub-custody business in the Central and Eastern Europe (CEE) region is continuously developing hand-in-hand with the rest of Europe, mainly due to the fact that the CEE is not a separate or autonomous region.

Of course, it plays its unique role in larger European system, but today, CEE is perceived just in a geographical or historical perspective.

We need to realise that the world of custody is more and more globalised, and in this sense, look at the CEE simply as one of many parts of the custody world.

One of the trends that can be seen today is a regional coverage, which appears to be more and more in demand among global players. Still, some key custody industry players prefer to stick to the best available agent on some particular markets, even if such agent does not cover the region in whole.

It is, nevertheless, obvious that those providers that are able to cover the CEE region as one complex market are taking advantage of the economy of scale, and mean to make the regional coverage concept the long-term and continuing trend.

Have you seen an increase in sub-custody providers?

Speaking generally, the number of sub-custody providers is permanently changing, however, we can see some new small providers entering the market with notable ambitions.

On the other hand, we experienced several exits last years, for example, ING, which left the custody business in the CEE in 2012.

New sub-custody providers need to think carefully about their regional business model: whether they will become solely local-oriented agents with market expertise, or whether they will cover the whole region, requiring a complex and effective network.

To the first point, they need to remember the fact that local sub-custodians currently operating in a specific market tend to be well established in that market, and have broad knowledge and significant historical experience.

To the second point, complex regional coverage could be a very important advantage, but to build such a network can be a challenging task.

Is the market mainly made up of local or global players? Why?

It is obvious that there are various entities in the market, and both global and local players are represented. The question is who can better respond to clients' needs, which are increasingly demanding.

Local players are a very important link in the chain, offering a deep knowledge of the local market, a developed network of market links and connections and, of course, direct presence and knowledge of the local language. On the other hand, global players benefit from their broad coverage of various markets, economy of scale and large global presence. So both local and global players are an essential part of the industry chain and each of them plays its unique role.

It will be interesting to see whether these roles will become static or whether these players will become more diverse. In other words, local players might be thinking more globally, trying to concentrate on other markets, whereas global players might focus on each individual market more closely, becoming a significant competition to established local sub-custodians.

What kind of challenges do sub-custodians face in the CEE, and what do asset owners demand from them?

I see three main trends that are currently apparent in sub-custodians' businesses in CEE. The first one is the demand for global players to provide complex regional coverage through sub-custodians. Regional coverage gives clients diversified solutions, allowing sub-custodians to provide more flexible custodial services.

On the other hand, this advantage must be supported by professional standards and an in-depth knowledge of each market. Only those sub-custodians in the CEE that can meet these complex requirements are able to face the upcoming challenges and new demands.

Secondly, what asset owners always demand from their sub-custodians is asset safety and risk-free solutions. In this respect, clients are increasing their demand for asset segregation and risk avoidance in terms of safekeeping and reporting.

Specifically, foreign investors are carefully reviewing the way their assets are kept safe and whether their custodian (and subsequently their sub-custodian) fully segregates in the local market, or whether a statutory nominee account is used, if particular legislation recognises such nominee account types.

Usage of a final beneficiary account in the name of a custodian to hold clients' assets might still be practiced in some markets, but this old-fashioned trend is being questioned by both clients and regulators.

Local agents are therefore pushed to pay increased attention on the correctness of account structure, their record-keeping and identification of related risks. Although this might sound simple, not every agent can offer a top, safe solution to its clients.

From this perspective, choosing the right provider, and an experienced provider, that offers professional assistance in the local market is crucial to every client these days.

What about current and upcoming regulations? How are these putting pressure on sub-custodians?

All sub-custodians must deal with increasing regulation, such as the Central Securities Depository Regulation, UCITS V, the Alternative Investment Fund Managers Directive, and the Markets in Financial Instruments Directive II.

These are challenges that the whole industry faces, and sub-custodians are not immune to them. AST

Marek Začal
Custody relationship manager
CSOB

Every silver lining has a cloud

The regulatory storm is showing no sign of abating, and it's unclear whether the outcome will be worth the effort. BNY Mellon's Paul North explains

This inversion of the well-known proverb nicely captures the sentiment among delegates attending BNY Mellon's 2015 Europe, the Middle East and Africa (EMEA) Tax and Regulatory Forum in London. Our clients, like BNY Mellon itself, see benefits and potential opportunities arising from the ongoing storm of market infrastructure, regulatory and tax change, but there is also a recognition that a lot of heavy weather still lies ahead in the next couple of years.

Given this volume of regulatory change, for four years now we have been running the EMEA Tax and Regulatory Forum to share our understanding of these changes. This event also gives us a chance to take a pulse check on the impacts, challenges and priorities for the year ahead. Certainly, the sheer volume of regulation under discussion is unprecedented—our current regulatory timeline includes no less than 20 changes that will hit between 2015 and 2019, with a concentration of activity in 2016 and 2017.

On this basis, our sense is that 2017 will see a peak in terms of the volume of change, effort and cost, hopefully meaning that after this, more resource can be focused on business growth—part of the silver lining to very large cloud. A survey of delegates attending our most recent forum found that 53 percent of respondents believe they will spend more on regulation in 2016 than 2015. This represents an increase over last year's survey (41 percent) and certainly aligns with our own plans and budgets for 2016.

So what do investment firms consider to be the priorities for 2016? Broadly, there appears to be three segments of priorities. In the first segment, three regulations clearly stood out in our survey: the Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS); the Markets in Financial Infrastructure Directive (MiFID) II; and UCITS V.

FATCA/CRS and UCITS V are perhaps no surprise, but MiFID II has raced up the priority order in the past six months. The poll was taken before news broke of a potential delay to MiFID II's implementation date, originally planned for January 2017. While not confirmed at the time of writing, such a delay would seem desirable given the scope, impacts and complexity of the proposed changes.

That said, in some cases a delay may be unwelcome. For example, overlaps between MiFID II, UCITS and the Regulation on Packaged Retail and Investment Products (PRIPs) may have been helpful. Each of these changes will require updates to client documentation, such as the Key Investor Information Document (KIID). Previous schedules meant it may have been possible to combine the work required to effect those changes and so save time and costs, but a delay to MiFID II means any potential synergy is lost.

The next segment of priorities includes Target2-Securities, the European Market Infrastructure Regulation, Solvency II, the Financial Transaction Tax, and money market fund regulation. The fact that these are seen as a lower priority overall perhaps hides the scale of the associated impact on specific firms, which should not be understated. Delegates' responses may also reflect the fact that some of these regulations are still at the proposal stage, and there may yet be work, investment and costs linked to them in 2016. This uncertainty around final requirements and timings poses real challenges when trying to lock down budgets for next year.

The final segment, and seemingly the lowest priority, included the Base Erosion and Profit Shifting (BEPS) initiative, PRIPS, the Volcker Rule of the Dodd-Frank Act, the Capital Requirements Directive IV, the Central Securities Depository Regulation, the Shareholders Rights Directive, the Institutions for Occupational Retirement Provision Directive II and the capital markets union. In some instances this is perhaps not surprising, as in the case of the Volcker rule, where the impacts have been largely addressed. Others, such as PRIPS and BEPS, have similar impacts to other changes such as CRS and MiFID II, both in terms of their potential impact and their timing. We suspect views on these two will change in 2016 as their impacts become clearer.

Of course, this list of potential priorities misses a number of changes that will affect some firms in 2016 and 2017. This includes Securities Finance Transaction Regulation reporting, the fourth Anti-Money Laundering Directive, banking structural reform and the European Long Term Investment Funds Regulation.

So, as noted, 2016 and 2017 look to be particularly busy in terms of planning for and managing regulatory change. When asked if these regulations would have a material impact on their firm, 85 percent of delegates polled said they expect that to be the case over the next 12 to 36 months. The immediate impacts are expected to be felt around resourcing, projects and IT. When asked whether firms are having to delay product development in favour of other investments due to regulatory related work, 42 percent said they were.

It will be interesting to see how those views evolve as we move through 2016. And in passing, we should perhaps sympathise with the 3 percent of poll respondents who said work on regulations is all they do.

In theory, all of these regulations should benefit the end investor. In many instances, their genesis can be traced back to the response of regulators globally to the credit crisis of 2008, and their determination to make financial institutions more resilient to future shocks and so protect the broader economy, governments and investors. Within the EU there are also the objectives of promoting the single market, a single rule-book and, more recently, the objective of promoting economic growth. Again, all of these objectives should benefit investors across the EU.

However, views expressed throughout the survey are somewhat at odds with these laudable objectives. Among those polled, 81 percent felt investors will ultimately have less choice and 76 percent felt investors would get less value.

More positively, 78 percent felt investors would be better protected. So, why do firms seem more pessimistic about benefits for investors?

In part, I believe this is because firms, at this point, see increasing costs, falling margins and possible barriers to product innovation that result in fewer products being available to investors. However, this appears to be at odds with recent statistics published by the European Fund and Asset Management Association (EFAMA), which stated in its Quarterly Statistical Release N°62 (Q2 2015) that "the number of UCITS funds at the end of June 2015 stood at 29,276, reflecting a steady increase from 28,945 at the end of March 2015 and 28,798 funds at the end of December 2014". This would seem to suggest the investor has more choice.

Similarly, when it comes to alternative funds, there appears to be little evidence of an erosion in choice. Again, EFAMA said: "The total number of alternative investment funds stood at 26,784 at end June 2015, compared to 26,984 at the end of Q1 2015 and 26,797 at the end of Q4 2014."

The responses around investor protection seem more clear-cut. Issues such as the restitution liability with AIFMD and UCITS, the drive for greater transparency on costs and product disclosures, and proposals on commissions within MiFID II, would all seem to enhance the level of information available to clients, the oversight of funds and the protection of their assets in the event of fraud.

The responses in respect of value are the most puzzling. If value is deemed a combination of choice and cost, then external evidence would suggest that investors are in fact getting better value than ever. Based on EFAMA's data, there are more funds on offer than before, despite the fact that the total number of UCITS funds is down from its September 2008 level of 37,475.

Nonetheless, the number of funds in Europe still dwarfs the US market. Back in 2008, the average net asset value of a UCITS fund was $180 million. As of June 2015, this was approximately $300 million, a 60 percent rise. Setting aside the impact of market and currency movements since 2008, this would suggest net asset values have grown.

In parallel, anecdotal evidence suggests that the management fees for funds have decreased over time. Indeed, investment firms have often mentioned pricing pressure affecting their margins. This, combined with the Retail Distribution Review in the UK, which created a wave of cheaper share classes, suggests investors are enjoying better value than in 2008. Perhaps our survey results offer a view of things to come, and the costs of implementing new regulations will ultimately lead to price increases and the consolidation of funds.

For now, let's return to the silver lining. Our survey suggests a small majority of firms (54 percent) see opportunities arising from regulatory change to create value for their business, either in the form of costs savings, new products or new revenues. When asked about their priorities regarding new investments, cost savings came out on top (55 percent), perhaps understandably, given comments on costs and margin pressures.

A quarter of respondents said they would look to invest in new products, and 15 percent in new markets for distribution. There are certainly opportunities for new products—developments such as the capital market union actively encourage it, and aspects of other regulations such as UCITS V and MiFID II could help drive the growth in cross-border distribution with the EU.

On the product front, new vehicles such as European long-term investment funds, charity authorised investment funds and tax transparent funds in the UK, create opportunities for product innovation.

Finally, when it comes to innovation, the focus on digital strategies cannot be ignored—90 percent of our respondents expressed interest in, or confirmed they were already active in, the digital space. In that sense, the combination of new digital services, product innovation and a reformed and consistent regulatory landscape for the EU could be viewed as another silver lining. **AST**

Paul North
Head of product management EMEA
BNY Mellon

Putting the ‘ability’ in ‘profitability’

Both buy- and sell-side institutions have hit bumps in the operations road, but Chris John of Broadridge says the starting point is identifying those relationships that are already producing results

The largest 10 investment banks saw a 3.5 percent decline in profitability between the first half of 2013 and the first half of 2015, according to analyst house Coalition. Having taken a hit primarily in over-the-counter (OTC) markets, such as fixed income, currency and commodities, where collective revenues have declined from $45.4 billion to $38.7 billion, several large banks have publicly announced they are reappraising their activity in these businesses.

For banks, the cost of capital to support complex OTC products has risen under the Basel III capital adequacy rules, making those businesses less profitable. Buy-side firms have naturally found trading costs increasing in these markets as a consequence of the dealers’ increased capital costs, and they too are seeking more effective ways to reduce the cost of investment.

The risk for banks is that they are unable to understand the profitability of individual clients and business units, and so they make cuts to one part of their business without real visibility over its effects elsewhere.

On the buy side, investment managers, which generate alpha via trading, must measure their desks’ profitability in a standardised way. More traditional investment managers will typically see their trading desks as cost centres, but as trading costs rise it is important that their activities can be married with the profitability and costs, set against the funds that they service.

The inflow and outflow of information from the trading desks is a valuable resource when any investment firm assesses its broker relationships. With the correct level of data, drawn into a single picture, buy-side firms can clamp down on the costs their funds are exposed to by specific dealers.

The road to success

On both the buy and sell sides, there is often some distance from where they are and where they need to be in terms of addressing their profitability challenges. Banks that have built up businesses around instrument-specific trading desks can often find those trading teams are isolated from one another, to the point of having their own finance support and systems.

That fragments information, which makes it difficult for senior management to get a clear picture of how a desk is performing, relative to other trading desks, to business units and to clients. It makes counterparty relationships challenging to view in their entirety, and the profitability of those relationships is therefore hard to gauge effectively.

Fund managers that inherit revenue and expense systems with the funds they acquire through mergers and acquisitions activities, and build up through organic growth, face a similar level of fragmentation. Replacing segregated or even manual processes with a faster, lower-cost and more effective revenue and expense platform can reduce the error rate and take anywhere between 5 to 8 percent out of a buy-side firm’s transaction costs, adding up to a considerable saving.

“The inflow and outflow of information from the trading desks is a valuable resource when any investment firm assesses its broker relationships”

For sell-side firms, reducing the error rate can save upwards of 10 percent. Naturally, the high volume of transactions they process can multiply a proportional error rate, increasing the associated costs. Equally, efficiency gains have a greater impact. Achieving these savings by taking the human element out of processing delivers a base-level improvement, but by automating the process, steps can be added that increase the quality of processing without any loss of efficiency.

For example, validating an expense before a payment is made can only be done manually in a high-volume business by using spot-checking, due to the sheer number of contracts and the number of counterparties that are in play. That leaves a massive amount of opportunity for mistakes or errors that could be caught and corrected.

How to engage with reform

Senior management is alive to these challenges, but change is hard to achieve. With multiple systems running across a fragmented structures, it is hard to automate processes without adding the cost of integration or interface support, at a time when budgets are tight.

What firms ideally need is a common, automated system that can: provide local iterations to individual units yet retain a standardised view of the data; handle revenue and expense with minimal disruption to individual teams’ operations; and allow an enterprise to get to grips with the cash flows stemming from counterparty relationships, and from the relationships between units within a firm.

This approach will allow the senior team to look at expense management across products, at a higher level of profit and loss than has historically been the case, by taking the information from individual trading desks, which run independently, and putting that data into a better structure with a more efficient operation. Consequently, the data does not lose its granularity in a bird’s eye view, so the management can dig into it, identifying the fruitful, profitable branches in situ, rather than waiting for the quarterly harvest.

Both buy- and sell-side firms need a partner that can offer technical capability and the expertise in best practices, combined with industry knowledge and the infrastructure to scale in order to offer cost reduction.

Given the pressure on budgets on both sides of the street, service delivery options need to be considered managed services that can provide support for an installed system and increase the speed of rollout. It can also offer flexibility in the provision of complete or partial services that can be expanding as needed.

The start of change stems from uncovering team-based and enterprise-wide profitability as well as the relationship and financial cash flows between these teams. Understand these and the road to reform becomes a highway. **AST**

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

Exploring America

For asset managers looking to become truly global, the US market cannot be overlooked, says George Martinez of BNP Paribas

Asset managers around the world are looking beyond their own regions to diversify their asset base and become true 'global asset managers'. With more than half of worldwide investable assets, the US marketplace is one that asset managers should not overlook.

In the US, mutual funds present the largest asset opportunity and are the most accessible structure to investors, regardless of asset size, distribution outlet—for example, direct, advisor or retirement plan—or investment objective. Consequently, for asset managers seeking access to a wide range of investors through a single investment vehicle, mutual funds remain the most attractive option for managers launching investment strategies in the US. Managers that launch a new mutual fund may be concerned that they will not have a performance track record and therefore the fund will be hard to sell. Fortunately, there are certain circumstances where performance data from a similar strategy can be used to promote the mutual fund.

Mutual fund assets in the US continue to increase each year regardless of most market environments (2008 being a notable exception), indicating that sales on an annual basis continue to outpace any depreciation. Over the past five years, fund assets have grown at a compound annual growth rate of 11.4 percent.

Servicing and distribution efforts

Non-US managers looking to enter the US marketplace need to evaluate the costs associated with servicing and supporting a mutual fund business. One way to lower costs and ramp-up time, thereby improving the prospects for profitability, is to enter the space through a multiple series trust, such as the Global Managers Trust offered by BNP Paribas. This can be significantly easier for managers than launching a mutual fund of their own. Though the structure has been around for several decades, in recent years, multiple series trusts have become a popular approach for firms interested in launching funds with lower breakeven points and expenses. The benefits in terms of cost and time savings are clear, making this an attractive solution for non-US managers.

Managers take radically different approaches to supporting their mutual fund distribution business based upon size and channel focus, however, it is a business that requires a dedicated effort to drive asset growth. The traditional approach is through the use of wholesalers to sell to advisors, but a more cost-effective way—at least at first—may be through the use of a third-party marketer.

Third-party marketers are firms that sell investment products for unaffiliated managers. These firms help new managers get access to advisors and channels without having to build out their own internal sales force, which can be a cost-effective way to begin distributing mutual funds in the US.

Key takeaways for success

Non-US managers interested in distributing mutual funds in the US marketplace will need to invest the time and energy into developing a focused distribution strategy. For example, what would be best for the manager: an institutional distribution strategy focused on leveraging existing relationships or brand name recognition, or a retail strategy requiring resources to build out a sales force? Either may be successful, but that is dependent on the particular firm. For non-US managers, there are several factors that can lead to success in the US marketplace: a differentiated investment strategy with good performance; a brand name historically not available to US investors; a well thought-out distribution strategy; or a diversified offerings as appropriate to avoid overconcentration.

Future growth projections

Consistent with its history, expectations are that the long-term mutual fund market will continue growing over the next five years, making the US market an attractive distribution opportunity for foreign managers.

During this period, the expectation is that fund assets will grow at a compound annual growth rate of between 8 and 9 percent. In terms of net flows, expectations are for strong sales growth of about a 15 percent annual growth rate for the foreseeable future.

For those asset managers looking to become true 'global asset managers', the US market cannot be overlooked. **AST**

George Martinez
Director of global relationship management for North America
BNP Paribas Securities Services

Figure 1: Long-term mutual fund assets, 1994 to 2014 ($ billions)

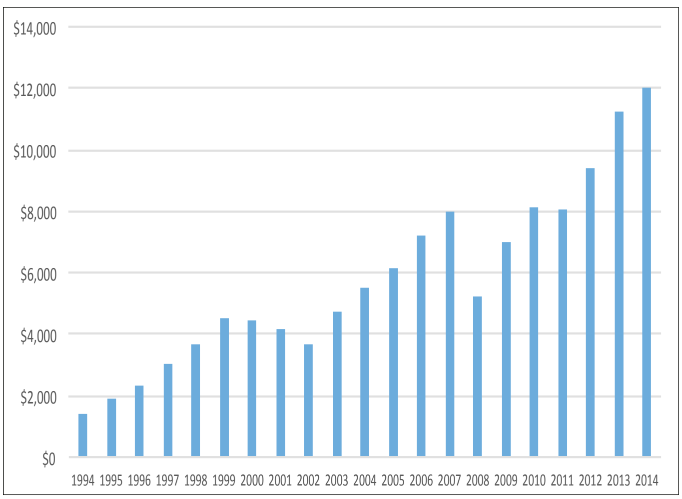
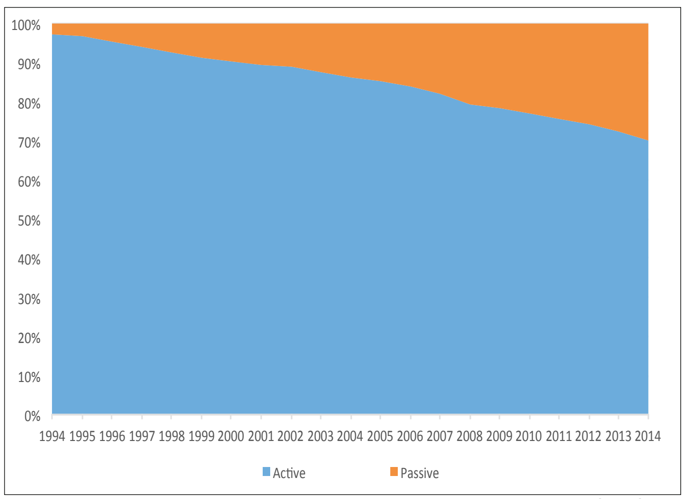


Figure 2: Active versus passive growth, 1994 to 2014



Sources: FUSE and Morningstar

No e-proximates here

With Russia opening up to more international investors, e-proxy voting is an easier way to exercise voting rights, says NSD's Sergey Bernevega

MARK DUGDALE REPORTS

What has led to Russia's corporation action reform plans?

In recent years, the stock market infrastructure in Russia has changed dramatically, in order to let investors from other countries operate in the Russian market. The central securities depository (CSD), National Settlements Depository, was formed, the tax code was amended, foreign nominee accounts were legalised, international CSDs received direct access to the market, and many more modern services were developed. It has been important not only to provide direct and efficient investor access to the market, but also to guarantee the protection of investors' securities rights and to make the execution of these securities rights easily accessible and convenient.

The corporate actions reform underway in the Russian market pursues these goals, with NSD as the reform's driver. Within the reform framework, NSD is launching services in phases, and the first of these is e-proxy voting. This service allows investors to vote at Russian issuers' general meetings using their own depositories, which keep a record of those securities rights.

How does this work?

Simply put, e-proxy voting is conducted in two stages. At the first stage, an issuer sends its agent, or registrar, a notification of an upcoming meeting of securities holders using electronic channels, including key dates and issues to be considered at the meeting. The issuer sends materials for the meetings with the notification, and also provides instructions to create and send an electronic ballot for those issues to be put to a vote. NSD sends this electronic message to its clients, while materials for the meeting are uploaded to a protected server, and the link to the server is added to the notification.

At the second stage, once the notification of the meeting has been received, depositories collect information from their clients both on their intentions regarding inclusion in the list of persons entitled to take part in the meeting and the voting procedure, which will have been established in an agreement earlier. The depositories then transfer this information to a registrar, so in order to vote at the meeting, securities holders just have to inform the depository of their intention. The depository transfers the information to a superior record-keeping institution, for instance, to the CSD, which in turn passes the notification to a registrar.

What are the practical benefits of e-proxy voting?

E-proxy voting lets investors from around the world exercise rights on their securities remotely, using electronic technologies. Securities holders do not have to personally attend a shareholder meeting, they can receive all documents and inform a custodian or a depository of their opinions and votes. There is no need to prepare a power of attorney or other documents for a shareholder representative—the right to take part is determined by an entity that keeps record on securities rights. E-proxy voting assumes the use of international standards and electronic channels of interaction. It significantly facilitates investors' participation in shareholder meetings conducted by Russian issuers.

When will investors be able to use the service?

Many participants in the Russian market have already implemented the service, or are working on implementing it. For instance, in 2015, 79 issuers, including major players such as Sberbank and Gazprom, conducted their meetings using e-proxy voting through NSD. If an investor's custodian or depository supports the e-proxy voting technology, they will already be able to use all the advantages of the service. However, starting 1 July 2016, Russian issuers will have to provide an opportunity to take part in shareholder meetings via e-proxy voting.

How much does it cost?

NSD's fee for participation in a shareholder meeting is approximately $8.50, which is the cost of processing one voting instruction on one security. The cost for participation by a securities holder in a meeting using the e-proxy voting service includes the NSD fees and a fee charged by a final depository. Given that, previously, foreign investors had to grant their representatives a power of attorney and reimburse their expenses for personal attendance at a shareholder meeting, the e-proxy voting service looks more convenient and less expensive for investors.

Can I be sure that my vote is received and registered by the issuer?

NSD uses straight-through-processing (STP) in the e-proxy voting, and receives an instruction to vote from a depository, which has formed it on the basis of an instruction received from an investor. NSD then transfers that to the issuer in electronic form, and at the same time sends a report back to the depository confirming each stage of the document's transfer. Therefore, the depository can inform its client, the investor, on the status of the instruction sent, and the investor can be sure that his or her decision is sent to the issuer on time.

On which issuers' shares is e-proxy voting available?

There are limitations until 1 July 2016. Currently, the e-proxy voting service should be used only by joint stock companies that have opened a CSD account, which investors can clarify with their custodians or depositories. From 1 July 2016, the e-proxy voting technology should be supported by all Russian joint stock companies with securities in nominee accounts opened with the depository.

How will NSD disclose information in view of e-proxy voting?

The new legislation that will come into effect in July 2016 will introduce a new procedure for disclosing information on corporate actions. The issuers registered with NSD will have a nominee account and will have to submit information to NSD on corporate actions, including all required materials. This means that information from NSD will prevail over information published by other sources.

If investors do not wish to take part in a corporate action, they may not submit information about themselves, meaning that information about those investors will not be put in a list of those entitled to take part in shareholder meetings.

Which channels and formats are used for transmissions?

E-proxy voting by NSD uses the ISO 20022 format for interactions with clients and registrars. NSD also converts messages in the ISO 15022 format used by many custodians and depositories. Voting instructions can be transmitted simultaneously via several electronic channels, including SWIFT and other special online services. AST

Sergey Bernevega
Managing director for corporate information
National Settlement Depository

The last bastion of risk

Corporate actions processing remains a big industry challenge. Standards and automation may be the solution, says SWIFT's Olivier Connan

STEPHANIE PALMER REPORTS

What do you see as the major operational risks around corporate actions information?

The lack of automation is one of the biggest risks we have today and continues to frustrate market participants. However, positive developments in Asia are demonstrating the power of technology and standardisation to make meaningful progress.

Corporate actions events involve a chain of communication between issuers, agents, exchanges, central securities depositories (CSDs), clearinghouses, custodians, registrars and, ultimately, investors. Their importance lies in the information they convey about the financial health of the issuer and the value of their stock, for example a dividend, a rights issue or a stock split. With so many links in the chain, it is perhaps understandable that the communication of corporate actions is automated to varying degrees between different participants and according to diverse technical formats and standards.

But without integrated and automated processes in place, risks can stem from mistimed announcements or from misinterpretation of messages, leading to confusion and delays in the execution of corporate actions.

At the end of the day, all of this can translate into missed opportunities, and sometimes hard, financial losses.

SWIFT conducted a corporate actions processing survey with CityIQ. What were some of the key findings?

The survey results were very compelling. Automation and standardisation of key corporate actions processes have come up as a sensible way forward to ease much of this burden. ISO messaging standards are also widely seen as adding value—although the debate about the relative value of ISO 15022 and ISO 20022 continues.

Interestingly, nearly 90 percent of survey participants also cited compliance with global market practices as an important factor enabling an enhanced corporate actions process. Data quality continues to be an issue, however, the identification of CSDs as the most reliable and highest quality source for corporate actions data is a major change from previous surveys. None of the regions surveyed scored the risk of corporate actions losses particularly highly, which was interesting, but the issue did resonate with UK participants.

How have things moved in the last few years?

Investment in automation tools has increased in the last few years. Activity levels are twice what they were three years ago, with 63 percent of respondents now reporting that they are working on corporate actions projects and an additional 9 percent of respondents saying they are launching automation plans in the next year. However, the rationale for doing so varies across the globe. In the Asia Pacific region, reducing costs is the most powerful business driver, whereas in the US that is dealing with expected volume increases. All regions are focused on service quality, with regulation, for once, not seen as being the only driving force.

> "Everyone is secretly hoping for is an industry solution bridging the data interpretation gap between issuers or their agents and the rest of the players"

Many organisations are investing to cope with volume growth and to meet client demands, not just to reduce cost as was the case in our last survey, which we ran in 2012.

What would you say is preventing the market from fully achieving corporate actions automation?

The biggest impediment seems to be a limited return on investment. In some organisations, the complexity and costs of the remaining developments are too high compared to expected benefits. This links with concerns about the difficulty in building a business case and doubts about attaining straight-through processing (STP), indicating that for many organisations there are no longer any quick wins to be had. Also, as with many common industry challenges, there are competing internal priorities. The good news is that it is not all lost or forgotten. Many organisations have this problem on their radar screens and are implementing projects, or will in the next year or so.

In your opinion, how close is the universal adoption of industry standards between all participants in the corporate actions chain?

In the CityIQ survey, most comments were very supportive of the ISO standards and highlighted their importance in reaching better automation and STP. However, many survey participants noted that success is linked to a good usage of the message standards, as well as to adherence to market practices. In that regard, the industry has made some great progress, but there is still more work to be done.

For example, Asia, Australia and Singapore are making good headway—specifically as a result of market infrastructures using ISO 20022 to communicate with issuers and bring them into the corporate actions automation chain. The National Settlement Depository (NSD), the CSD to the Moscow Exchange, has also launched a market reform to improve corporate actions processing and signed an agreement with China Central Depository and Clearing to further advance efficiency. NSD has also taken steps to introduce international formats for annual general meeting notifications.

What does the future hold?

Many market participants are predicting a consolidation in the third-party vendor space and more regulation in the corporate actions market. There is also the expectation that we would continue to see new market entrants, offering solutions that provide new functionalities, and based on new technologies. I think what everyone is secretly hoping for is an industry solution bridging the data interpretation gap between issuers or their agents and the rest of the players. This would certainly take away a lot of data problems. AST

Olivier Connan
Senior market manager of securities markets
SWIFT

Polish and prime

Of all the CEE markets, Poland is the strongest, says KDPW's Iwona Sroka

Poland can be proud of its achievements in the financial sector—a branch of the Polish economy that was built up almost from nothing in 26 years of transformation. During this period, phenomenal progress has been made that has enabled the Polish financial sector to achieve a significant position in comparison with other European and global markets and become a leader in certain innovative arrangements.

Poland is the largest and the most attractive market for foreign investors in Central and Eastern Europe (CEE). It has a critical mass to attract new investors, especially those acting on emerging markets.

The country has a stable economy with a relatively strong banking sector, and it is well perceived by foreign investors, who are confident in the high resilience of the Polish economy to potential financial downturns.

Poland has also the largest population in CEE with about 38.5 million people, equal to 7.6 percent of the population of the EU member states and 34 percent of the population of the CEE region. In 2014, Poland had the EU's eighth largest GDP, and the largest in the CEE egion. At €413.1 billion, GDP in 2014 was equal to 3 percent of the GDP of all the EU member states and 28 percent of the GDP of the CEE region.

Looking at the financial market and its infrastructure, it is worth noting how KDPW Group built Poland's clearing and settlement infrastructure. Thanks to services offered in KDPW, the Polish central securities depository (CSD) and KDPW_CCP, KDPW's clearinghouse, the quality and safety of the Polish financial market and its attractiveness to international investors were strongly improved. KDPW Group offers the services of an authorised central counterparty (CCP), a registered trade repository, and a global numbering agency, and is also preparing for CSD authorisation.

KDPW Group provides the broadest range of services for the financial market in CEE and holds European authorisation for services, which confirms compliance with international regulations and opens the door to provision of services across the EU. This has significantly improved the international credibility of the Polish financial market and gives a quality guarantee of post-trade services offered by the KDPW Group.

KDPW Group offers post-trade services to the market with the largest turnover in the CEE region. This is a strong market, which provides a stable revenue stream that in turn allows us to offer low-cost processing of trades. The largest proportion of trades comes from the Warsaw Stock Exchange, although the group also sees a great deal of potential for growth from OTC derivatives.

KDPW_CCP is authorised under the European Market Infrastructure Regulation and has a broad experience in extending the scope of its services. In view of its current levels of trade clearing and taking in to account future volume growth and the potential to offer its services in the CEE region, KDPW_CCP holds the necessary level of own capital, which currently stands at €54 million. The CCP's own capital is the last line of defence in the face of member insolvency and the higher the capital of the CCP, the lower the risk exposure of the remaining members.

The clearinghouse performs a broad range of services in the financial market. For the regulated market, KDPW_CCP clears equities, fixed income and other cash market instruments, as well as derivatives such as futures and options based on indices, equities, bonds, currencies and interest rates. It also offers clearing of securities lending and borrowing and derivatives from interbank markets.

KDPW_TR offers its services to all companies obligated to report, not only in Poland, but in Europe as a whole.

The registration application covered the reporting of all types of contracts under the reporting obligation, including commodities, credit, foreign exchange, equity, interest rates and many others—irrespective of whether the contracts are traded on or off exchange.

KDPW Group also offers services of numbering agency, repo and triparty repo service, as well as a negotiated securities lending and borrowing system designed to improve the liquidity of clearing and settlement of securities in the systems operated by KDPW_CCP and KDPW.

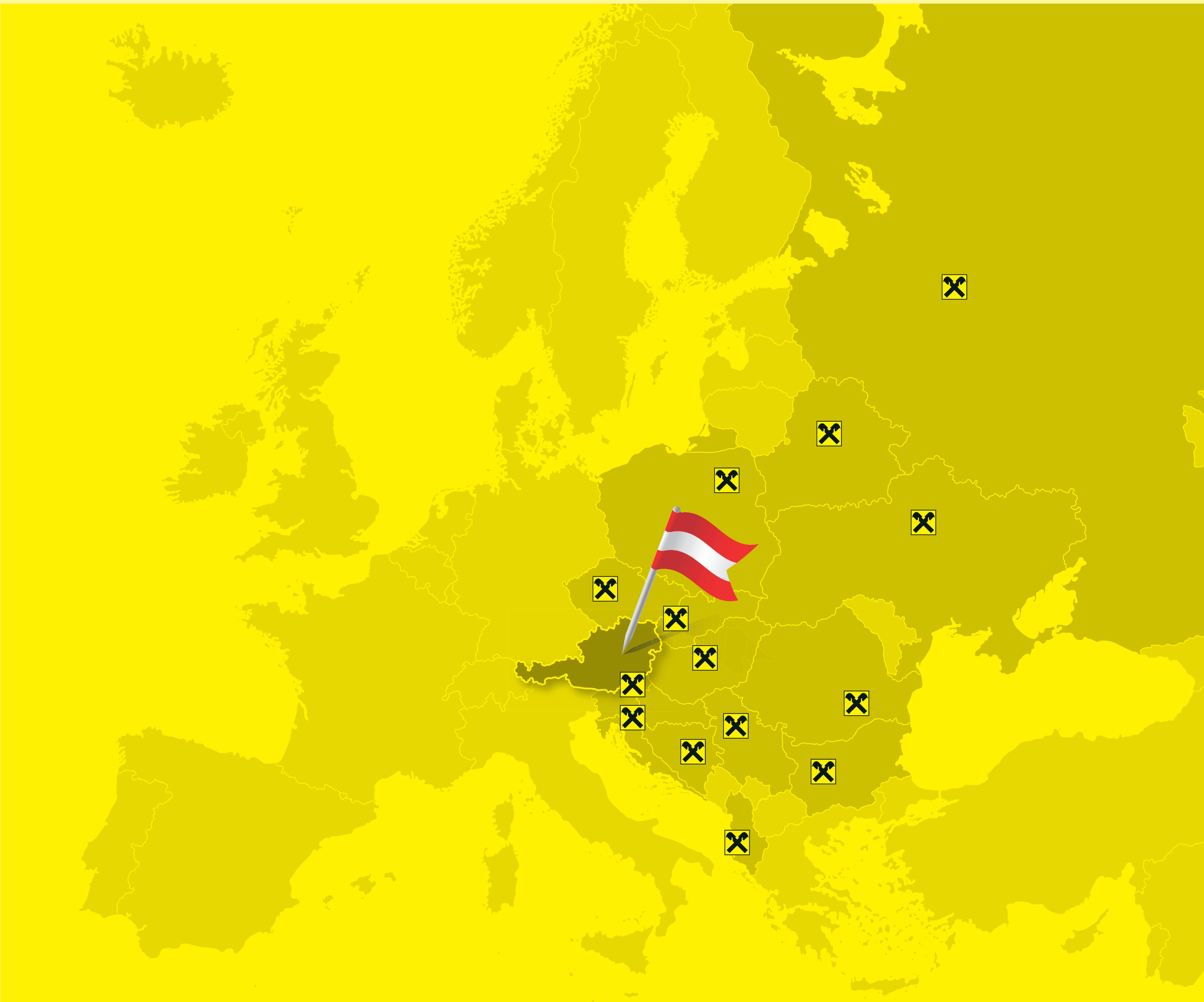
As for the Polish economy, according to EU forecasts, Poland ranks third of all EU member states in expected GDP growth between 2014 and 2019.This is a result of the expected faster economic growth in Poland, as well as the economic growth of Germany, Poland's main trade partner. The optimistic forecast is also driven by the anticipated increase of foreign investments. **AST**

Capital Markets in the CEE Region

Exchanges	Cash market value	ETD value	Currency	CSD	CCP
Warsaw Stock Exchange	42.8%	84.3%	PLN	KDPW	KDPW_CCP
ATHEX Group	23.8%	12.6%	EUR	ATHEX-CSD	ATHEXCLEAR
CEESEG - Vienna	20.6%	0.6%	EUR	OeKB	CCP Austria
CEESEG - Budapest	5.2%	2.6%	HUF	KELER	KELER CCP
CEESEG - Prague	5%	-	CZK	CSD Prague	-
Bucharest Stock Exchange	1.2%	-	RON	Depozitarul Central	-
Ljubljana Stock Exchange	0.5%	-	EUR	KDD	-
Bulgarian Stock Exchange	0.3%	-	BGN	CDAD	-
Zagreb Stock Exchange	0.4%	-	HRK	SKDD	-
Bratislava Stock Exchange	0.1%	-	EUR	CDCP SR	-

Source: FESE, Electronic Order Book, 2014

Iwona Sroka
President and CEO
KDPW and KDPW_CCP



Industry appointments

Christoph Landis has been appointed as division CEO of SIX Swiss Exchange, and will take up a position on the SIX Group executive board, with immediate effect.

Landis was appointed to the management committee of the SIX Swiss Exchange in 2003, and has been responsible for operations since 2010, becoming deputy CEO of the exchange in 2012. He has been leading the exchange, on an interim basis, since May this year.

Urs Rüegsegger, group CEO of SIX, said: "With Landis we have a division CEO who is experienced and has strong leadership qualities, who is highly familiar with the stock exchange business, and who has made a crucial contribution to the successful positioning and development of SIX Swiss Exchange."

First Names Group has appointed two new client services directors, **Carol Keenan** and **Gerard O'Gorman**, who will join the Jersey office.

Keenan joins from Elian, where she was group in-house counsel, and before this she spent 12 years at Ogier.

O'Gorman has over 25 years' experience in managing high-net-worth and ultra high-net-worth individuals and, most recently, spent 14 years at Royal Bank of Canada.

Maitland has appointed **Maureen Erasmus** to its board as non-executive director, to support the fund administrator's global growth plans.

Previously, Erasmus was partner for financial services at management company Bain & Company.

Michael Solomon, chairman of Maitland, said: "Erasmus has precisely the right set of skills and knowledge, cultivated at the highest echelons of the industry, to make an important contribution to our strategy as we continue our rapid expansion."

Corporate and fund services provider Elian has hired **Kathy Cheng** as associate director to oversee its fund services team in Hong Kong.

Cheng joins from Citibank, where she was head of a team of accountants. She has more than 10 years' experience and has worked as an auditor for banks and insurance firms.

Graham Gurney, COO of Elian in Hong Kong, said: "I have every confidence that [Cheng] will help grow Elian's fund services team and reinforce Elian's position as a major player in the Hong Kong fund services sector."

Northern Trust has promoted **Ali Sheikh** to the position of head of hedge fund services for the Asia Pacific region.

Currently a senior relationship manager for the Northern Trust hedge fund services business in New York, Sheikh will now be based in Hong Kong, and will report to Peter Sanchez, global head of hedge fund services.

Sanchez said: "With record assets of $5.3 billion raised in Asia, the hedge fund industry continues to evolve with service demands. Northern Trust understands the challenges and is uniquely positioned to cater to industry movements."

Glenn Kennedy has joined HSBC Securities Services as head of trustee and fiduciary services for Asia, to drive development of the trustee and fiduciary model and general market offering.

Kennedy has been with HSBC Securities Services for four years, most recently holding the position of regional head of sales for the Asia Pacific alternatives sector.

SS&C Technologies has hired **Smita Conjeevaram** to its board of directors.

With more than 20 years of experience in operations for financial services companies, Conjeevaram has specific experience in regulation and international tax.

She replaces Allan Holt, who retired as a director in November. Holt served on the board for almost 10 years, and saw the company through a period of significant growth.

Conjeevaram said: "SS&C's solutions, specifically in the areas of accounting, compliance, risk and tax, address some of the greatest challenges facing top managers today. I am excited to be part of SS&C's journey and to contribute to its future growth." **AST**

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