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SmartStream strikes deal with data vendors for RDU processing

SmartStream has signed up seven data vendors to its new bank-backed reference data utility (RDU).

Euromoney TradeData, Exchange Data International, Interactive Data Corp, S&P Capital IQ, S&P Dow Jones Indices, SIX Financial Information and Thomson Reuters have all agreed for the SmartStream RDU to process their data on behalf of mutual customers.

Markit and SmartStream are also working towards integrating Markit's credit default swap reference data within the RDU.

Goldman Sachs, J.P. Morgan Chase and Morgan Stanley teamed up with SmartStream in October to create the new reference data utility, which is informally known as Securities Product Reference Data (SPReD).

The RDU provides clients with an environment for data collection, cleansing, and change management, based on customised integration standards, to generate a flexible, bespoke security master database.

Philippe Chambadal, CEO of SmartStream, said: "As we talk with our clients and prospects, they want to spend more with their data vendors, not less—as a result of regulatory initiatives or to add value to their businesses. The RDU's mission is to lower the cost of processing reference data."

"Delivering on that mission creates opportunities for data vendors as we open up space for additional spend and as we lower data integration costs—one of the biggest barriers to purchasing more vendor data. We welcome the prospect of working with each of our data vendor partners to build more value for our mutual clients."

Barclays hit with record financial crime fine

The Financial Conduct Authority (FCA) has fined Barclays more than £72 million for poor handling of a transaction that posed a high risk of financial crime.

The fine relates to a particular transaction of £188 billion, which Barclays arranged and executed on behalf of several ultra-high-net worth individuals, who were also 'politically exposed persons' (PEPs) and therefore should have been subject to enhanced levels of due diligence and additional monitoring.

Where Barclays should have applied a higher level of care and due diligence, the FCA found that the bank actually applied a lower level of due diligence than is required for other lower-risk transactions.

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EU swap clearing rules set for June 2016

Swap clearing obligations for OTC derivatives in the European Union will come in to force on 21 June 2016, the European Securities and Markets Authority (ESMA) has announced.

The clearing obligation is part of the European Market Infrastructure Regulation (EMIR), the post-crisis derivatives regulation aiming to reduce systemic risk in the financial system. This follows the G20 commitment to clear certain OTC derivatives through central counterparties (CCPs).

The deadline announcement follows the publication of the obligation's technical standards in the office journal on 1 December. The obligations will cover fixed-to-float interest rate swaps, float-to-float swaps, forward rate agreements and overnight index swaps denominated in euros, British pounds, Japanese yen and US dollars.

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Barclays hit with record financial crime fine

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According to the FCA, by failing to follow standard procedures and by processing the transaction as quickly as possible, Barclays generated about £52.3 million in revenue.

The £72 million fine includes this revenue, plus a penalty of £19.8 million—the largest ever penalty imposed by the FCA or its predecessor, the Financial Standards Authority, for financial crime failings.

Barclays settled at an early stage of the investigation and therefore qualified for a 30 percent reduction, although this does not apply to the £52.3 million created in revenue. Without this discount, the fine would have totalled £80.5 million.

Mark Steward, director of enforcement and market oversight at the FCA, said: “Barclays ignored its own process designed to safeguard against the risk of financial crime and overlooked obvious red flags to win new business and generate significant revenue. This is wholly unacceptable.”

“Firms will be held to account if they fail to minimise financial crime risks appropriately and for this reason the FCA has required Barclays to disgorge its revenue from the transaction.”

The FCA stressed that there was no financial crime related to the transaction, merely that the risk of financial crime, because of the circumstances and the PEPs involved, was not addressed.

In a statement, Barclays said: “The FCA made no finding that Barclays facilitated any financial crime in relation to the transaction or the clients on whose behalf it was executed.”

“Barclays has cooperated fully with the FCA throughout and continues to apply significant resources and training to ensure compliance with all legal and regulatory requirements.”

Specifically, the FCA found that senior management at the bank failed to oversee the handling of financial crime risks associated with this business relationship. The FCA also said it was unclear which managers were responsible for overseeing the relationship, and that these monitoring failures were ongoing throughout transaction procedures.

The investigation found that Barclays did not establish the purpose or nature of the transaction, or properly verify the clients’ source of the funds used. It did not obtain the appropriate information for compliance with financial crime regulation—a move that the FCA alleges was to avoid inconveniencing the clients.

The bank also agreed to keep details of the transaction confidential, and due diligence records were kept in hard copy only, with few people aware of their existence or location.

This meant the business relationship could not be properly monitored, and that Barclays could not respond to the FCA’s information request quickly.

EU swap clearing rules set for June 2016

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ESMA will assess whether the clearing obligation should apply, once the relevant national competent authority has approved a CCP for clearing a particular class of OTC derivatives.

The classes of OTC derivatives covered by the obligation, and the CCPs authorised to clear them, will be available on ESMA’s public register.

Now, the authority will turn its attention to index credit default swaps and interest rate swaps denominated in the Norwegian krone, Swedish krona and Polish złoty. Draft regulatory technical standards for these have been submitted to the commission.

Globalisation and regulation driving industry growth

The asset servicing industry is likely to see a growth spurt driven by globalisation and regulatory change, according to an Ernst & Young report.

The report outlined asset growth and breadth, globalisation, regulation, new products, platform extension and consolidation, and data integration as key drivers of growth.

Asset growth has been partly driven by convergence of traditional and alternative fund managers, and the resulting complex fund structures. This means asset managers are looking for more efficiency, and so service providers are responding with improved middle-office, post-trade compliance, regulatory reporting and data services.

Of those surveyed, 51 percent cited globalisation and opportunities in new markets as one of the top opportunities for growth, while 41 percent highlighted increased demand due to regulatory changes, and 38 percent noted the increased demand for outsourcing.

Demand for alternatives, improved technology, and new product offerings were all identified as opportunities by 35 percent of respondents.

The impact of regulations emerged as the biggest threat to business, with 73 percent of respondents identifying this as a risk.

About two thirds (62 percent) highlighted cost and margin pressures as a risk, while 43 percent saw competitive threats as a risk.

With regulatory change posing both risk and opportunity for respondents, the report suggested that changes to regulatory requirements have made it more difficult for service providers to make strategic decisions. Many respondents noted that the regulatory burden on both asset managers and service providers could hinder expansion.

The survey also found that regulations are leading to increased operational costs for asset managers, with 77 percent of asset servicing clients now seeking solutions for the Foreign Account Tax Compliance Act (FATCA), and 41 percent looking for solutions related to the Alternative Investment Fund Managers Directive (AIFMD).

Generally, however, asset servicers see the advantage in offering data aggregation and reporting capabilities, particularly in order to support future growth. As many as 94 percent

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now offer regulatory reporting for AIFMD, while 71 percent offer risk management services, and 68 percent offer full depository services.

Another 70 percent said they have invested in these capabilities as a result of clients' demand for transparency and increased regulatory reporting requirements.

North America emerged as the most promising region, with 57 percent saying it offers the most revenue potential over the next five years. The report suggested that asset servicers anticipate an increase in investment in the US from overseas funds.

There is also an increased interest in Asia, which was cited as the region with best growth opportunity by 23 percent of respondents. The report put this down to increased interest in China as investors seek market diversification, and also to the operational complexity and fragmentation in the region.

Although 20 percent believed that the largest growth opportunities are in Europe, the majority of these are based in the region. Only 10 percent of those that saw opportunities in Europe are based in the US.

Middle-office servicing for hedge funds was also highlighted as a leading driver of revenue growth, with 77 percent saying this was a driver. Hedge funds make up the largest proportion of asset under administration, and service providers are likely to focus their growth efforts on the middle office here, the report said.

Although private equity makes up just 10 percent of the total assets under administration, 51 percent of respondents highlighted it as a growth opportunity. The report put this down to large and increasingly complex investments in this area, particularly from pension funds.

Keith Caplan, principal of wealth and asset management at Ernst & Young, commented: "Seismic shifts in the industry have resulted in greater demand for asset servicers' offerings."

"Tomorrow's winners will move from offering individual services toward an integrated service model where global platforms offer scale that appeals to a broader range of asset managers and asset owners."

"Asset servicers that recognise today's growth opportunities will be those that make the right investment decisions to manage the ever-increasing demand for their services."

Senior managers need to get ready for responsibility

Firms should take practical steps to prepare for the Senior Managers' Regime (SMR) before it is implemented in March, said Tracey McDermott acting CEO of the FCA, in a speech to the City & Financial Conference.

McDermott stressed that large firms need to clearly allocate the responsibilities of senior management and look at the way different entities of the business are linked, what each entity does, and how significant they are.

She added that responsibilities should be allocated to individuals in senior management positions, for example, the responsibilities of countering financial crime and training other senior staff. There should also be a record of which responsibilities are allocated to whom, in order to create clarity around operations in practice.

Firms should be focusing on the "spirit of the rules," McDermott said, rather than simply following the rigid lines of the law, while also taking ownership of the regime, embracing what it could mean for their business in practice.

McDermott said: "There is no doubt there is practical complexity in the detailed implementation of the SMR. That is because many of these firms affected have complex businesses."

"But to be clear … the most important conversation firms need to be having is around how that complex, practical implementation can support the principles of the new regime."

She added: "In the spirit of tasting our own medicine, we are in the process of applying the SMR to ourselves."

McDermott continued to say that firms should not lose momentum in implementing the new regime, and suggested that the firms themselves could be better placed to identify misconduct and should be addressing these issues themselves, without being pushed by regulators.

She asked: "Is there really a case to say that regulators are better positioned to monitor the day-to-day competence, integrity and behaviour of a firm's staff, than their line managers?"

Firms should already know who their key staff members are, and those individuals should act responsibly and appropriately.

Certification should build on this concept. McDermott said: "It doesn't, or certainly shouldn't, invent it."

The SMR has "emerged from a very troubled period for the financial services industry", said McDermott, and it aims to change the culture, encouraging personal responsibility, and a sustainable regulatory model.

She said: "Finance too often became disconnected from the world in which it operated and the people it was supposed to serve."

She also stressed that the success of the SCR will not necessarily mean that misconduct within financial services will stop altogether, rather that it will be identified within firms instead of by regulators, and by those "working on the front line", instead of those working in compliance and legal departments.

Employees from all areas of financial services organisations should be motivated to report misconduct consistently, and as a matter of course.

McDermott said: "The measure [of success] should not be 'no misconduct'. I think this would be unrealistic. Things will go wrong and in financial services, as in any other industry, there will always be rogues."

She concluded: "The prize for all of us in that will be a vibrant and innovative financial services sector, underpinned by a strong sense of

safe keeping

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accountability, that aims to build and maintain the trust and confidence of society, and is thus able to meet society's needs."

AUF tops £100 billion

The use of fiduciary management services has increased significantly, with assets under management increasing by 65 percent in the last year to surpass £100 billion for the first time, according to a KPMG survey.

In 2015, assets under fiduciary management reached £114 billion, compared to £72 billion in 2014. This represents and steep incline compared to a previously steady increase.

Assets under management totalled £59 billion in 2013, £54 billion in 2012, and £45 billion in 2011.

Of the total assets under management in 2015, full delegation mandates account for £54 billion, while partial delegation mandates accounted for £61 billion. This represents a 42 percent increase in full mandates, which accounted for £38 billion in 2014.

The increase in partial delegation mandates was more significant however, jumping by 79 percent from £34 billion in 2014. KPMG attributed this to a trend of larger schemes appointing a fiduciary provider to manage part of their portfolios.

Typically, full-delegation fiduciary management mandates are for amounts less than £100 million, with these relatively low-value mandates accounting for 68 percent in 2014 and 66 percent in 2015.

The percentage of higher-value mandates have remained relatively stable, with those worth £100 million to £250 million accounting for 21 percent in 2014, and 22 percent in 2015.

The survey also showed that the market size has increased significantly, with 620 schemes now using fiduciary management, compared to 508 in 2014. Of new appointments, it also found that 23 percent were advised by an independent third party, while of the total schemes, 13 percent used an independent provider to monitor their mandate.

Anthony Webb, head of fiduciary management research and investment advisory at KPMG, said in the report: "Challenges remain for the market: measuring performance continues to be difficult for trustees, and concerns around fiduciary manager independence remain. However with approximately one in 10 UK-defined benefit pension schemes now using some form of fiduciary manager it is clear that it is no fad but an important part of the future."

In a statement, Webb also commented: "The fiduciary management market has grown more than even the most optimistic fiduciary manager expected when we surveyed them back in 2011. To put the £114 billion figure into perspective, UK fiduciary managers collectively now have enough money to buy every single bond issued by the Irish government."

He added: "Fiduciary management can be a great service for trustees, and seeking advice on the right services and the right terms is an important part of delivering better outcomes for pension schemes."

The KPMG Fiduciary Management Market Survey report was based on results from 13 established fiduciary managers operating in the UK.

HSBC launches US custody and clearing service

HSBC has launched a US direct custody and clearing offering, increasing its direct custody network and internalising the chain of custody for clients investing into the US.

The service is designed to offer clients increased levels of asset safety for HSBC's global institutional investor clients. The bank now provides global custody to 39 markets through its own affiliates, and to 89 markets in total.

Through the new US offering, HSBC intends to reduce counterparty and operating risk while improving transparency.

John Van Verre, global head of custody and treasury at HSBC Securities Services, named two main drivers for the launch: an increased client focus on asset protection and the benefits of having a custodian that can control operations end-to-end; and the changes to strict liability coming in under various regulations.

He said: "Controlling the end-to-end process gives us a better ability to manage that strict liability that follows on from the regulations, and aligns our external client demands with our internal operational risk process."

"Clients are putting a focus on which percentage of their assets a custodian can manage through its own network."

The service means HSBC will be able to manage more than 50 percent of its clients' assets through its own internal proprietary networks, while over 80 percent can be managed through these networks and international central securities depositories, combined.

Van Verre also pointed to the trend of emerging markets increasing cross-border investments, including into the US, citing wealth accumulation in some Asian and Middle Eastern countries, combined with a relaxation of local regulations as potential reasons behind the shift.

He said: "HSBC is well positioned in those regions, and we have an enormous client base there, but part of the cross-border investment flows in to the US, so by having a custody capability in the US we can strengthen our proposition to clients based in emerging markets."

Thierry Roland, HSBC's CEO of global banking and markets in the Americas, echoed this sentiment, saying: "The US is currently the largest contributor of outbound revenue to HSBC's network."

"With this launch, we are strengthening our proposition to clients domiciled outside the US. We see a particularly strong opportunity in working with investors from emerging markets, where our network is unrivalled and where appetite for US assets is significant."

According to Van Verre, creating an internal solution for key markets is a part of HSBC's wider strategy, allowing the custodian bank to internalise a larger percentage of client assets.

"If you are missing the largest market in the world, strategically that is not the best position to be in. We need the US in our network."

Deutsche Bank unlocks SWIFT authentication tool

Deutsche Bank's global transaction banking (GTB) division is extending its use of SWIFT's 3SKey to allow users to access its Autobahn App Market.

The SWIFT 3SKey is a single personal identity token offering secure customer authentication using digital signatures, and can be used across banks and any banking channel.

It allows corporate clients to log in to online banking applications and approve financial transactions, all using a single device.

Previously, this kind of identification relied on multiple proprietary signature tools for each bank, each with different instruments and different levels of authentication.

The SWIFT 3SKey can help treasurers that work with a large number of banks, reducing the number of authentication methods required for authorising transactions.

Michael Spiegel, global head of trade finance and cash management for corporates at Deutsche Bank, said: "We are increasingly seeing new entrants—including non-banks—at different stages of the wholesale banking value chain."

"Offering market leading solutions and improving the corporate client experience is therefore key in maintaining our leading edge."

"At the same time, through SWIFT 3SKey, we continue to meet the highest security standards."

David Watson, Deutsche Bank's global head of GTB cross-product components and regional head of product management in the Americas, added: "3SKey is an excellent example of SWIFT providing collaborative market solutions supporting robust security standards for

confirming a person's identity with a one bank-agnostic high-security device."

"Supporting 3SKey allows us to leverage current industry trends and brings tangible benefits to our online clients. It is therefore a logical next step to extend 3SKey beyond SWIFT and EBICS France to our global Autobahn App Market, providing access to more than 180 applications across Deutsche Bank's electronic products and services."

André Casterman, global head of corporate and trade markets at SWIFT, said: "After a successful launch of 3SKey for personal signing of files in 2013, Deutsche Bank proves again its leadership in embracing SWIFT's multi-banking solutions at a global level by extending their use of 3SKey to user authentication on their Autobahn App Market."

Political intelligence firm hit with fine

A political intelligence firm has agreed to pay a $375,000 penalty for passing non-public information obtained from government employees to hedge funds.

The US Securities and Exchange Commission (SEC) obtained the penalty from Marwood Group Research as well assurances that an independent compliance consultant will be retained.

The SEC discovered in 2010 that Marwood analysts obtained potentially material non-public information from government employees at the Centers for Medicare & Medicaid Services and the Food and Drug Administration in the course of compiling research notes on policy issues or pending regulatory approvals for hedge funds.

Marwood's written policies and procedures expressly prohibit the acquisition and dissemination of material non-public information and require employees to bring information to the attention of the compliance department if they encounter anything confidential.

But the information was distributed directly to hedge funds, which could have used it to inform securities trading decisions, according to the SEC, in violation of Section 15(g) of the Securities and Exchange Act and Section 204A of the Investment Advisers Act.

SEC enforcement division director Andrew Ceresney said: "Government employees routinely possess and generate confidential market-moving information. When political intelligence firms like Marwood Group obtain information from government employees, they must take the necessary steps to prevent the dissemination of potentially material non-public information obtained in the course of their research."

Standard Chartered joins OTC Clearing Hong Kong

OTC Clearing Hong Kong has signed up Standard Chartered as its first UK clearing member.

The Hong Kong Exchange and Clearing (HKEx) subsidiary, which clears over-the-counter derivatives, added Standard Chartered to its ranks on 30 November.

"We are pleased to have our first UK incorporated member on board," said Calvin Tai, head of global clearing for Asia at HKEx.

"As one of the designated primary liquidity providers of the offshore RMB market in Hong Kong, as well as a key stakeholder and market maker in regional OTC derivative markets, Standard Chartered's participation significantly adds value to our service offering."

Gene Kim, regional head of financial markets for China and North Asia at Standard Chartered, said: "We are excited to join OTC Clear as a clearing member."

"OTC Clear is the first OTC derivatives clearinghouse in Hong Kong and its offering to clear offshore RMB OTC products is in line with the strong growth and increasing volumes of RMB derivatives traded offshore.

"With the commencement of our membership, we look forward to contributing further to the development of the offshore RMB market."

OTC Clear added the Hong Kong branches of Deutsche Bank and Bank of Communications Co as clearing members in September and October, respectively.

Brewin Dolphin opts for Vestima

Private client investment manager Brewin Dolphin has adopted Clearstream's Vestima platform to handle its fund custody business.

Brewin Dolphin will use the platform to help clients meet regulatory requirements for asset safety and efficiency in fund custody.

The mandate is a response to increased regulatory demands in the UK, including the Retail Distribution Review and increased monitoring of fund processing and asset protection, which has led to wealth managers looking for fund custody providers to manage clients' fund assets.

Vestima acts as one platform for servicing customers' fixed income, equities and warrants, and aims to provide a streamlined process for all asset classes.

Dave Berry, head of operations at Brewin Dolphin, said: "The decision to use Clearstream was driven by our need to find a provider which not only offers the operational efficiencies we are looking for, but more importantly ensures the greatest safety of our clients' assets."

"Vestima's ability to handle a diverse fund portfolio was a further factor in our decision to work with Clearstream."

Philip Brown, co-CEO of Clearstream Banking, said: "We are delighted that Brewin Dolphin, a prominent player in the UK wealth management industry, has chosen Clearstream to provide order routing, DVP settlement and custody for their investments into third-party funds."

"We welcome Brewin Dolphin to our ever-growing community of UK-based clients which validates our best in class services for the processing of UK and cross-border funds."

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Who dares wins

The Global Custody Forum 2015 revealed a difficult and harshly regulated environment for custodians, but those that stick it out might just prosper

STEPHANIE PALMER REPORTS

Regulation and innovation remained at the top of the agenda at the Global Custody Forum 2015 in London last month, where speakers addressed the many challenges facing custodians.

Panellists addressed the impending second wave of Target2-Securities (T2S) and Euroclear's announcement that its Settlement of Euronext-zone Securities (ESES) markets will not be ready for the March 2016 migration.

Dirk Bullmann, directorate general for payment systems and market infrastructure at the European Central Bank (ECB), laid out two possibilities for the central securities depository's (CSD) future: either it will migrate with wave three in September 2016, or it will be moved to the 'contingency wave', trailing six months after wave four and going live in September 2017.

Bullmann also pointed out that the initial rollout plan was to have a major player going live with each wave. Euroclear would have fulfilled this criterion in wave two, while Clearstream is on track to be the large player in wave three.

Guido Wille, executive vice president and head of market development at Clearstream, suggested that moving Euroclear to the contingency wave could ultimately create more costs for everybody, but he also saw issues for Clearstream if the two go live at once.

While Wille stressed that Clearstream is already prepared to go live in wave three, he said that delays from Euroclear will have knock-on effects, meaning Clearstream will have to re-test systems and shorten the final testing periods "because we are stringent", he said.

He added: "We shouldn't underestimate the interdependency when it comes to testing."

Looking back on wave-one implementation, however, Bullmann pointed out that with projects of this size the industry should "expect the unexpected", adding that, in hindsight, more education could have helped smaller players to be properly prepared for the migration.

"Some players … still live in the pre-T2S world in terms of operational procedures," he said, and accepted that in the future, the ECB should make sure the right information is passed to the right people in the right way.

Clearstream has worked to complete changes before its deadlines, or "before we were forced to do it", said Wille.

He added: "We've changed the German market rules already to match T2S standards."

When asked what developments we can expect for T2S further in to the future, Wille pointed to the goal of a single large liquidity pool in one market, while Bullmann said the platform could be "of a benefit for other markets", and could expand its reach both with regards to asset class and geographically, for example, to Scandinavian markets or the UK.

"T2S could be a magnet. Outsiders have to see how to position themselves in this environment."

Later, a presentation saw Jürg Unger, head of custody at Swiss Re, urging delegates to innovate now.

> "Moving Euroclear to the contingency wave could ultimately create more costs for everybody"

Very little has changed in the settlement process for custodians, he said, adding that it's "such a boring process—it's labour intensive and more or less the same", as it has been for 20 years.

However, he said, regulatory pressure has forced banks to change their operating models, and they are realising that their out-dated computer systems are not prepared to cope with things like cyber crime.

He also suggested that custody clients are more aware about their asset safety than they may have been in the past, and have more knowledge of the custody chain.

There is an increased focus on technology in finding data solutions, and custodians are looking towards utilities for the likes of know-your-client and anti-money laundering requirements.

Unger highlighted disruptive technologies such as blockchain, saying this gives banks the opportunity to overhaul their IT systems, and the opportunity for a potentially safer storage system for data. However, institutions are approaching blockchain with caution, wary of upsetting the "status quo", said Unger.

He argued that digitisation, harmonisation and modernisation are inevitable, and that new technology is the only way to secure a prosperous future.

Addressing the regulatory landscape, Habib Motani, a partner at Clifford Chance, suggested that, although it is challenging for custodians, there are opportunities to be found as well.

Motani placed the issues regulators have addressed into 'buckets' of asset protection, financial viability and information requirements. He pointed out that many of the same issues, such as strict liabilities, margin segregation and disclosure requirements are "peppered across different pieces" of regulation.

While many firms have conducted certain processes, such as record keeping, for some time, regulation brings more pressure and more responsibility. When it comes to these obliged activities, Motani asked: "Who is responsible for that?"

He said: "It's a slightly sharper edged thing to say that you're providing these services to satisfy certain legal obligations. Are they yours or your customers'?"

He argued that, actually, no matter the regulated party, the responsibility often falls to the custodian. As a result, they should be more aware of their own processes, and not rely on the content of contracts to protect them in case of loss of assets.

Despite this, Motani argued that the need for custodians and service providers is more acute, and their role more necessary, than ever. He said that services like evaluations and monitoring could become more in demand, as funds and asset managers do not generally have the facilities to do these themselves.

At the same time, the additional responsibilities may cause players to exit the custodian market, leaving more opportunities for those that remain.

"The task of being a custodian is becoming more onerous," Motani. "People's willingness to do it is being affected." **AST**

Same same, but different

In a region as diverse as Asia, service providers must respect the charm and uniqueness of each market's infrastructure, says Ian Banks of HSBC

STEPHANIE PALMER REPORTS

What kind of market infrastructure challenges are your clients facing?

The market infrastructures themselves tend to focus primarily on efficiency, tightening settlement cycles and real-time settlement, whereas actually, the biggest problem areas for our clients are more around the increasing amount of data they're dealing with. There is know-your-client (KYC) data, tax issues, and ongoing compliance for various local regulations.

We are seeing infrastructures looking at the issues from one perspective, which is all about making the in-country processes more and more efficient and cost-effective, but the costs of actually managing clients are still going up. The role of an international asset service provider is

to take the diversity of requirements of its client base, which is made up of global institutions that each have their own idiosyncrasies, and fit those in to the market infrastructures, which, by definition, are locally oriented.

It is easy to over-simplify the problems and assume that things are getting easier and more efficient, but actually there are still serious complexities to address. A local payments infrastructure, for example, will be very focused on the local market, so it makes sense that they standardise there. But if a firm is dealing with clients in 50 countries, each of those markets will standardise to their own standards, meaning more diversity and more complexity for international investors.

Also, if infrastructures are working towards real-time settlement, then that works for clients if they're in the currency in which the asset trades. Actually, many of HSBC's securities services clients are managing cash out of either Europe or the US into different markets, and there is a big difference in time zones that we have to manage before even considering currencies. Although we are moving towards having delivery-versus-payment in all markets, there is still an agenda around credit to facilitate clients whose natural currency base is not the same as their assets.

The ultimate goal is quite simple: to join investors to assets through execution, settlement and safekeeping. On the execution side, there has been a lot of change within the brokerage community and it works fairly well, globally. On the settlement side, market infrastructures are tightening up settlement in-country, but most clients are still working out of euro or US dollars, so asset servicers have to be sure that the cash arrives at the right time to make sure the settlement cycle works, whatever the settlement cycle is in that country.

In large regions like Asia, there is a lot of disparity between countries and their infrastructures—how can service providers manage that?

They still need quite a material onshore presence. In Asia, for example, HSBC Securities Services has about 2,400 employees across 17 countries, as well as specialist offshore service centres that support those jurisdictions. People do tend to refer to Asia as a catchall, but it's a bit of a misnomer as each country must be dealt with individually and we are not in a position where we can just hub everything.

Service providers need to deal with local characteristics to make sure things run smoothly. There is still quite a lot of diversity out there, and the problem is finding the motivation across the region to harmonise that.

Each market looks to what it needs, and there may be a big difference between, for example, what the Taiwanese market and what the Australian market needs. It's unlikely that they will come up with the same standard. We try to influence as much as possible, talking to the regulators and trying to encourage harmonisation, but that's not necessarily the priority today.

Do you think this will change?

In time it will change. People are talking about the future and looking at the technology available, and that gives us an opportunity to take the service to the next level—if you can reduce the costs of getting the basics right, that allows for more investment in adding value.

To clients, the cost of settlement activities is going down, but the cost of managing data is going up, so that is what we really have to focus on as an industry. In order to improve that, we have to find a common way of looking at clients, to identify them correctly in a standardised way, so common identifying numbers are a good start.

Then we will need collective data utilities. A large institution might have four or five core banks and dozens of counterparts, which all have their own KYC documents. We need that data from every client, but every bank and service provider is doing the same thing, so clients end up with multiple requests for the same data.

Utilities for jobs like KYC compliance makes sense—if there is a central repository of data that we can all go to and reference, and that hold 80 to 90 percent of the data that we need, that will cut down on a lot of the hassle of manipulating data yourself. It doesn't make sense for everyone to be collecting the same data, when they could simply invest in something that is best practice once.

Are organisations willing to work together to create change?

With these types of initiatives they are—using a utility is preferable to banks trying to manage all the data themselves. However, data management is very much a core of what banks do, and so the business case for doing it a new way isn't always clear. It's not like there is a new problem to be solved, it's a different way of solving it, which should make it more efficient for all parties.

It has to work for the clients, the banks, and the regulators as well. Theoretically, all stakeholders should be looking in the same direction—you wouldn't expect this kind of thing to be done in isolation. And the broad trend is one, albeit slowly, of general convergence towards more common standards.

What we have been working on is harmonising the information around clients, and that comes back to the idiosyncrasies of each market. The documentation required for getting a fund into a market could be very different in multiple countries.

In India, for example, there is quite a complicated set of documents and it's not always obvious which ones firms have to file. We have developed a fast-track tool that allows clients to put in a set of standard data for a fund, and the tool then creates the correct output for each regulatory filing.

It was a difficult piece of software to develop because there are so many rules and so many documents, but it is things like that which can really add value for clients.

How can large institutions like HSBC help their clients to ease the burden of regulation?

This can be hugely valuable to clients and thus a strong selling point. It is our job to work with clients interpreting the nuances of a marketplace. Many industry participants are working with clients to try to develop things like reporting suites to help with regulation, so I see it as an increasing part of the service proposition that we should be providing.

Part of the problem for clients is that, over the last few years there has been so much change in regulation that some just haven't had the bandwidth to get everything done.

But now the regulatory burden is far better understood than it was two or three years ago, and we are starting to see much more useful products for clients.

We all have to do it. Sometimes we are the regulated entity, and sometimes the client is, but either way, once you solve it, it can become the standard. At the moment, some things are already done, ticking over and delivering outputs, while others are still in build-mode, but we are getting there.

There will always be complexities with markets and we see it as our role to solve those complexities with clients and to try to harmonise their experiences as much as possible. AST

Ian Banks
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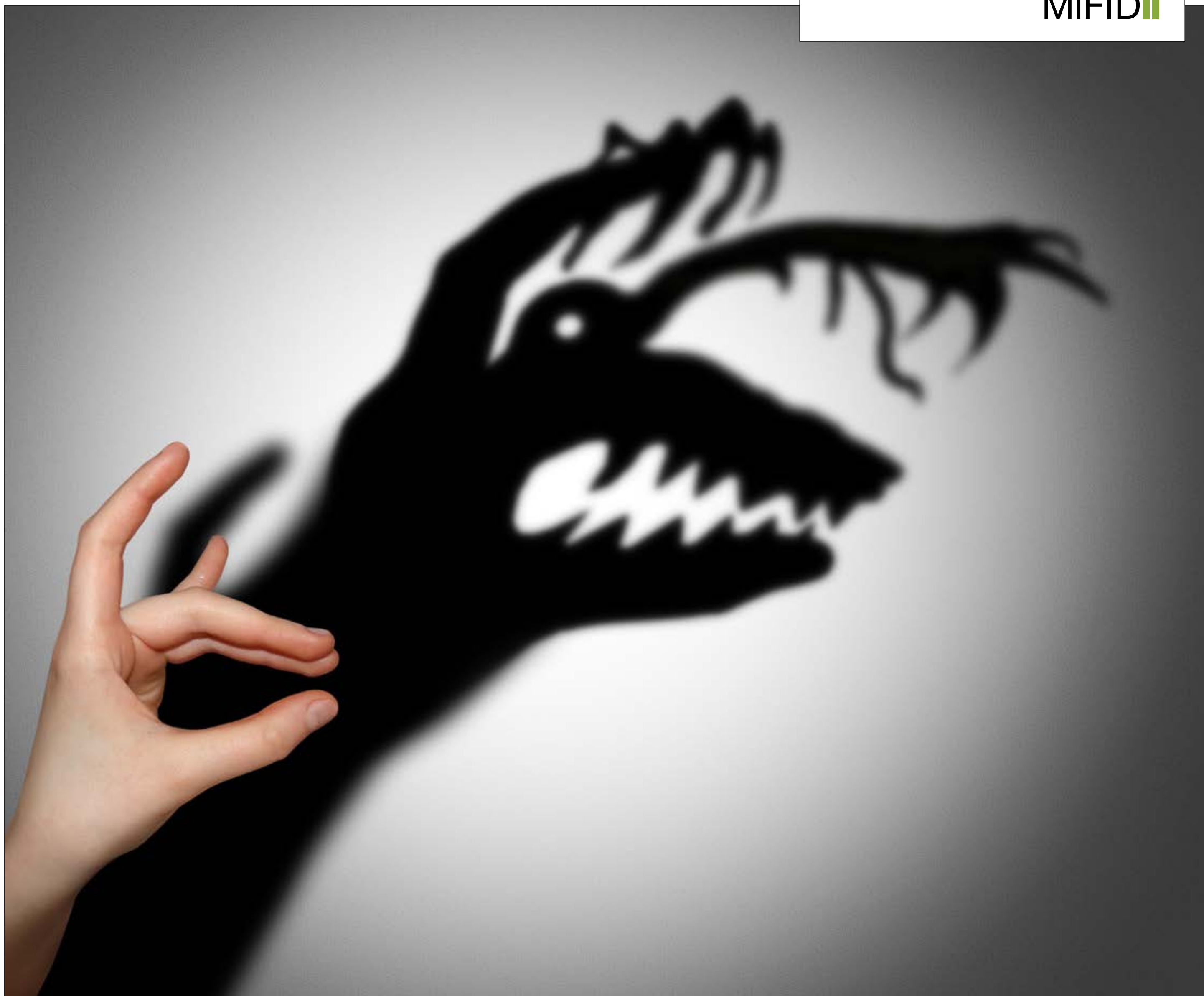

Not yet coming over the hill

As the European Commission ponders whether to delay the 'monster' that is MiFID II, all of those affected must decide what to do next

STEPHANIE PALMER REPORTS

Back in November, with just over 13 months to go until the scheduled implementation of the Markets in Financial Instruments Directive (MiFID) II, the European Securities and Markets Authority (ESMA) said what many market participants were thinking, and asked the European Commission to consider a delay.

ESMA chair Steven Maijoor said work on the directive was "by no means finished", and suggested that, with the final draft technical standards yet to be finalised, market participants cannot finalise their plans for compliance. He said: "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."

At the time of writing, the European Commission has not given a definitive response, although the European Parliament has said it is "ready to accept a one-year delay" provided the commission "finalises the impending legislation swiftly", and many are all but relying on approval.

Cian O'Braonain, head of regulatory response at Sapient Global Markets, goes as far to say: "For some banks it will be a huge relief as a delay had essentially become their plan A, while plan B was working to the original date."

Even within a more reasonable timeframe, the challenges MiFID II poses are significant. Jeremy Taylor, head of business consulting at GFT, says: "MiFID II is a monster. It exponentially increases the number of financial instruments that are captured, compared to MiFID I."

Which leaves institutions trying to figure out exactly what to do now. O'Braonain, approaching from a trade and transaction reporting perspective, focuses on the commitment firms have made to the project already.

He explains: "A lot of the bigger banks have already set up their project teams. They will have a huge degree of frustration because they have resourced big teams, allocated a huge amount of budget and will now be in this uncertain situation."

On the other hand, Brian Lynch, CEO of Risk Focus, accepts that "the idea of a delay is welcome", even though Risk Focus's product is geared towards helping firms meet the tight deadlines for complying with the reporting, reconciliation and transparency aspects of MiFID II. Through his own contact with the industry, Lynch predicts that institutions will embrace a deadline extension.

He says: "For us it is bitter sweet—a certain level of urgency can help our sales process, but for our clients the pressure has been reduced."

"These organisations that have so much on their plates. We might recommend that firms already underway with their MiFID II build should keep going, but realistically, that's unlikely. There is a long list of regulatory imperatives firms have to meet this year, and if they can get some breathing room, they'll take it."

Lynch also notes that investment fatigue is a factor, specifically relating to regulatory change, suggesting that when there is a chance to take a step back, for firms to continue at the same pace of investment is unrealistic. However, he also warns against shutting down projects altogether.

He says: "If people completely mothball their projects and then try to reopen them in 12 months' time, there's a real risk that they're going to have the same level of anxiety later on and, again, there's not going to be enough time for the next deadline."

"There's a balance to be struck, and I do fear that some firms will fall on the wrong side of that balance and do nothing until it becomes a burning issue once again."

Taylor has less interest in such a balance, suggesting instead that banks should continue with their projects, giving them a chance to comply more quickly and more efficiently, while taking advantage of any business opportunities that the directive might bring.

He says: "A delay gives them time to properly prepare for this change. It's a golden opportunity to look at their business and operating models, to decide what kind of entity they want to be, and what kind of interactions they want to have with the market and with their clients."

"A lot of our clients have probably been pondering this for quite some time already, but they have been more concerned about the very short window of time in which to implement regulatory change. The have been in a rush to get over that line and tick the compliance box."

He adds: "Quick decision-making isn't necessarily the best decision-making."

O'Braonain is in agreement, saying that "the only option you have is to keep going, full steam ahead", and that to put implementation plans on hold could "lead to some significant problems further down the line".

He also points out the relative significance of this for smaller institutions, saying: "I don't think the tier-one banks will be affected so much, although it will still be a challenge. They can find the budget and resourcing. It will be the smaller banks that are less well resourced to respond."

It's also unclear what effect a delay to MiFID II could have on institutions' compliance timelines. Taylor points to regulations such as the Basel Committee on Banking Supervision (BCBS) Fundamental Review of the Trading Book (FRTB) and other initiatives due to come in to force in 2018 that require development of new credit management and risk models.

There may not be direct overlap in the parts of banks affected, but Taylor suggests that there is some interdependency. If nothing else, resources could be stretched if banks get lax on their time management.

He says: "There was very little time to implement MiFID II before. Now there is more, but it's still not a lot. If banks delay until 2017, then that is going to be a nightmare year; IT resources, change management resources, compliance resources and risk function resources are going to be really tied up with things like FRTB."

He suggests that banks approach the challenge "holistically and more broadly, so that the resource curve is much smoother", adding: "Everyone needs to re-plan accordingly."

Lynch, however, argues that, in fact, with so many regulatory obligations to deal with, having a bit of extra time to deal with one of the biggest can only be a bonus, allowing firms to divert resources to where they're most needed at any given time.

His concern is that firms may not be able to keep the attention of those controlling their regulatory financing. He says: "If firms delay too much or take their eye off the ball, they could struggle to get the investment dollars from the relevant investment committees."

"These committees could see it as a 2018 problem, even though it's an early 2018 problem. In 2015, anything with a 2018 label on it seems like a long way off."

Even if banks could cobble together a solution in time for January 2017, there's no guarantee that the regulators will be ready for them. As a directive, MiFID II requires national competent authorities to produce their own rules. Implementation will mean collecting and analysing significant volumes of data—a task they're unlikely to be up to.

O'Braonain suggests that the industry is "not even remotely close to being ready", and that this applies to ESMA, too.

He says: "This is more [ESMA] just being really worried about [its], and the national competent authorities', ability to manage the huge amount of data they will receive and need to monitor and analyse."

Taylor adds that, while European regulators don't want to appear to be going soft, there is, again, a balance to be struck. He suggests regulators might not have their rules ready until half way through 2016.

He says: "European legislators don't want to be criticised by their US counterparts for being slow and for being soft on the industry, but this is a practical, pragmatic proposal, and I don't think they've got any choice. It would be an absolute disaster if they pressed ahead with an unrealistic timeline."

"When a regulator themselves says this can't be done, that's very much a transparent and honest assessment."

And Lynch is in agreement, saying: "The national competent authorities, and the regulators that ultimately will need to consume and manage this data, need a delay. They are not ready and they're not going to be ready by January 2017, they have stated as much."

According to O'Braonain, however, with a 24-month time frame comes a temptation to relax. "That's incredibly dangerous," he says. "Because the extra time should be used to understand the complexity, the IT requirements and also for testing and re-testing to ensure reporting completeness and accuracy."

With an extra year for implementation comes the expectation that when MiFID II is introduced, firms should have their compliance solutions sussed, and that regulators will have less sympathy for those that don't.

"The tolerance for failure … will be significantly reduced," says O'Braonain. "That, in turn, could see any non-complaint firms fined at an earlier stage."

He adds: "In lieu of any official announcement, our advice is simple: keep going with the original date in mind until you hear otherwise."

Taylor agrees with this sentiment, adding that no institution affected should "take their foot off the gas".

He says: "That includes market participants, the European Commission and ESMA themselves, and the national competent authorities who have got to get their infrastructure and their systems in place as soon as possible."

Taylor concludes: "Market participants shouldn't be breathing a sigh of relief, because there's no avoidance in delay. They have still got to do this and it's still going to be painful." **AST**

Yes we Afri-can

In Africa's emerging markets, industry players and regulators need to keep an eye on global movements, said speakers at NeMa Africa in London

STEPHANIE PALMER REPORTS

Considering the challenges facing the African financial services industry, not least the sheer levels of diversity within the continent, many markets are making an impression on the global landscape. But the lasting message from the NeMa Africa conference in London was that Africa's regulators should start considering how best to support investment in to its emerging markets.

Once considered a specialist investment destination, Africa is gradually carving out its place on the global fund management scene, said Paul Forsyth, a managing partner at Apache Partners.

Forsyth pointed to a trend of African investment funds looking to UCITS vehicles in Luxembourg and Dublin and which do not typically appeal to retail investors, saying this suggests a belief that Africa will be next on the agenda for this type of clients.

Of those regions considered to be on the MSCI Frontier Markets Index, Africa currently holds 33 percent of the total assets, compared to just 7 percent held in 2013.

Forsyth partly attributed this increase to the fact that the Middle East has moved out of the frontier index, however he also pointed out that non-South Africa domiciled funds are now accessible to international investors.

He stressed that "the market is young", comparing it to the Asian market in the 1980s and saying: "We're very much in the same position as Asia was 25 years ago."

Despite this, he accepted that the majority of African business is still in South Africa, which holds about half of all the continent's funds.

"Cape Town and Johannesburg are the key areas," he said.

Finally, he cited the growth of smaller and more specialised fund managers, particularly those with a knowledge of their particular markets. It is important to get a feel for how a manager might react to specific market events, whether they're comfortable with the currency, and whether they're driven by asset allocation, he said.

While there are large international players with a presence in Africa, for them, smaller returns are less meaningful, and mistakes can be much more damaging. Forsyth said: "Larger funds have less flexibility to play in the small markets."

Duncan Smith, senior business development manager at Societe Generale Securities Services, addressed the issue of the hidden costs of providing custody services, saying banks can avoid these by using a 'hub' model, although this should be carefully balanced with providing a good service.

Smith compared the costs of custody to an iceberg, with the majority hidden below the surface, including costs of communication and travel to see clients, and legal and operational costs.

However, "when you start moving to a hub approach, the view changes", and more costs become clear, or, above the water line.

He referred to a survey of 10 large banks, which estimated their below-the-line costs at anything between $10,000 and $40,000, with estimated costs averaging out at about $25,000. But he also stressed that when offering custody, "cost isn't the only driver".

It is also important to provide a good service, to stay close to the market, and for clients to be able to reach their custodian easily, said Smith.

He added that, while a hub approach may be more efficient, it might not be able to offer such a personalised service or the appropriate market experience. He said: "People on the ground make a difference."

While the hub model offers low volumes, an uncomplicated service and efficiency, as a firm's volumes increase it could be beneficial to move to a more sophisticated service.

Firms should make a decision based both on where markets are now an on where they are going to be, noting that "the markets are all moving at a different pace".

Habib Motani, a partner at Clifford Chance, argued that regulators in Africa should be more engaged with banks and custodians, and also with their western counterparties.

When considering whether African countries should catch up with regulations in Europe, Motani said: "I think maybe it is too late."

EU member states have already gone ahead with global custody regulation, and any affected African institutions have to manage those rules.

However, Motani suggested that African regulators are approaching the rules from a "first-hand level", focusing on investor protection and not on the needs of custodians.

He asked delegates if they were "getting any support from your regulators … in contributing to those rules".

Receiving no answer from attendees, he took the silence as an "emphatic no".

With many African jurisdictions in the process of drawing up regulation, Motani said that if there isn't a discussion when the rules are in preparation stages, then it could make things harder in the future.

"There is some value in people trying to keep an eye on what's happening," he said.

Custodians must look at the way rules in their markets sit alongside those rules imposed on foreign investors. In the worst-case scenario, this could mean not being able to trade at all, as firms may not be comfortable that African custodians meet the required asset-segregation requirements.

Equally, however, for directives, rules are implemented by individual jurisdictions' regulators. If customers are driven by slightly different rules, then those custodians working with them will have to adhere to the highest common factors.

"That's the only way we can deal with all the people we want to deal with," said Motani. "The last thing you want, once you've started building, is to have to tinker."

He advised delegates to communicate with their regulators, to highlight the needs of foreign investors in to Africa, and to "pay attention to regulators in other jurisdictions".

Adding that regulators are currently not very engaged with the banks or custodians, he encouraged industry players to raise these issues, and even to bring investors to their countries to experience the market and meet the local regulators.

Motani cited a lack of awareness and information as the main issues, and concluded that the current situation could be bad for investor appetite, saying: "It's a question of getting your skates on." **AST**

Industry appointments

First Names Group has hired **Selu Mdlalose** as associate director in the Isle of Man.

He joins from corporate and trust service provider Senate Limited, where he was managing director. He has also worked in senior financial management roles at Deloitte.

At First Names Group, Mdlalose will focus on developing the group's client base in Africa.

He said: "First Names Group is very well-known and respected in the Isle of Man, so I am delighted to have been given the opportunity to become part of it. I look forward to contributing to the continued growth of the business while upholding its reputation for exceptional, people-focused client service."

Lex Hoogduin and **David Nish** have been appointed to the board of the London Stock Exchange Group as non-executive director and independent non-executive director, respectively.

Hoogduin is chairman of the LCH.Clearnet Group, and has held various economic advisory positions, including chief economist at Robeco, and advisor to the president of the European Central Bank.

Nish was CEO of Standard Life PLC from 2010 to September 2015, and has served as a group finance director at Scottish Power.

Maitland has hired **Luke Spencer-Wilson**, **Pedro Hilton Olmo**, **Bill Henderson** and **Charles Romilly** to its global business development and client management team.

Spencer-Wilson joins the London team as senior business development manager, and will help drive Maitland's expansion in the European alternative investment fund space.

Olmo will be client services manager in Latin America, servicing and managing Maitland's expanding book of Latin American clients. Henderson takes on the role of senior business development manager, and will focus on growing the firm's share of the hedge and private equity fund administration market in North America and the Caribbean.

Romilly joins the London team as business development advisor, responsible for expanding the private client and institutional services across Europe.

Glenn Kennedy has been promoted to head of trustee and fiduciary services for Asia at HSBC Securities Services, 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.

Christophe Lentschat and **Jorge Fernandes** have joined the senior management team at JTC Luxembourg.

The pair will be co-managing directors, responsible for driving JTC's range of fund administration, corporate and real estate services in Luxembourg.

Lentschat specialises in fund administration services and corporate governance, and brings experience working with regulated and non-regulated funds, and across various asset classes.

Fernandes previously headed up the Luxembourg branch of a specialist alternative investment asset management company. He still sits on the boards of various investment funds and other companies.

Fernandes said: "Recognised as such an important financial services centre at the heart of Europe, Luxembourg continues to form a major part of JTC's ambitious European growth strategy."

Lentschat added: "With our new management team in place in Luxembourg, we are firmly focused on developing our fund administration offering further and investing significantly in IT systems to ensure clients continue to receive a high quality service."

Global Prime Partners has appointed **Sean Capstick** as head of prime brokerage.

Capstick joins from RWC Partners where he was a member of the management committee and head of new markets. **AST**

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