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Storm's a Comin'

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Renewable TA
Reduce, reuse, recycle


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Eurex Clearing wins US approval

Eurex Clearing, has gained regulatory approval from the US Commodity Futures Trading Commission (CFTC).

The order of registration was issued on 1 February, meaning Eurex Clearing is now a registered derivatives clearing organisation (DCO) under the Commodities Exchange Act.

Eurex Clearing will start offering proprietary over-the-counter (OTC) clearing services to US clearing members and their US-based affiliates.

Registration will become effective once Eurex Clearing meets the CFTC's straight-through processing (STP) requirements.

According to the CFTC, Eurex Clearing requested this conditional registration, preferring to comply with STP requirements in the future, when it is also mandated to comply with European requirements.

These requirements have not yet been specified, due to a delay in the EU Markets in Financial Instruments Directive (MiFID) II.

The clearinghouse can continue to clear proprietary positions in interest rate swaps for US clearing members, and once it complies with the STP requirements, it will be able to start clearing futures commission merchant customer positions.

The EurexOTC Clear product for interest rate swaps will be in use based on a 'no-action relief' issue, meaning that, for a period of time and for accounts held in the central bank of Germany, Eurex Clearing will not have to comply with every requirement laid out in the CFTC regulations.

Thomas Book, CEO of Eurex Clearing, said: "The DCO approval is an important milestone in our strategy to further expand our global distribution.

Book added: "It also underlines Eurex Clearing's commitment to our customers in the US market."

He added: "We are pleased that the recognition by the CFTC also reconfirms Eurex Clearing's industry leading position complying with the highest international standards and state-of-the-art risk management."

Eurex Clearing is the sixteenth DCO to be registered with the CFTC, and only the sixth based outside of the US.

In January, the CFTC signed a memorandum of understanding with Eurex Clearing's German regulators, facilitating information sharing and cooperative oversight.

Barclays and Credit Suisse in hot water over dark pools

The Securities and Exchange Commission (SEC) has charged Barclays and Credit Suisse, in separate cases, over dark pool violations, leading to collective fines of more than $150 million—the largest ever penalty of this kind issued by the SEC.

Dark pools are alternative trading systems (ATSs) offering private forums for institutional investors to trade securities. Named for their lack of transparency, they allow investors to trade large volumes of shares while keeping the process private, therefore avoiding a wider effect on the markets.

The SEC charged the two banks with violating federal securities laws surrounding dark pools. Barclays admitted wrongdoing and will pay $35 million apiece to the SEC and to the New York attorney general's office.

Credit Suisse agreed to settle the charges, paying $30 million to the SEC in penalties, $30 million to the New York attorney general's office, and $24.3 million in repayments and prejudgment interest to the SEC.

SEC chair Mary Jo White said: "These cases are the most recent in a series of strong SEC enforcement actions involving dark pools and other alternative trading systems."

"The SEC will continue to shed light on dark pools to better protect investors."

The charges mainly relate to the misleading of dark pool subscribers. According to the SEC allegations, Barclays told clients that its liquidity profiling feature was continuously policing dark pools for predatory trading, and that surveillance reports were running weekly. In fact, neither claim was accurate.

Barclays is also accused of failing to adequately disclose the fact that it would override liquidity profiling, moving subscribers from the most aggressive categories to the least aggressive. This meant that those traders that elected not to interact with aggressive subscribers ended up interacting with them anyway.

Credit Suisse is accused of misrepresenting its Crossfinder dark pool by suggesting that it used a feature, Alpha Scoring, to characterise subscriber flows objectively and transparently, on a monthly basis. In fact, the SEC found the feature used subjective elements and was neither transparent nor conducted monthly.

According to the SEC, Credit Suisse suggested to clients that the Alpha Scoring system would remove opportunistic traders from its electronic communications system,

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Light Pool. However, the feature was not running throughout the first year of Light Pool being in operation, and subscribers deemed to be opportunistic were given the opportunity to continue trading using a different system ID.

The bank also allegedly failed to treat subscriber order information confidentially, and transmitted it out of the dark pool to other systems without informing subscribers.

External high-frequency trading firms were also alerted to orders submitted for execution, without subscribers being informed.

Joseph Sansone, co-chief of the SEC's market abuse unit, said: "Two Credit Suisse alternative trading systems failed to operate as advertised, and failed to comply with numerous regulatory requirements over a multi-year period."

He added: "The commission's action today sends a strong message that the agency will continue to scrutinise ATSs for compliance with the securities laws."

Andrew Ceresney, director of the SEC's enforcement division, said: "Dark pools have a significant role in today's equity marketplace, and the firms that run these venues must ensure that they do not make misstatements to subscribers about their material operations."

"These largest-ever penalties imposed in SEC cases involving two of the largest alternative trading systems show that firms pay a steep price when they mislead subscribers."

Costs affecting IRS clearing decision

Costs are playing a major role in where buy-side firms are choosing to clear interest rate swaps, according to a new report.

TABB Group's report, Global Clearing: Navigating Liquidity and Pricing Pools, reviews the shifts that major clearinghouses are seeing in market share and how cost analysis on clearing has become a major factor.

Author Radi Khasawneh found that many asset management firms in the US and Europe are attempting to retain banks as intermediaries for large trading flows by voluntarily clearing many derivatives, particularly interest rate swaps.

According to TABB, the majority of interest rate swaps are now centrally cleared in the US market, with Depository Trust & Clearing Corporation data showing a year-on-year 10 percent increase between November 2014 and 2015.

Asset managers and hedge funds understand that trading choices will have a recognised impact on the back end, according to Khasawneh, with clearing choices also making a difference for these firms in terms of their priority status for dealer intermediaries.

The regional phasing-in process for derivatives clearing reform under the European Market Infrastructure Regulation has given firms the ability to analyse and act on data gathered from changes in trading behaviour as each region finalises its approach.

As this process comes to an end, global dealers and buy-side traders are now faced with choosing the best way to react and position themselves in a largely cleared, but more fragmented market, according to Khasawneh.

"Regional fragmentation, particularly in the US and in euro-denominated interest rate swaps, has helped clearing clients get clearing and compliance certainty thus far," commented Khasawneh

"They have paid for that certainty by actively restricting their clearing and counterparty choices geographically."

Khasawneh added: "A reversal of this trend may emerge if the expected regulatory harmonisation between the US and Europe spurs cross-regional differentiation."

D+H in blockchain breakthrough

Technology provider D+H has applied distributed ledger technology to its Global PAYplus payment hub solution.

Banks can now use secure closed-loop distributed ledger system to connect bank networks, allowing them to move money quickly, and improving access to liquidity.

The Global PAYplus solution is designed to help clients manage all of their payments through one integrated system, including all high-value, mass and immediate payments, in all currencies, both domestically and cross-border.

According to D+H, the addition of blockchain technology intends to meet evolving peer-to-peer client payment needs.

Payments can be made more quickly, while anonymity improves security and reduces risk.

Moti Porath, executive vice president of global pre-sales at D+H, said: "This breakthrough technology further positions D+H as a leader in payments."

He added: "D+H has made significant investments in blockchain and distributed ledger innovation, and will continue to explore new use cases and partner with players like Ripple to pursue other opportunities."

T2S delay confirmed for Clearstream

Clearstream has confirmed that its German and Luxembourgish central securities depositories (CSDs) will migrate to the Target2-Securities (T2S) platform with the fourth wave in February 2017, rather than in the third wave, as was originally planned.

Confirmation from the T2S CSD Steering Group comes after successful tests of wave-three participants on 30 and 31 January.

Clearstream will also take part in wave-four testing in July, which it anticipates will run equally smoothly.

The change to the migration date follows Euroclear's announcement that its Settlement of Euronext-zone Securities (ESES) CSDs for Belgium, France and the Netherlands would not be ready to migrate with wave two, as scheduled.

These CSDs were re-scheduled to migrate with wave three in September 2016.

Speaking at the Global Custody Forum in London in December 2015, Guido Wille, executive vice president and head of market development at Clearstream, expressed concern over the possibility of Euroclear and Clearstream CSDs going live at the same time.

As Euroclear and Clearstream are two of the largest CSDs, Wille suggested that delays from one would affect the other, adding that although Clearstream was prepared to go live in the third wave, any changes to the waves would require re-testing, "because we are stringent".

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

Under the new schedule, Euroclear will go live in wave three, alongside VP Securities in Denmark and VP Lux in Luxembourg.

The Clearstream CSDs in Germany and Luxembourg will be part of wave four, alongside the Hungarian, Slovenian, Slovakian and Austrian CSDs.

Wave two now includes only Interbolsa in Portugal and NBB-SSS in Belgium, which plan to migrate on 28 March.

The first migration wave took place in June 2015, with the CSDs of Greece, Malta, Romania, and Switzerland moving to the T2S network successfully.

Monte Titoli, the Italian CSD, migrated on 31 August 2015.

The final composition of migration waves is expected to be confirmed by mid-March.

First South African LEI issuer endorsed

Strate has become the first institution to provide legal entity identifier (LEI) services in South Africa, having received endorsement from the Regulatory Oversight Committee (ROC).

As a licensed central securities depository and provider of post-trade services for financial markets, Strate will be able to register LEI codes locally, as well as renewals, challenges, and porting of codes.

The new service is in anticipation of stricter global regulatory rules in the future.

In order to be endorsed as an LEI issuer, Strate successfully met a set of qualifying criteria set by the ROC.

Monica Singer, CEO of Strate, said: "Strate is honoured to have been endorsed as an issuer of LEIs. With this new offering, we are able to expand our product base to the market by providing the local market with the much needed LEI services."

The LEI system creates unique codes for identification of legally independent entities across global financial markets. According to Strate, 150 companies in South Africa already have functioning LEI codes, granted through international providers.

Once an LEI code is assigned, it cannot be reassigned to any other company. Equally, once a company is assigned a code, it cannot be assigned another.

This is intended to help regulators monitor and analyse threats to financial stability, leading to better risk management and transparency.

It could also help improve internal management of operational risks, and lead to more efficient collection, cleaning and reporting of data.

Blockchain a blessing for capital markets

Although there are still barriers to the widespread adoption of blockchain in capital markets, a 'wait-and-see' approach could be damaging, according to a whitepaper by Euroclear and Oliver Wyman.

Banks' IT and operations expense in capital markets reaches $100 billion to $150 billion per year, while post-trade and securities servicing fees were estimated at about $100 billion per year. Capital and liquidity costs are also increased because of delays and inefficiencies within market operations.

New architecture, based on blockchain, could allow all capital market participants to work from common datasets, meaning operations could be streamlined, or removed altogether.

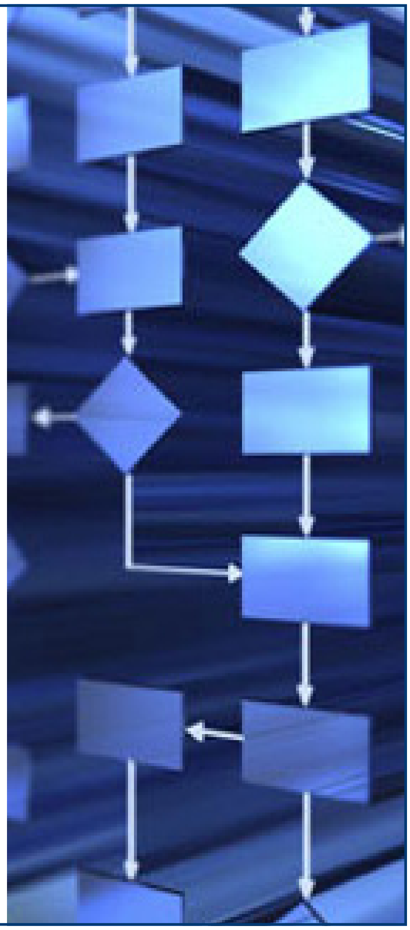
This would remove some of the current complexities around fragmented IT and data architecture and a lack of common standards, which lead to constant reconciliation and duplicated processes.

The technology could also increase visibility for fund managers, and allow multiple layers of custody functions to be viewed in one single function.

The paper said: "The obstacles to be overcome are significant, and it is far from clear what will ultimately emerge."

These obstacles include the limited scalability of the technology, the need for a robust cash ledger, operational risks, issues around managing anonymity, and creating common standards and governance. Regulating capital markets on blockchain was also highlighted as an issue, specifically around making sure any regulation is fit for purpose.

While disruptors in other sectors may have taken an 'act-first' approach to regulation, in



financial markets, innovators have to secure regulatory approval ahead of time, taking in to account geographical legislation and rules around change-in-ownership.

On top of this, currently, once mechanisms are entered into blockchain they cannot be retrieved. Although this is a security feature, it could also prevent legal intervention, the paper warned.

According to the paper, blockchain provides a new approach to data management and sharing that is could be a solution to inefficiency within the industry.

Firms could also reduce financial resource requirements, for example, by reducing counterparty credit risk, which could help to reduce the economic cost of business.

The report concludes that established players in the market should be working with innovators in order to develop standards, including addressing the complexities around legal oversight, while preserving the strengths of the ecosystem.

Adoption of the technology could come about through one of three routes, the paper said. Challenger disruptors will be developed outside of core capital markets; regulatory mandates will drive introduction of a new market infrastructure; or collaborative efforts will shift the value chain towards blockchain—although this transition could take as long as 10 years.

The paper concluded: “In the face of uncertainty about the technology, vaguely developed use cases and only conceptual promises of enormous cost saving, industry participants would be forgiven for taking a wait-and-see approach. This may be unwise.”

“If adopted in a widespread fashion, the new technology will bring fundamental changes to the role of different market participants and could shake up each part of the value chain.”

Angus Scott, head of product strategy and innovation at Euroclear, commented: “In order to work together to shape a new future, the industry needs to take a collective view on the potential of the technology, which was the intention of this study.”

He added: “The market must embrace this potential, show patience with this development and invest in various innovative solutions to bring it to reality.”

AUM is on the up in Luxembourg

Luxembourg has seen 13.3 percent growth in assets under management in the last year, according to the Association of the Luxembourg Fund Industry (ALFI).

As of 31 December 2015, €3.5 trillion in assets under management was domiciled in Luxembourg, 13.3 percent more than at the same time in 2014.

At the end of November 2015, Luxembourg accounted for 42.4 percent of all net investment fund sales, with 3,878 investment funds domiciled in the jurisdiction.

Investment funds domiciled in Luxembourg are initiated mainly by US asset managers, which have net assets under management of €759.8 billion, followed by the UK, which accounts for €581.5 billion.

Luxembourg has 211 authorised and 626 registered alternative investment fund managers, as well as 950 limited partnerships.

According to ALFI, 2015 also saw developments for Luxembourg as a financial centre for renminbi (RMB)-denominated investment funds. Several Chinese asset managers launched investment funds in Europe, choosing Luxembourg as the domicile for their funds.

In 2014, Luxembourg UCITS were given permission to participate in the Hong Kong-Shanghai Stock Connect, and in 2015, 81 Luxembourg-domiciled investment funds were authorised to use the facility for investing in China A-shares listed on the Shanghai Stock Connect. Luxembourg was also granted an RMB RQFII quota of RMB 50 billion (€6.8 billion) in April 2015. ICBC Europe and Bank of China in Luxembourg have been the first institutions to benefit from the programme, so far.

Denise Voss, chair of ALFI, said: “The high net sales that we continue to see demonstrate that the Luxembourg investment fund product remains a preferred choice for the international investor.”

“Likewise, fund promoters from 69 countries around the world continue to use Luxembourg as their platform for marketing their funds internationally.”

She added: “In order to sustain the sector’s development, ALFI will continue to communicate to its stakeholders—including the general public—the essential role that investment funds play in creating jobs and sustainable growth by channelling capital into the economy.”

ALFI suggested that the capital markets union could offer growth opportunities for the industry, allowing investment funds to contribute to overall economic growth, for example, through helping to resolve issues around retirement funding, or financing of innovation and infrastructure.

However, the association noted challenges that remain around the increased competition between financial centres, the uncertain economic environment and the high volatility of capital markets, meaning that continued and steady growth is uncertain.

The report also highlighted technology as a potential catalyst for growth, but also as something that could change the way investors interact with the asset management industry. Regulation also continues to pose a challenge for the industry.

Voss said: “The overall environment in which the asset management industry evolves has rarely been as diverse as today. If some recent developments and trends clearly have the potential to stimulate the sector, others are more likely to have a negative impact.”

“Our industry players’ proven capacity to adapt to a rapidly changing environment and the fact that Luxembourg funds are distributed on such a large scale around the world lead me to believe that our industry can continue to progress in the coming years.”

MUFG Investor Services snaps up fund admin business

MUFG Investor Services has agreed to acquire Capital Analytics, the private equity fund administration business of investment manager Neuberger Berman.

The deal will bring MUFJ Investor Services’s private equity and real estate assets under administration to $145 billion, and its total assets under administration to $384 billion.

The acquisition includes the entirety of the Capital Analytics business, however no funds or investment professionals will transfer, and Neuberger Berman funds will still receive administrative services from Capital Analytics.

MUFG Investor Services intends to provide as smooth a transition as possible for transferring both employees and existing Capital Analytics clients.

Junichi Okamoto, deputy president and group head of the integrated trust assets business group at the Mitsubishi UFJ Trust and Banking Corporation, said: “This transaction represents the next step in our strategy to support MUFG Investor Services’s position as an industry-leading administrator.”

“Incorporating Capital Analytics’s capabilities will enhance MUFG Investor Services’s proposition and will enable us to continue to provide a full market offering for both new and existing clients, whilst maintaining the highest quality of service. We welcome Capital Analytics to our growing business.”

John Sergides, managing director and global head of business development and marketing at MUFG Investor Services, said: "This acquisition will add 150 staff with specialist private equity and real estate expertise, enhancing MUFG Investor Services's comprehensive offering in the alternative investment space and ensuring that we are the ideal partner to support clients of all sizes and complexities, as they maximise the growth opportunities that arise for their business."

Anthony Tutrone, global head of alternatives at Neuberger Berman, added: "We believe the new ownership will create greater opportunities for Capital Analytics, given trends in the fund administration industry, while allowing them to continue providing the best-in-class services that we and our clients have come to rely upon."

"We are confident that MUFG Investor Services, with its commitment to investing in the franchise and people, is the right steward to take Capital Analytics through to the next stage in its evolution and we look forward to continuing our close partnership."

Terms of the acquisition have not been disclosed, and the transaction is expected to close in Q2 2016, subject to regulatory approvals and customary closing conditions.

LCH.Clearnet gains Singapore approval

Global clearinghouse LCH.Clearnet has been granted the status of recognised clearinghouse by the Monetary Authority of Singapore (MAS).

The recognition applies to LCH.Clearnet's EnClear freight division, and the ForexClear and SwapClear services. It means firms affected by Singapore's proposed clearing mandates will be able to meet their obligations by clearing through LCH.Clearnet.

LCH.Clearnet currently clears any Singapore dollar-denominated interest rate swaps through Cleartrade Exchange, which is regulated as a trading venue by MAS.

It also clears commodities futures such as freight, iron ore and steel in this way, and has several Singapore-based clients that clear interest rates derivative and commodities through clearing brokers.

According to LCH.Clearnet, the recognition reflects its commitment to the Singapore market and the Asia pacific region in general.

CEO Martin Pluves said: "Singapore is an established international hub for finance and we continue to see tremendous demand for our services in the region. Singapore's proposal to introduce a mandate for the clearing of US dollar- and Singapore dollar-denominated interest rate swaps in the future is a significant development and we look forward to supporting firms in meeting their clearing obligations."

"Achieving recognition status in Singapore is an important part of our growth strategy in Asia Pacific and complements other licenses we have already and those we are applying for in the region. As a global central counterparty, we provide open access to clearing for members and clients across many asset classes and in multiple jurisdictions, offering greater efficiencies for their business."

UK custody win for BNP Paribas

BNP Paribas Securities Services has been selected as UK clearing and custody provider for Nationwide Building Society.

Nationwide chose BNP Paribas Securities Services to provide safekeeping services for £12.7 billion of gilt assets in the UK.

Mark Harvey, head of treasury operations at Nationwide Building Society, said: "We are delighted to be working with BNP Paribas Securities Services as we look to enhance operational efficiency and increase straight through processing."

NSD takes step forward in corporate actions reform

The National Settlement Depository (NSD), the Russian central securities depository (CSD), has successfully completed a test of information and files exchange for a shareholder-requested purchase, or buy-out, of company shares, using electronic data exchange and electronic communications channels.

The test was conducted along with other depositories and registrars, and with registrar software developer Eldis-Soft. It comes ahead of the implementation of NSD's new corporate actions processing system, which will require shareholders to send instructions to registrars through their depositories.

As part of the corporate actions reform, which will come in to effect in July, NSD will continue testing corporate actions processing.

In February, market participants were able to test a feature supporting mandatory and voluntary offers for share repurchase, in line with the reform schedule. Also in accordance with changes, shareholders with securities in the depositories system will be able to participate in most corporate actions through their depositories.

Current tests are designed to help market participants prevent errors in corporate actions processing and to guarantee the reliability of the new technology to the securities holders.

After a positive assessment of the first test results, NSD confirmed that it intends to continue joint work on improving corporate actions processing interactions. A more thorough conclusion will be published on the NSD's reforms website, including assessment of interaction approaches and formats, and operational reliability of communication links.

An empire of real estate to mind

Amid cross-border restrictions and tightened belts, Luxembourg's kingdom of real estate investment won't be crumbling any time soon

Towards the end of 2015, the Association of the Luxembourg Funds Industry (ALFI) was busy, in conjunction with Ernst & Young, surveying real estate funds domiciled within its borders. By mid-January, the results were out, and ALFI was, quite understandably, singing the results from the mountaintops.

The report notes a continuing increase in the number of real estate investment units in Luxembourg—that is, the number of single funds plus sub-funds of umbrella structures. Units totalled 309 at the end of Q3 2015, compared to 303 at the end of 2014 and 279 at the end of 2013.

Although increasing, these figures aren't especially significant until compared to pre-crisis figures. At the end of 2006, 64 real estate investment units were domiciled in Luxembourg, while back in 2001, the jurisdiction was home to a mere 10.

Net assets under management in these funds increased accordingly, from €615 million in 2001 to €8 billion in 2006. However, between 2013 and 2015, while the increases in fund units were fairly modest, assets under management saw much more significant jumps, suggesting that these fund vehicles are not only attracting more investors, but larger investments, too.

At the end of 2013, assets under management in real estate totalled €30.5 billion. At the end of 2014 that figure had increased to €33.9 billion, and by Q3 2015 it sat at a massive €40.5 billion—an increase of €6.6 billion, despite Luxembourg only gaining six new fund units.

Kai Braun, a partner and alternatives advisory leader at Ernst & Young, says the increase is simply a continuation of Luxembourg's success in alternative investment funds, following on from the success of the UCITS regime.

He calls Luxembourg an "international hub", known for its ability to welcome investors from different jurisdictions and to facilitate cross-border investments. However, he also puts some of the success of the last few years down to the introduction of the Alternative Investment Fund Managers Directive (AIFMD).

He says: "Luxembourg is known as a regulated place and as an onshore market within the EU. Therefore, since AIFMD has been in place that has probably enhanced that image. There's investor demand for regulated vehicles, and Luxembourg is the obvious choice for that."

Appropriately, the ALFI real estate investment fund survey was extended for 2015 to include manager-regulated alternative investment funds—those funds not established under a regulated fund regime, but formed under corporate law, for which the manager will typically be regulated under AIFMD.

A PwC report released in November 2015, Choosing an Investment Vehicle, European Real Estate Fund Regimes, highlights the effects that AIFMD has had on the industry, and on the actions of investors.

The report reads: "AIFMD has forced fund managers and investors to change their approach and look not only at national rules, but also at EU rules and guidelines."

"At the same time, the new passports for professional investor funds provide new options. Managers must consider the place where they apply for authorisation to obtain the licence, paying close attention to legal aspects, tax aspects, and available business infrastructure and personal resources."

"While AIFMD clearly seeks to pave the way for a single market for real estate collective investment vehicles, differences and imperfections in tax regimes form a barrier for real estate funds investing on a pan-European basis."

The PwC report highlights the variety of real estate investment vehicles available in Luxembourg. Real estate undertakings for collective investments (UCIs) are noted for their flexibility, including in terms of supervision.

They are also well known by international investors and arguably offer the highest levels of investor protection. However, UCIs require investors to use a depository bank, and managers need an alternative investment fund manager licence—it is also noted that a stricter regulatory regime may not be a positive point for all fund managers.

The second vehicle option, specialised investment funds (SIFs), were adopted into law in 2007 and intended to expand the scope of investors to encourage investment from "professional and sophisticated" investors, according to PwC. Also using well-known fund types, SIFs offer even more flexibility, and use a particular type of legal form that allows fund managers to exercise more influence.

Finally, the report highlights the SICAR, a risk capital investment company (or société d'investissement en capital à risque), which have no investment restrictions but only allow one investment, and which are only available for "opportunistic" real estate funds, and securitisation vehicles, which, although flexible, cannot be used for direct investment into real estate.

When pan-European regulations such as AIFMD come into play, being able to offer such a range of investment vehicles, and with sub-sections also available under these vehicle types, Luxembourg boasts more than its fair share of investment options.

Braun says: "AIFMD is about having a level playing field, and there shouldn't really be major differences between the different jurisdictions. Luxembourg is known for having a very pragmatic approach when implementing European directives."

"Luxembourg has a very developed toolbox of different vehicles, with different ways of structuring investments, depending on what the investment manager wants to achieve."

"We can't change regulation that comes from a European level, but we can change the way we accommodate fund managers in our jurisdiction, and having a variety of different vehicles available is a very powerful tool for Luxembourg."

The report also suggests an ongoing trend towards simplification in investment strategies, specifically in geographical focus.

At the end of both Q3 2015 and Q4 2014, 40 percent of respondents said their funds focused on a single country, an increase on the previous two years, which saw 27 percent (2012) and 35 percent (2013) opting for this strategy.

However, when selling internationally, the majority of funds, 54 percent, are sold in to two to five countries. About a quarter, 26 percent, focused on a single country, while 20 percent sold into six countries or more.

The ALFI report said: "The expectation is that cross-border marketing under the AIFMD will further expand the reach of Luxembourg real estate funds and it will be interesting to note these results over the coming years."

Braun concludes that Luxembourg is becoming more of a centre of attention for investors into alternatives, especially from offshore investors that are now unregulated. He says: "Investors are looking for regulation, so investment managers are setting up their funds in regulated centres. Luxembourg is clearly a European hub for that."

The jurisdiction is seeing increases in investment in alternatives, and, Braun says: "Unless there is a major economic change, I don't see why that trend would stop."

He adds: "People are likely to invest more in alternatives, rather than less—especially in real estate." **AST**

"While the increases in fund units were fairly modest, assets under management saw much more significant jumps, suggesting that these fund vehicles are not only attracting more investors, but larger investments, too"

Under the microscope

As asset managers strive to become more transparent, service providers might do well to ensure they're tailored to new social and eco-friendly demands

Through everything from regulatory clampdowns to public scrutiny, the financial industry is undeniably being held increasingly to account. Simultaneously, corporate social responsibility is making the transition from buzzword to reality, and it's about time that service providers sit up and start to take notice.

While different sectors of the industry view their responsibilities from different angles, it is becoming clear that although monetary gains are still at the centre of any institution, things are getting just a little more complicated than that.

Simon Howard, CEO of the UK Sustainable Investment and Finance Association (UKSIF), says: "The overarching element is the recognition that factors beyond the purely financial will drive the returns, the risks, and the long-term robustness of investments."

David Harris, head of environment, social and governance (ESG) at FTSE Russell, is responsible for the index provider's ESG products, including the FTSE4Good, which measures the performance of companies demonstrating strong ESG practices, benchmarking their performances and tracking progress in these areas.

According to Harris, there are two sides to measuring sustainability performance. The first relates to ESG and looking at a company's operations—how well governed and operationally efficient a company is, and how its direct activities affect the environment, its staff, local communities or suppliers.

The other side focuses on what a company manufactures, specifically relating to products and services produced, and how a company contributes towards the transition to a low carbon economy (LCE).

Although these factors are often confused, Harris stresses: "We define those areas very clearly and very separately."

FTSE Russell's ratings score companies on their ESG performance, and the businesses that reach above a certain threshold are included in the FTSE4Good indices. While a renewable energy manufacturer could produce 100 percent 'green' revenues, it may use unethical labour or have poor management of toxic pollutants in the manufacturing process. As a result, it would score poorly for ESG, despite its apparent low carbon contribution.

Equally, a mining company may not produce any 'green' revenues, but may score highly for ESG due to excellent governance, a strong relationship with its local community and careful environmental management around its mine site.

"It's really up to clients as to how they want to use the ESG and LCE data," says Harris. "We see some clients that are only interested in one aspect or the other, some that are interested in both and some looking for an overlap."

Whatever clients are looking to gain from the index, interest is building, and investing in responsible issuers is becoming a more common priority.

"When we launched FTSE4Good in 2001 it was a pretty niche area. Over 15 years we have seen more sophistication in client understanding."

"For a large proportion of our clients, this is now high on their agenda. They're interested in getting access to the data to develop a better understanding of the important issues."

However, for modern investors, responsibility goes further than the merit of the issuer. Broadridge's proxy voting solution focuses on corporate governance, facilitating the transparency that shareholders require to properly consider and fulfil their voting obligations.

Patricia Rosch, president of international investor communication solutions at Broadridge, says: "Historically, the focus of responsible investing was on ensuring that holdings didn't include companies that fell into certain categories such as arms companies, tobacco or alcohol producers, or companies with an obvious and direct environmental impact like mining or oil companies."

"Today, we are seeing proactive socially responsible investment; investors want to hold companies with strong economic performance and socially acceptable processes, too."

Paul Lee, head of corporate governance at Aberdeen Asset Management, takes a similar view. At Aberdeen, he says, the focus is on stewardship—acting as a responsible owner of the companies in which it invests on behalf of its clients.

Lee suggests that the very idea of responsible investing "can by some be understood narrowly, as being just a discussion on a handful of topics that are temporarily fashionable".

As long-term buy-and-hold investors, Aberdeen strives to think and act like the asset owner. Lee says: "Owners stay involved with companies, have active dialogue across a range of issues that go to long-term value, and seek to ensure there is a clear chain of accountability, which helps to encourage all parties to generate value."

More commonly, he says, end investors are looking for more clarity around what exactly their asset manager is doing, recognising "that it is a crucial way in which fund managers can protect and enhance value in their portfolios".

Also drawing attention to long-term investment goals, Harris suggests interest is coming primarily from asset owners—the pension funds and sovereign wealth funds, which consider it part of a long-term investment agenda.

"Institutional investors are becoming more interested in long-term investment trends and strategies. They see responsible investment as a very relevant part of that discussion. Some asset owners are concerned that the culture of investment management is about returns over very short periods of time rather than the decades over which their liabilities fall."

"ESG data is often considered to help with the marathon, but may be less useful for the sprint."

The perception is that a company addressing its ESG and climate change responsibilities is generally well managed, and therefore likely to deliver more consistent returns in the long run. On top of this, with the general public becoming increasingly ethically aware, failing to prove an active approach to ESG could have disastrous effects on a firm's reputation.

Harris says: "Some fund managers are actually starting to lose mandates because they can't demonstrate to asset owners that they're properly integrating environmental, social and governance considerations into the investment process."

While Howard partially attributes the increased scrutiny from asset owners to further-reaching regulatory restraints, he also notes that by handling these issues with ease, fund managers can get ahead of the competition.

He says: "Asset owners want to know more about their assets. This reflects some legal developments, which are making the burden on pension trustees clearer, but also the reputational risk the owners are exposed to if their managers are doing things and they don't know."

"Answering and anticipating these questions gives the best fund managers a chance to build a better relationship with clients and to differentiate themselves."

Equally, Lee highlights—and embraces—the challenge of handling such inquisitive clients, saying: "Many are asking more challenging questions about individual holdings. The accountability helps keep us on our toes."

According to Rosch, solutions such as Broadridge's ProxyDisclosure can help to address this accountability, by reporting which holdings are included in a fund and how the fund manager voted the proxy for each. While in some jurisdictions, such as the US, this is a regulatory requirement, even outside of any regulatory remit Broadridge has seen a demand for this service.

"Broadridge provides the tools to allow institutions not only to meet regulatory requirements, but also to demonstrate accountability to their underlying investors," says Rosch. "Our tools support the increasing demand for greater transparency."

"Institutions and pension funds take proxy voting very seriously. Voting gives them a voice to communicate with the issuer, to demonstrate support for management—or not—and that's increasing in importance as part of strong governance practices."

Another not-quite-regulatory catalyst that has led to improved data and transparency within fund management was, according to Harris, the emergence of the United Nations-backed principles for responsible investment (PRI). The principles surround the way investors integrate ESG factors into their processes, including issues around engagement and stewardship.

"A number of the large asset owners became members, and that then sent a signal to the asset managers that they needed to as well," says Harris.

And signing up to the principles is not where it ends. There is a requirement for signatories to annually explain their investment and stewardship approaches, which are then made public.

"That creates ongoing momentum, and it can help different institutions learn from one another. This is still a growing area covering complex and varying issues, and I think most asset owners and asset managers would admit that it's a learning process."

It's a significant change to investment culture, but the balance is shifting. According to Harris, seven of the 10 largest pension funds globally are now signed up to the PRI, making it "quite hard for the asset managers to resist".

Regulation and reputation aside, there is also the simple fact that investors may want to create positive change. On the other hand, there is the more concrete fact that investors are always looking for returns on their investments. "People want to make money and make a difference," says Howard, "which is possible with responsible investment funds."

He says: "The market share of retail responsible investment funds is at a high. In the institutional market an increasing number of fund managers and asset owners are recognising that considering ESG issues mitigates various risks and can highlight opportunities."

Howard also highlights the challenges that remain in what is still fairly unchartered territory. He says: "I think complexity is the big challenge. Responsible investment demands the assessment of issues such as stakeholder rights in various countries, difficult environmental issues such as nuclear power and genetically modified food, and questions on things like executive pay. None of these have easy answers and the approaches are still evolving."

"There are many issues and no certain solutions. But at present doing something with a sensible adviser or fund manager is better than doing nothing."

Lee also has concerns, suggesting that in some cases, the importance of perceived responsibility takes precedence over actually acting responsibly. He says: "There is a good deal of talk in this area, and much less genuine activity. I suspect that clients would find it hard to distinguish between those fund managers genuinely carrying out their role as good stewards of their investments, and those who only pay lip-service."

But challenge breeds innovation, and if interest in investor responsibility continues to grow, there will come a time that fund managers can no longer afford to ignore it. Those who are ready to cater to the new needs of clients will be the ones that prosper.

Broadridge's suite of proxy solutions is a step in this direction, bringing attention to transparency and improving governance.

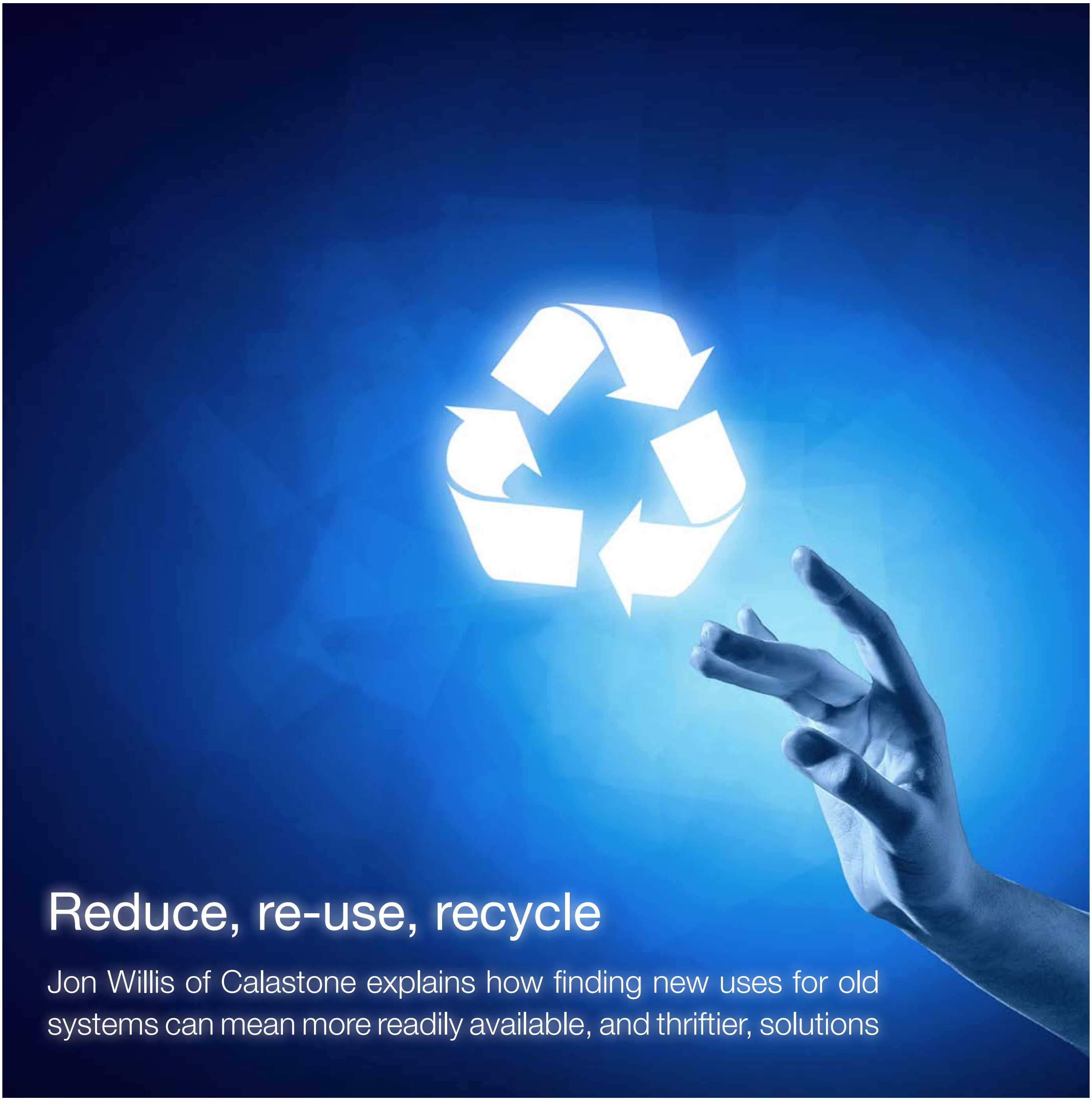
Rosch says: "We provide solutions to help investors quickly and efficiently vote and report their proxies, so they can focus their time and attention on reviewing and researching companies to build better portfolios."

Harris suggests that there has been an uptick in companies actively seeking to provide their ESG and carbon data, and taking steps to make sure that it's positive data—something that he believes could have a significant impact.

"Indices like FTSE4Good really turn the market on its head," he says. "We have very transparent ESG standards, and that creates a very visible threshold that it's possible to engage companies on. If a company isn't in that index, it encourages them to meet those standards in order to gain inclusion."

If interest in investor responsibility continues to grow, there will come a time that fund managers can no longer afford to ignore it

With interest from market participants showing no signs of slowing, the implication is that service providers will have to start thinking about how they can keep up with, and cash in on, a growing trend. Howard concludes: "The key thing is to recognise that the market for responsible investment is growing fast and will continue to grow. It will place new demands on everyone in the value chain … If providers can cater to that they will have an advantage." **AST**



Reduce, re-use, recycle

Jon Willis of Calastone explains how finding new uses for old systems can mean more readily available, and thriftier, solutions

How did the Calastone Transfer Service come about?

When our clients looked at what they actually needed from a transfer solution, they realised they didn't necessarily need, for example, the indemnities through the TISA Exchange that the contract club delivers, or the full re-registration disclosure message structure. All they really wanted was to get the assets moved electronically.

Typically, the two parties would have a conversation—the firm that was losing the client would make contact to ensure that's what they wanted, and once everyone was in agreement, they would manually send stock transfer forms to the fund managers, who would move the assets. It was obvious that there could be benefits to automating this process.

We looked at the products we already had and reused some of our existing messaging structures, as we knew clients were already equipped to receive in those formats.

We then created a very simple matching solution. It allows each of the nominees to allege a transfer against the other, and when it is accepted, a match transfer is automatically created.

Off the back of that we create a compliant ISO 20022 stock transfer message, which is sent to the fund manager via the transfer agent, and which looks the same, and does the same job, as the re-registration stock transfer message. Re-using the message-set in the back office allowed us to create a very simple transfer-matching engine that allows input from both parties at the front end.

The technology allows us to help the segment of the community who wanted to automate and reduce risk, and wanted to improve the timescale on delivery, but who were finding themselves up against an industry re-registration system that was overly complex for their needs.

We found we could re-use elements of the back office to get those clients involved with straight-through processing and automation, and all of the benefits that come with that.

The aim was to make the process simpler and more user-friendly, while using messaging that transfer agents and fund managers were familiar with already. It didn't need additional testing or new messaging fields, and it didn't need any development by the transfer agents or fund managers.

Is there a tendency to over-complicate this kind of service?

People often look for perfection in automation. If all of an organisation's processes are manual, and the plan is to automate them, it can be difficult to define every single thing that a team does, or wants to do. That can be a barrier, and it can make things take longer, and cost more, than they really have to.

Actually, if you introduce automated processes in bite-sized chunks it can be much easier for organisations to work with them. We offered to automate the back end, and to provide a nice, simple matching engine for the front end, which they can either populate automatically or manually.

It provides matching and quality checking at the point of entry, because other parties have to match to it in order for anything to be accepted—and then the back end is entirely automated. Distributors and brokers can use it immediately without any IT development at all.

What we expect to see is that as firms start to see the benefits, and when they have the time and the budget, they will start thinking about building a line of automation at the front end so they can automatically send messages in to match.

Sometimes, service providers can get carried away and start over-complicating and over-designing things.

The trick is to create a simple, immediately available and high-quality solution, which removes a pain-point from the industry and is easy to use.

Were the main drivers of the service to do with efficiency and cost cutting?

Both efficiency and regulatory challenges were considered, but there is another side to it as well.

The service should provide a level of operational efficiency, which will be beneficial to the practitioner. It will certainly reduce risks and create a better audit trail, which is always useful from a compliance point of view. But we also have to remember the end customer in all of this.

When someone is making a decision to switch between firms, or to make any kind of transaction, we want to be able to deliver a fast, quality service that moves assets in a portfolio without any hassle. If the process is elongated, that gives the customer time to worry about where their assets are and why they haven't moved yet. We live in an age of instant gratification, and if everything isn't done at the push of a button, customers start to worry.

There is no need to show the client all the workings of the engine sitting in the back office and underpinning everything that moves. All we have to do is to make that transfer quickly and effectively, so that the customers enjoy the level of comfort they expect. That will lead to a higher level of confidence in the industry, and a higher level of trust.

Obviously, the financial services industry has had a rocky road since 2008, and the more we can do to ensure a high-quality service, the more that consumer trust will build and evolve.

What kinds of operational challenges remain?

Our industry is challenged on a number of fronts—ensuring consumer confidence and delivering operational value are both important, and there are also the ongoing requirements to be compliant and to stay ahead of the game.

We have to think about how we can create solutions by re-using as much existing technology and knowhow as we can, in order to deliver benefits as quickly as possible. Our clients are engaging with this and are helping to drive it forward. With so many items on their agendas, if we can deliver something that creates value instantaneously, that's going to be popular. Projects are competing for IT resources, for time and for budgets, and the payback periods are getting shorter and shorter.

If there's a problem that needs solving, we see it as our responsibility to solve it in the fastest and most sensible way. If we see friction, we just look for the simplest way to remove it. **AST**

We have to think about how we can create solutions by re-using as much existing technology and knowhow as we can, in order to deliver benefits as quickly as possible

Jon Willis, Chief commercial officer, Calastone

Spring cleaning

Whether they're looking to utilities or bringing in managed services, banks desire quick fixes for data management and reconciliations

An ideal back office boasts a place for everything, and everything in its place. But regulatory scrutiny is akin to an unexpected visit from the in-laws, and institutions can quickly end up with laundry piles stuffed under the bed and dirty dishes hidden in the oven. Quick fixes lead to more hassle in the long run, and with cost-pressures mounting too, banks are starting to look for a cost-effective way to tidy-up, once and for all.

Bennett Egeth, president of investment management for reference data and risk solutions at Broadridge, points out that as financial institutions bring in multiple solutions intended to improve back-office processing, they can end up in an even bigger mess.

Banks that opt for multiple systems find themselves having to act as their own system integrators, he says, with multiple solutions spread across several different departments.

He says: "Large banks and asset managers often end up with duplicate systems, and no real sense of how much they're spending."

"Understanding the real cost of enterprise data management is very hard to do. If you measure the mechanics of the data cleansing and distribution process, at first glance it may not seem like a large dollar amount. In reality, once you add the people and technology costs of each disparate system, we're looking at potentially tens of millions of dollars."

Egeth adds, however, that even bigger costs can result from poor data. "With stock record breaks, trade fails and inaccurate regulatory reports, a significant portion of the operations expense within banks is a result of data issues. A small improvement in data quality can have a large impact across the enterprise."

"But, because the operational issues are so far downstream, they're not always attributed back to the source of the data issues."

Addressing this from a reconciliations perspective, Peter Webb, senior product manager at SmartStream, agrees that improving data quality could solve many of the back office's inefficiencies.

He says: "Throughout the trade lifecycle there is opportunity for trades to fail, and the reason they're failing is because of problems with the reference data or the trade capture in the first place."

"If banks can fix the issues with the data upfront, they're less likely to have those issues in the reconciliations process, which means they can achieve better straight-through processing (STP)—which is what everyone is trying to achieve."

Webb points out that, while the total number of trades made is increasing, the number of failed trades is too. Equally, although business is starting to pick up again after the financial crisis, revenues have yet to catch up.

"Banks are looking for ways to reduce costs and to become leaner in the back office. That can only be done through increased automation, increased STP and by having better data flowing through the systems, all of which will lead to faster settlement."

In the post-crisis regulatory environment, operations departments are facing increasing scrutiny, and utilities are starting to emerge as a method for relieving this pressure.

Back in 2014, the Depository Trust & Clearing Corporation (DTCC) came together with six banks to create Clarient Global, an entity data utility solution designed to reduce operational complexity and to address regulatory reporting requirements.

CEO of Clarient Global Matt Stauffer says: "Looking at the entire trade lifecycle, there was a clear need to create a utility model bringing multiple firms together, creating one solution that benefits a whole set of users."

"The idea is to reduce costs and risks for banks, broker dealers, asset managers and institutional clients in those areas where there is a high degree of redundancy affecting their operational activities."

He draws attention to the swathe of regulatory demands around legal entity data and know-your-client rules, and the need for better data transparency under the likes of the European Market Infrastructure Regulation and the Markets in Financial Instruments Directive II.

“Each of these events created more cost and more operations and compliance activity, not only within a bank but also among the banks’ clients,” he says.

Webb also notes an increased interest in the utility model. SmartStream’s Reference Data Utility for standardising data processing launched in October 2015, also in collaboration with three major banks.

Now, Webb says, the same principles can be applied to other operations, including reconciliations.

“Having a single source of reconciliations across an organisation comes back to economies of scale.

“Rather than having multiple products and teams distributed globally and conducting reconciliation processes, centralising can reduce costs significantly.”

Organisations are also starting to make their internal utilities accessible to third parties, which “effectively turns the reconciliations business into a revenue generator rather than a cost”, says Webb.

Stauffer also calls Clarient a resource for managing relationships on a single interface. Previously, all transaction relationships would run through the same processes and activities, and every time any section of regulation or in-house policy, changed, that change was made separately for every relationship and client affected.

He says: “That method is inefficient because of the time it takes to collect that information. And the quality of the data is affected because it has to go through multiple touch points. The benefit of a utility is that you can perform each process once, to the benefit of multiple users.”

“The service isn’t only for our founding members, but for the broader industry including buy side, sell-side and custodian clients. As usage and take-up continues to build, the community becomes very powerful,” adds Stauffer.

According to Egeth, however, the future is in managed services. This way, he says, banks can benefit from the improved efficiency in the back office, without making investments in-house.

“Regulatory changes have created a lot of work and required a large spend just to tread water and stay in business, and those rules aren’t going to end. The maintenance cost of systems is huge, and everyone is just patching up aging systems.”

While those running operations departments may have concerns about outsourcing that function, ultimately, Egeth says, the vast improvement of data quality and the amount of money banks could be saving typically win over time.

Egeth also suggests that mandating service providers eliminates an element of the data risk, offloading some of the responsibility on to that provider, who commits to certain service level agreements (SLAs). While there are rarely internal penalties, a service provider can be held accountable.

“Banks don’t tend to have those SLAs internally. There is no fine or penalty, and no indemnification against losses, so in that way a managed service can improve service and decrease risk.”

“There is a lot of noise around utilities, but often the theory is that a utility will grow. That model only works if the utility owner plans to sell it. That’s not in alignment with clients.”

“In the long-term, Broadridge can increase the decision-making tools that firms have, and reduce the error rate and the operational risk. Those benefits ripple through all levels of an organisation,” Egeth adds.

Stauffer remains firmly in the utilities camp, saying: “A managed service can help a firm to outsource or displace some costs, but it does not provide the broader benefit of reducing the number of bilateral interactions and eliminating the redundant processing that is occurring.”

He argues that the industry is on the move from document-driven processing to digitised, data-driven processing, and that throughout all reconciliations and settlement processing, every decision and every action comes down to data.

“We are building the capability to extract the relevant actionable data, validate it to ensure accuracy and reliability, and pass it on to the clients. That way, data exchange is happening with more STP as opposed to each firm having to manually re-key content from documents they receive.”

Of course, the drive for STP is partially down to regulation, however the consensus appears to be that, while mandated, it’s also just good business sense.

Stauffer says: “There is a regulatory component, but it goes well beyond that. A lot of these developments would have occurred anyway. What the regulation has done is accelerate them.”

Webb adds that there are several other non-regulatory benefits, in tangible financial savings such as reduced software and infrastructure costs, but also through improved services for clients.

He says: “Banks are able to increase match rates through better data, so they’re not having to deal with breaks, which leads to better STP and faster settlement. That can improve customer satisfaction. If an organisation has fewer problems with its trades, it is more likely to retain its existing relationships, and to generate additional business.”

He adds: “Settling more quickly also means reducing the risk of the organisation, and that means clients are happy, auditors are happy, and regulators are happy.”

But banks can always do more to address reconciliations errors and trade breaks. Egeth suggests that while institutions are becoming more aware of the potential costs, they’re “still more inclined to patch up old systems to meet regulatory requirements”.

“Some banks are smarter about this than others,” he says. “I don’t know if they’re aware of the need to trace the root cause of errors back to data issues.”

The common goals are clear: a more holistic back office, better STP rates and reduced numbers of broken trades. But whether the best route is utility models or managed services perhaps remains to be seen. Either way, the objectives seem to be well within the industry’s grasp.

“Back office costs are massive,” Webb concludes. “We have helped banks and financial institutions achieve a lot already, but there are still huge reductions to make, and we have the capabilities to do that.” **AST**

The perfect storm

Between new demands from asset managers and shifting dynamics in client relationships, transfer agents could stand to benefit from stormy weather

How are the transfer agency needs of asset managers changing? Are providers keeping up?

Chris Spencer: Broadly, yes. Transfer agency is increasingly about added value services, becoming less about transaction processing and registration management and focusing instead on areas such as distributor servicing, market knowledge and entry support, compliance understanding and interpretation, risk management, and mitigation.

Operational activities are centring more on anti-money laundering (AML) and know-your-client (KYC) models, as well as client finance and client money handling.

Asset managers are increasingly looking to transfer agents to assist them in managing down costs, rationalising fund ranges and providing greater insights from data to help develop propositions for their customer and distribution chains. Consequently, the relationship between the transfer agency provider and the asset manager is shifting from supplier-client to something more open, collaborative and strategic.

Thierry Zuppinger: There is an expectation now that providers offer much more in the way of services than the traditional investor transaction process and shareholder registry. This ranges from specific functions such as trailer fee management to a general need to have more timely and detailed information.

We see a lot of activity from transfer agency providers who are investing in systems and processes to offer more services, information and transparency to their clients.

Andy Chesterton: Against a backdrop of increasing product ranges and growing expectations of charge reduction, the more enlightened

The relationship between the transfer agency provider and the asset manager is shifting from supplier-client to something more open, collaborative and strategic

Chris Spencer, Managing director UK, IFDS

asset managers are expecting transfer agents to come out of the back office and contribute more.

Transfer agents have become a critical influencer in the end customer experience from the initial engagement of investors and distributors, through to growing relationships via the efficient delivery of key activities around trading, distributions and customer communications. Across the market, but most particularly in the retail space, it is now essential that transfer agents provide a modern, flexible service at a significantly lower transactional cost.

One of the ways for the more progressive transfer agents to achieve this is to invest in the adoption of digital technology to improve straight-through processing rates. Designed properly, today's modern digital solutions can provide the flexibility to process multiple data sources across multiple operational systems via a 'straight through' pipe. Such solutions can also provide self-servicing options for investors and distributors resulting in a real win-win administration delivery model with technology automating nearly all of the previously time consuming, and sometimes error prone, manual work.

Modern transfer agents that have adopted digital technology can provide slick, reliable services at the right price.

Etienne Carmon: Asset managers' transfer agency needs are driven by international regulations such as the Alternative Investment Fund Managers Directive (AIFMD), UCITS V, the Packaged Retail Investment and Insurance-based Investment Products (PRIIPs) regulation, the US Foreign Account Tax Compliance Act (FATCA) and the Automatic Exchange of Information (AEOI), and soon, the Markets in Financial Instruments Directive (MiFID) II, as well as local legislation such as the Luxembourg rules relating to money laundering. Asset managers ask transfer agents to perform much of the new due diligence duties and to stock the related information, which is relatively complex in terms of processes and systems.

Aside from regulation, change in the industry is also driven by technological advances via financial technology companies, which facilitate distribution by using web tools to help simplify the investment process for end-investors. Asset managers must implement their own costly 'fintech' solution or seek a joint venture with an existing fintech provider to ensure they do not lose out on distribution opportunities. In France, fintech companies have the same status as asset managers and sell investment products. Therefore, they are becoming a competitor in the asset management world as well.

To compete with fintechs' web tools, transfer agents must develop web solutions to help investors invest directly into funds, but current regulations are holding the transfer agency back in terms of new account openings, limiting their scope to investments only.

Are you seeing an increase in outsourcing, or more clients choosing to bring services in-house?

Chesterton: To date, we have not seen evidence of any significant lasting change in the long established preference of asset managers to outsource transfer agency on a third-party administrator (TPA) basis. However, there are certainly indications emerging of a change in outlook from asset managers looking for a fresh administration approach. A number of these are expressing a serious interest in bringing services in-house, considering the level of oversight asset managers need to wrap around the transfer agents as a potential driver.

Another key driver is the ability to reduce manual administration overhead through digitisation. To put this into context, Bravura has had more discussions about insourcing with asset managers in the last six months than we've seen in the last six years. We should also remember that several of the biggest UK financial institutions have very successfully self-administered over a long period of years.

Despite this, it seems clear that a sizeable majority of asset managers would still prefer a TPA to provide an efficient streamlined transfer agency service rather than bringing services in-house. As technology providers there is no reason we can see to recommend one approach over the other, as the degree of automation is available in either scenario on the software we supply.

Zuppinger: In general, with volatile markets and movements of capital, asset managers are assessing their cost base and where reductions can be made—particularly moving a fixed cost base to a variable model. In many cases anything that is not core to the business, particularly back office processing, is a candidate for outsourcing.

We have seen a trend of greater outsourcing to transfer agents, especially for functions that use or require investor transactions such as commission calculations. However, there is also an opposing desire for asset managers, particularly those with multiple transfer agency relationships and outsourced functions, to collect significantly more information from their service providers to better manage and monitor their business, and the performance of those service providers.

Carmon: We see a general trend. Smaller asset managers are increasingly keen to outsource ever more services to asset servicing companies, due to the rising complexity and speed of change with respect to the current regulatory environment. Some of the larger asset managers have the financial mass to absorb the development costs of adapting to new regulations, but for many, outsourcing various tasks and duties remains the most economically viable option.

In terms of the size of tasks outsourced, we often see requests for services for small local issues, such as Chinese investor signature validation, not just for larger projects. Finally, we have never once had a client re-insource any part of their business following a decision to outsource.

Spencer: It is still very much the trend for asset managers to outsource more rather than less, as they recognise the value this can bring to their business. There is very little evidence throughout Europe of any asset manager taking anything material back in house.

We are seeing that those organisations that already outsource are generally looking for fuller outsourcing models. Similarly, those on second-generation outsourcing deals are moving to an 'adopt, not adapt' standard transfer agency service model as they look to benefit from greater efficiency gains and best practises.

The primary drivers for outsourcing have shifted, however. In the past the largest driver for outsourcing has been straightforward cost reduction. Now, we are seeing a shift towards cost avoidance and risk reduction as a direct result of relentless regulatory change globally.

How has regulation affected transfer agency? Does this differ by jurisdiction?

Zuppinger: In recent years, coping with regulations has been widely perceived as the biggest challenge the transfer agency industry has to deal with. Developments in various regulatory regimes have posed challenges in terms of providing adequate oversight as well as the accuracy and reliability of record keeping with implications for technology, organisation and business model.

In particular, the importance of gathering, processing and storing data needed to meet KYC and AML requirements increases year on year. The advent of FATCA in its original form but also in the likely emergence of 'global FATCA' with country-specific unique features has further exacerbated the information garnering process around any new fund investor. Also, the more far-reaching Organisation for Economic Co-operation and Development Common Reporting Standard (CRS), under which 53 jurisdictions have agreed to exchange tax information from 2017 onwards, will require transfer agents to implement due diligence and on-boarding procedures in order to identify the tax residency of account holders, as well as to provide adequate reporting if required.

In terms of recordkeeping, AIFMD and recent UCITS regulations create an obligation for fiduciaries to ensure the safety of their client assets, which poses requirements with regard to the accuracy and reliability of the fund investor records kept with the transfer agents.

Last but not least, recent regulations, such as the Retail Distribution Review (RDR) in the UK, MiFID II in the EU or the upcoming Client Relationship Model 2 in Canada (which would introduce an RDR-like regime), require transfer agents to deal with considerably more complex trailer fees payment processing on behalf of asset managers, which takes into consideration, for example, the type of the fund, the type and domicile of the investor, whether the fund distribution is domestic or cross-border, and more.

Spencer: Transfer agents are affected by regulation in much the same way as other parts of the asset management industry. There is a fine balance between managing resources to satisfy regulatory change and focusing efforts on innovation to support the future development of our clients' businesses.

Interestingly, regulatory change also presents transfer agents with an opportunity. As complex regulations are being pushed onto asset managers, they have in turn looked at the third-party transfer agents to help them find a cost efficient, robust and preferably automated solution.

Transfer agents are ideally connected and positioned to take a leading role in assessing the business impact of regulatory changes. Examples including FATCA, CRS and the upcoming MiFID II have pushed asset managers and transfer agents to combine their in-house technical knowhow to help understand the regulation, how it filters down to respective jurisdictions and then how to enhance the transfer agency systems and processes to deliver the solution.

Further, on top of the impact of new regulation, governing bodies are putting pressure on asset managers to increase their oversight of transfer agency responsibilities, which can vary by jurisdiction.

Chesterton: The unprecedented degree—and pace—of regulatory change in the UK in recent years has put enormous pressure on asset managers and transfer agents. As major pieces of regulation such as RDR in the UK and European MiFID reforms aim to create a fairer, safer market for investors, this has created demand for increased transparency and a better service at a lower cost.

We have never once had a client re-insource any part of their business following a decision to outsource

Etienne Carmon, Group product manager for fund distribution, CACEIS

Investment in suitable technology can address and reverse the challenges that can often accompany regulatory change

Andy Chesterton, COO for transfer agency, Bravura Solutions

While regulation rightly aims to protect investors, it has increased the administrative burden, which has opened up an opportunity for increased automation alongside the provision of new access routes for the investor. Investment in suitable technology can address and reverse the challenges of increased risk and higher costs that can often accompany regulatory change.

Sometimes, regulation has unintended consequences. In the UK, there is a growing consensus that RDR has resulted in an advice gap for certain categories of investor and it is encouraging to see the Financial Conduct Authority (FCA) work with the sector to explore ways that technology can help plug this gap without increasing cost.

Carmon: Regulation has had a very heavy influence on the transfer agency business. Look over the list of UCITS IV and its European passport, AIFMD, FATCA and AEOI as well as the upcoming MiFID II, PRIIPs and UCITS V. Then there are the various local regulations such as the UK's RDR, the Netherlands's similar distribution laws, and many other national legislative initiatives including taxation.

This not only directly affects the transfer agents in terms of development costs, but also focuses resources on dealing with regulatory issues rather than developing new services to simplify the investment process and facilitate fund sales. With the speed of incoming regulations since 2008, and overlapping regulation such as FATCA and AEOI, systems and operations have been submerged in low-added value work. The regulatory tsunami and its impact on Europe's asset servicing industry may be one of the reasons for the EU authorities' delay in launching MiFID II, possibly allowing companies more time to digest previous regulations.

What kind of other regional challenges are transfer agents up against?

Spencer: Currently, large asset managers are looking for transfer agents to provide a single, global operating model rather than managing several relationships across jurisdictions. In theory this makes perfect sense, but at the next level of detail, trying to maintain common processes can be challenging.

Although the basics of transfer agency are the same everywhere, support for investors and distributors is dictated by local legislation and regulatory status in the country of distribution, and of the fund domicile. For example, in all jurisdictions throughout Europe asset managers are able to record incoming telephone deals. However, if you want to listen to the recording at a later time, local privacy laws come into force impacting who can listen to the recording, for what reason and when.

Data protection is also proving to be challenging. Data protection will continue to harmonise across Europe with the introduction of a single legal framework from 2018, and transfer agents need to be able to adapt to these changes. When looking at other regions, and emerging markets in particular, the complexity of adhering to data protection rules can be a huge cost burden. In Singapore, for example, your data 'box' needs to reside in the island nation for domestic funds.

Chesterton: Asset managers' aspirations are changing, and increasingly more open global markets bring opportunities to offer products across borders. Of course, such asset managers don't want to deal with separate transfer agents in each territory. Instead, asset managers need transfer agents to offer a service that can cope with multiple currencies and languages and cater for different regulatory structures across jurisdictions. In other words, transfer agents must be confident that their systems can offer the flexibility to process local and international business.

While it is perhaps only to be expected that well-established markets such as the UK struggle to shake off legacy manual processes, we need to bear in mind that newer markets don't have the same constraints.

The good news for all is that technology already exists to deliver this capability very effectively across legacy business as well as new. In the end, it is always up to the asset manager to choose the transfer agent with the best processes and systems to deliver the best investor experience.

Zuppinger: Some of the regulatory developments mentioned previously have had an impact across the value chain, affecting asset management, servicing and distribution at the same time. For instance, Norway, the Netherlands and Australia have completely banned trailer fee payments for fund distribution. This means that while asset managers may lose certain distribution channels, transfer agents will no longer be able to offer some of their services, such as trailer fees payments, in certain jurisdictions.

The loss of revenue might initiate a review of current transfer agency resources and capabilities, as well as an assessment and analysis of possible future core competencies generally, and on a country-by-country basis.

For instance, this might include the provision of enhanced oversight, reporting, risk management and data analytics services that will enhance the value that transfer agents can provide to asset managers.

Carmon: Tax environments are changing continuously in jurisdictions around the world and transfer agents must keep up to speed on local developments and modify processes accordingly. There is some scope for harmonisation in the foreseeable future in many regions, particularly Asia.

Transfer agents must be ready to deal with the two regional groups promoting fund passport initiatives, as well as China and Hong Kong's efforts to create a mutual fund recognition regime. As UCITS products may not be accepted at all in China, the transfer agents must be able to administer Hong Kong funds to be sold in China, and be capable of processing Chinese funds. This is a key challenge for transfer agents.

In Europe, the Private Placement Regime is disappearing and investment managers will have to rethink their distribution strategies with the support of their transfer agents. As pension products grow in importance, the ability of the transfer agent to meet their administrative needs becomes essential.

Finally, the major challenge for transfer agents is more global than regional. Fintech's impact on the distribution landscape will be a paradigm shift, and the transfer agents will have to develop innovative services to stay at the cutting edge of distribution.

The US Securities and Exchange Commission is considering updating transfer agency regulations. How would this affect the industry, and are other regulators likely to follow suit?

Carmon: The impact of the Securities and Exchange Commission (SEC) regulations would depend heavily on the scope. Would it also be applicable to transfer agents of US fund managers who sell funds in Europe? If so, the impact could be large, similar to that of FATCA.

The regulation seems to fall in to two categories, firstly, 'catch-up' on areas where the US has been more lax, such as the requirement to establish business continuity and disaster recovery plans, which has long been the case for EU transfer agents.

The second category is the 'me too' rules, which address current market issues such as the establishment of basic procedures regarding the use of information technology.

This includes methods of safeguarding personally identifiable information, already under discussion for some time in the EU, as well as cyber-crime and the acceptance of electronic copies of investor identification documents, as part of the KYC process.

Zuppinger: While we do not know what rules will be adopted as a result of this consultation phase, in some ways the update is merely bringing transfer agency more in line with the regulator's actions in other areas of the financial system. Updates on cyber-security and IT are to be expected and, we suspect, will in most cases already be exceeded by significant transfer agents. More stringent rules and requirements on registration, reporting and fraud prevention should all be welcomed as additional protection for the end investor, and also to give clarity on basic standards.

Spencer: With the SEC issuing their advance notice to the US market in mid-December 2015, it is still very early to tell how other regulators will act—if at all. What we do know is that the SEC regulations date back to 1977 and much of the proposed changes are aimed at making the rules relevant for the 21st century. The major focus is on transparency of contracts between the transfer agent and issuer, ensuring timely and complete exchange of data.

The other area the SEC is looking in to is the trend of omnibus account arrangements and the impact this has on recordkeeping services and the individual investor. With a similar trend in the UK of retail investors moving to fund platforms, it will be interesting to see how the US addresses this topic.

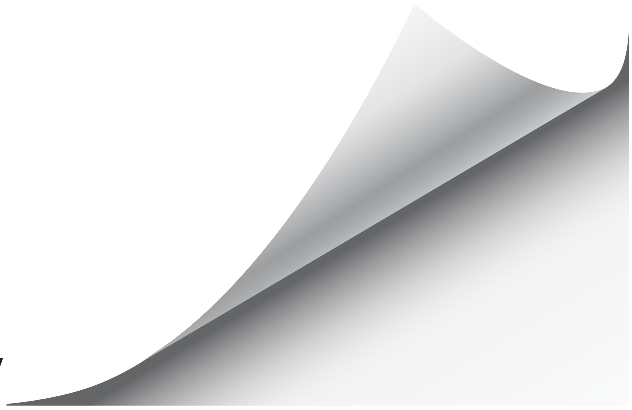
In many cases, EU and jurisdictional laws have already covered many of the gaps mentioned in the proposed rule changes, for example, anti-fraud provisions, establishment of business continuity and disaster recovery plans. However, once the SEC finalises its intentions I am sure we will find some differing interpretations that will need addressing, resulting in new angles or standards that others will be made to follow.

Chesterton: The majority of the proposed regulation appears to be intended to tighten up on the role of the transfer agent in providing a good and appropriate service to the investor. However, it seems that a number of the new rules, such as increased disclosure provisions, will result in a corresponding need to increase the amount of information held on technology systems. This will require further expenditure for many transfer agents, the cost of which will have to be covered in the overall value chain. That said, the changes will continue to improve protection for the end investor, which has to be seen as positive.

It remains to be seen whether other regulators will follow suit, but with many of the largest financial asset management operators being US based, this may be a moot point, as the technology requirements of these organisations tends to be driven by the US anyway. **AST**

Updates on cyber-security and IT are to be expected and will in most cases already be exceeded by significant transfer agents

Thierry Zuppinger, CEO, Quartal Financial Solutions



We've been here Basel IV

Basel III is still a work in progress, and Basel IV might be just around the corner

Basel III's overhaul of liquidity standards is still being felt on both sides of the securities financing transaction, with prime brokers and agent lenders having to adjust their business models to address the direct and indirect impacts of the sweeping regulation.

An Alternative Investment Management Association (AIMA) and S3 Partners joint survey found in January that the majority of responding hedge fund managers had revised their relationships with prime brokers in order to better tackle new regulatory challenges.

Basel III has already caused 75 percent of the survey's respondents to rethink how they do business with their prime brokers and more than 67 percent have had to cut the levels of cash kept on their prime brokers' balance sheets. The survey also found that most alternative asset managers either maintained or increased the number of prime brokers over the last two years—with four becoming the average.

It was also revealed that only 20 percent of managers have a clear understanding of how their prime brokers calculate their worth in terms of the revenue they provide relative to balance sheet impact. Fewer still have the data necessary to calculate this themselves.

On the other side of the transaction, Kristin Missil, head of financial analysis and reporting for global securities lending at Northern Trust, sees similar pressures on the mainstay between agent lenders and beneficial owners that is indemnification.

She says: "Regulatory capital and large exposures will most affect agent lenders directly. The current US capital rules are punitive for indemnified lending transactions. Indirectly, the business is affected by changes in demand due to a much broader set of regulations applicable to principals of the transactions, specifically, the borrowers."

The Basel Committee on Banking Supervision's regulatory work is far from done, with 2019 set as the completion date for implementation of the liquidity standards. Missil adds: "The year 2019 is not necessarily viewed as the only finish line. Our expectation is that the regulatory environment will continue to evolve and the banks will respond to the requirements as necessary."

"There are key aspects of regulations that are already effective and impacting agent lenders, such as regulatory capital, but other rules, like the treatment of securities lending transactions within large exposure, have not been finalised at the Basel level. Local regulators are still working to issue rules on the implementation of Basel standards within their jurisdiction that could have an effect on securities lending transactions."

"Even rules that have been finalised may be re-evaluated as appropriate, as evidenced by the recent Basel proposal on revisions to the standardised approach in December of last year."

The trilogy becomes a quadrilogy

Jonathan Berryman, senior vice president of risk strategy at FIS, warned in a recent whitepaper, Basel IV: Coming If You're Ready or Not, that the Basel regulators are far from done with their rulemaking. "The ink may barely be dry on Basel III, but the Basel Committee on Banking Supervision seems intent on making fundamental changes to standard risk weights across the majority of risk types."

"Analysed separately, each revision could be seen as an incremental shift, just the start of the journey towards a new Basel Accord. When viewed in combination, however, a bigger picture starts to emerge—building a clear and compelling case for the imminent coming of Basel IV."

There are as many as seven different pieces of rulemaking under consultation or due to be implemented in the next few years, across credit, market, operational and counterparty credit risk, as well as interest rate risk in the banking book and capital floors, that could be fairly described as the next coming of Basel.

Berryman comments: "Nearly every element of the risk-weighted asset (RWA) calculation is going to change in the next two to three years. The icing on the cake is the capital floors, which have the potential to fundamentally change the philosophy of RWA—particularly in the larger banks where the RWA calculation (since Basel II) has moved towards a risk-sensitive, internal management view of the risk, rather than a regulatory prescribed formulaic one-size-fits-all view."

Missil concludes: "Some key rules affecting securities lending transactions have not yet been finalised, such that the requirements for implementation are not yet defined. We continue to partner with our custody bank peers and other agent lenders in the Risk Management Association on this topic. The organisations are actively engaged with government agencies on regulatory developments to provide relevant context and input to inform final rulemaking."

"In addition to managing purely the compliance aspect of regulations, a real issue is how organisations adjust their business models in response to the changing regulatory landscape."

"The cumulative effects (including both the intended and unintended consequences) of the new rules are far from being understood." **AST**

‘Allo, ‘allo, ‘allo

There is still an element of mystery around client data, but Accuity’s screening service can unravel secrets and get to the bottom of client risk, says Adrien Lolly

How does Accuity’s data service help clients with their KYC obligations?

Know-your-client (KYC) compliance has several steps to it, beginning with the onboarding of new customers. Whether these are corporates, financial institutions, funds, distributors, or individuals, financial institutions have to monitor their counterparties and maintain regular checks on them. Accuity provides both the technology and the data to help comply with some of the numerous KYC obligations.

From a data standpoint, Accuity sources and provides a comprehensive coverage of all the major sanctions lists worldwide, which we enhance to cater for the gaps present in the sanction lists. For example, our team of editors researches all government members of a sanctioned regime in case a sanction list issues a sanction against a government without specifically listing its members. Accuity also provides significant coverage of politically exposed persons (PEPs), or those customers that could present a risk to financial institutions because of the sphere they, or their associates or family members, operate in, for example those in the government or in senior public positions.

We identify links between these people, their associates and their family members, and build a database to help our clients understand more about the risk profile of their own clients. On top of this, Accuity provides coverage of negative news and law enforcement lists such as the FBI, which can further help our clients with their risk-based approach. Accuity also provides the technology that helps our clients efficiently screen their counterparties on an ongoing basis. In 2014, we acquired Fircosoft, and we’re proud to be given the opportunity to help nine of the top 10 tier-one banks with their screening requirements, a similar platform that can be leveraged by asset management firms.

Finally, through our BankersAlmanac product line, Accuity can help due diligence teams to efficiently and effectively onboard new counterparties, and manage their existing relationships by uniquely providing the documents deemed necessary as best practice by leading authorities such as certificates of incorporations.

Is this kind of screening thorough enough?

Screening is part of the answer. We help our clients with some elements of KYC such as sanction, PEP and enhanced due diligence screening. In order to fight against financial crime, asset managers will need to put in place solutions combining KYC, anti-money laundering (AML) laws, tax, and anti-bribery and corruption tools. For example, this can ease the collection of AML questionnaires from fund distributors or other intermediaries for fund managers or transfer agents.

One of the biggest challenges now will be to try to remove the opaque veil that still exists between our clients' clients and the assets that they manage. Accuity is committed to delivering more visibility on ultimate beneficial ownership information, which will help our clients' further fight against financial crime.

Accuity has been around for a long time—how has financial crime compliance changed?

Over the years we have seen a need for further compliance because of increasing regulation, and this is showing no signs of slowing.

KYC obligations have been evolving both in width and depth. Not only do financial institutions have to collect more documents and information, but the regulators also now expect compliance officers to provide full audit and traceability, showing all evidence supporting onboarding and risk evaluation decisions. Large fund managers have seen their compliance costs increase dramatically, both because of more stringent procedures and the larger teams required to collect and analyse information.

Compliance solution providers have recognised this; we have been evolving our solutions by trying provide more information, such as up-to-date AML questionnaires, better integrated software with data in a single solution, and more advanced workflow capabilities, in order to streamline processes and reduce costs.

Is the data collection still mainly a manual task?

Whether we consider the collection of sanction, PEP or adverse media and enforcement data, or due diligence documents via the BankersAlmanac, our approach to data collection comes from the combination of both automated systems and manual processes.

Accuity has invested significantly over the years to automate its data collection processes and ensure efficiencies were gained where possible. However, automation cannot be solely relied upon if we want to offer our clients peace of mind that they are getting the most comprehensive, relevant and reliable data quality in a timely manner. This is why we also employ a large team of data editors who are subject matter experts strategically distributed around the world. Between them, they have fluency in all major languages to perform specific tasks, which cannot be automated. Blending the technology and subject matter expertise ensures our database offers clients the protection they seek in our ever-changing landscape.

What else could the screening service be useful for?

Another subject that has been quite topical is the need for increased screening processes in trade finance, particularly around 'dual-use goods', or goods that could be used for both good and bad purposes. For example, a shipment of ball bearings could be on its way to a factory that manufactures bicycles, but it could also be intended for use in building nuclear weapons.

Regulators are starting to ask trade finance operations teams to identify the types of goods that could have a dual purpose like this and the destinations that may be high-risk for those products, so that they can flag up transactions showing high-risk products being shipped to high-risk locations.

When processing a trade finance transaction, banks now need to know not only what is being shipped but also what it is going to be used for. That is very difficult to track.

We have paired up with a trade finance software provider, China Systems, to connect our screening engine to its compliance checks for trade finance operations. We have incorporated the data for the goods and destinations that present a risk, and have created algorithms around that, so we can now help market participants to understand what situations could be high-risk, and we can flag up those situations, if they do arise.

There is currently a lot of attention being paid to the risks in trade finance, and this particular issue of dual-use goods is now being addressed in regulation. Banks are not equipped to identify those goods yet, which means, at the moment, it is a very manual and time-consuming process.

Regulations are only going to increase, and the costs and constraints of compliance are only going to become more burdensome.

Accuity provides a single screening and filtering engine, and there are many applications that it can be combined with to service the industry. It's a very versatile piece of technology, which can be configured to our clients' policies regarding trade with many applications—we are not limiting ourselves to anything. **AST**

"Regulations are only going to increase, and the costs and constraints of compliance are only going to become more burdensome"

Adrien Lolly, Senior director of business solutions, Accuity

Streamlining MiFID II

MiFID II means new complexities, and fund businesses are looking for ways to de-tangle their data streams, says Fundsquare's Paolo Brignardello

The fund industry's inefficient data transaction practices are being exposed to a greater extent by the Markets in Financial Instruments Directive (MiFID) II. This new EU regulation requires players to collect and share substantially more data than under current MiFID I rules. Communication and collection systems based on point-to-point connections, using non-standardised data, risk being more difficult to manage and prone to error.

MiFID II is substantially more comprehensive than its predecessor. MiFID I sought to nudge the financial sector towards greater competition, higher investor protection standards, and a more open EU single market. MiFID II, on the other hand, is conceived as a major response to the consequences of the financial crisis, and has ambitious aims to increase resilience and investor protection.

Fund sector impact

The whole financial sector is affected, with the fund businesses impacted heavily. Changes are needed in transaction reporting, investor protection, governance, and pre- and post-trade transparency. The bottom line is that more data has to be collected, exchanged more frequently, refreshed regularly, and communicated efficiently to clients and counterparties. This will put more strain on IT systems, adding further to complexity. New requirements will include:

- **Investment strategy disclosure:** clients will receive more information on financial instruments, such as functioning and likely performance in different market conditions, investment strategies used in each fund, and appropriate risk warnings. Part of this will be reporting on all instruments traded on organised trading facilities, regulated markets and multilateral trading facilities. The number of reporting fields will be increased from 23 to 81.
- **Investment advice:** products deemed to be complex must be sold with professional financial advice, including non-UCITS funds and certain structured UCITS. MiFID firms that provide investment advice will be obliged to make suitability checks on the investor's risk profile and experience in the relevant investment field.
- **Organisational matters:** the MiFID I rules on outsourcing of certain functions will be tighter and reporting requirements increased.
- **Cost disclosure:** information on explicit and embedded costs and fees must be communicated to both professional and retail clients. This disclosure includes several facets, such as: investment and other services, including the cost of advice; the way costs will be charged; and third-party payments and rebates. Also, when the cumulative effect of costs on return is described, it must be aggregated to show the overall cost to the client.
- **Client statements:** the detail and frequency of communication by asset managers to clients will increase. Statements will be at least quarterly, rather than every six months as at present. They will include data on valuations, a review of activities, performance, any depreciation in the portfolio in excess of 10 percent, and changes on the ownership of assets.
- **Complaints procedures:** rules about complaints will be extended, with the need to publish details of policy and reports.
- **Remuneration:** portfolio managers will be forbidden from accepting fees from many third parties relating to services provided to clients.
- **Competence:** the necessary knowledge and competence of portfolio managers must be ensured and demonstrated to the authorities.

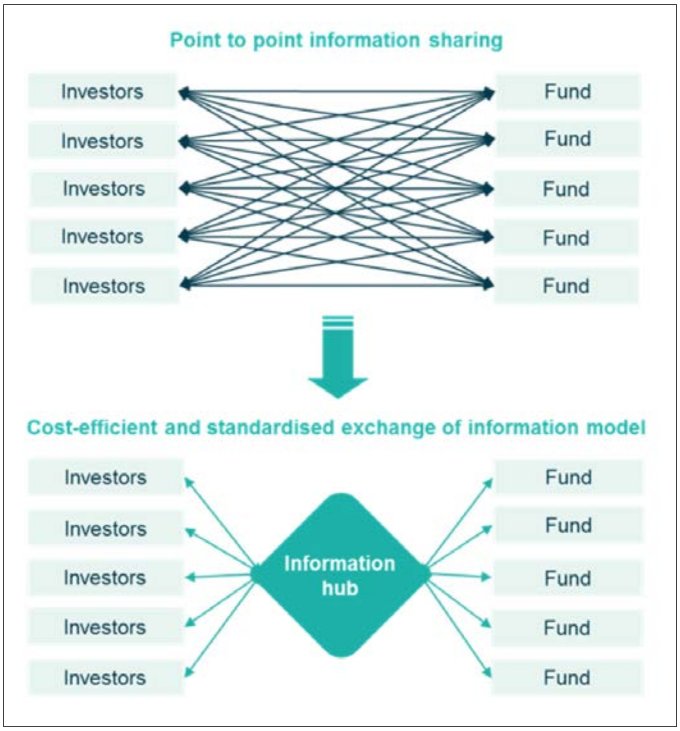
It is clear from this non-exhaustive list that a lot of new data needs sharing within fund companies, and with partners. Luxembourg's cross-border fund industry has grown from nothing to being the world leader in a little over three decades, and information-sharing links have evolved rapidly under the pressure of tight deadlines. The result is that a visual representation of fund firms' information flow relationships would resemble a plate of spaghetti. Non-standardised data and communication systems are widespread. This complication almost invites human error.

Having digested the implications of MiFID II, fund businesses are now seeking efficient ways to cut through the complexity, control costs and limit errors. The confused picture of point-to-point, bilateral communication systems could be replaced by more efficient 'hub and spoke' models.

When possible, it makes more sense to list and share data via a central portal managed for mutual benefit. Much of the infrastructure for achieving this exists already and is reliable, it is just in need of new procedures. Several players are already working on this challenge, but more needs to be done to grow a comprehensive solution. A consortium of industry players could drive this forward to win efficiency and build standardised approaches.

The delay to implementation of MiFID II, confirmed by the European Commission on 10 February, creates an opportunity. A later start date of 3 January 2018 gives financial sector players more time to update IT and train staff. It also allows space to create strategic, simplified, standardised approaches featuring data hubs.

Work is ongoing, with the pioneers starting to set standards as they collaborate to build systems. **AST**



Industry **Recruitment**

Prime Brokerage Product Control

Recruiter: Bruin
Location: London

One of the world's leading investment banks is seeking a product controller to join its prime brokerage team in London. The successful candidate will sit in the swaps, delta one and ESF team, covering a broad variety of tasks across the team.

Change Manager, TA

Recruiter: HornbyChapman Ltd
Location: London

Our client, a major global custodian, is looking for a highly experienced change manager to work within their UK TA business. Responsibilities include overseeing large and complex change that impacts the UK transfer agency business. The ideal candidate should have a detailed knowledge of transfer agency procedures and processes as well as technical and operational experience of change management.

Collateral Client Services Associate

Recruiter: CloudMargin
Location: London

This collateral client services associate will take day-to-day ownership of the relationship with our rapidly growing client base. You will liaise with both new and existing clients, as well as having the responsibility for ensuring complete client satisfaction in line with CloudMargin's mission.

Director, Regional Product Head

Recruiter: HornbyChapman
Location: London

The purpose of this role is to refine, evolve, lead and grow the custody and fund services products and services provided to clients across the region.

Industry Events

10th Clearing, Settlement & Custody Asia Forum

Date: 8-11 March 2016

Location: Singapore

Asia's leading and longest running post-trade event, the 10th Clearing, Settlement & Custody Asia provides a platform for middle and back office executives.

Middle East Securities Forum 2016

Date: 15-16 March 2016

Location: Hilton Doha

This is the definitive Middle Eastern event for the capital markets with an unrivalled programme featuring leading regulators, custodians, asset managers, influential investment consultants and a superb line-up of industry experts.

For more events visit assetservicingtimes.com/events/events.php

Comings and goings at ESMA, BBH and more

HM Treasury has appointed **Andrew Bailey** as the new CEO of the UK Financial Conduct Authority (FCA).

Bailey is currently deputy governor for prudential regulation at the Bank of England and CEO of the Prudential Regulation Authority (PRA). He will take up his new role once a suitable successor is found at the PRA, which is expected to be in July.

The FCA has appointed the Bank of England's **Andrew Bailey** as CEO, for a five-year term

Serving a five-year term, Bailey will replace Tracey McDermott, who has been interim CEO since Martin Wheatley stepped down from the role in September 2015.

John Griffith-Jones, chair of the FCA said: "[Andrew Bailey] brings unrivalled regulatory experience, a proven track record and an excellent reputation in the UK and internationally. Having been an FCA board member since 2013 he has been fully engaged with all the regulatory issues that we have faced in recent years and in setting our strategy for the future."

He added: "I would also like to thank Tracey McDermott for the excellent job she has been doing as the acting CEO and for agreeing to remain in post until Andrew starts."

Lombard Risk Management has hired **Tina Wilkinson** as global head of product.

The appointment is intended to improve the firm's capabilities in product leadership, solutions development and service delivery, on a global scale.

In her new role as global head of product at Lombard Risk, **Tina Wilkinson** will be based in London

Wilkinson joins from FIS, previously SunGard, where she was director of major accounts. She has also worked in global operations and development roles at CitiGroup, Allianz and BNP Paribas.

In her new role, Wilkinson will work on developing and managing the solutions portfolio to help the firm anticipate and meet adapting market needs. She will report to CEO Alastair Brown.

Brown said: "We are delighted Tina Wilkinson has joined Lombard Risk in this new critical role."

"With a wealth of industry experience, leadership excellence and a proven track record of delivery, [she] will strengthen Lombard Risk's capabilities in developing innovative and agile solutions that meet our clients' needs and give them competitive advantage."

First Names Group has hired **Jean Pierre Koolmees** as head of Asian operations.

The appointment is intended to improve the group's business presence in Asia. Koolmees will oversee First Names Group and its subsidiary fund business Moore Management in the Asia Pacific region. He will report to CEO of First Names Group, Cengiz Somay.

Somay said: "I am pleased that our collaborative, people-focused culture and strong global reputation enables us to attract top industry talent."

"Establishing and building a strong group presence in the key international financial centres of Hong Kong and Singapore has been an important element of our plans for long-term organic growth, so I am naturally delighted that we are now well on our way towards this."

Jean Pierre Koolmees will work on improving First Names Group's presence in Asia

Rob Gibbs has joined GFT as a principle consultant within its legal, regulatory and compliance team.

Gibbs joins from UBS, where he was a director within the wealth management division. Previously, he has worked at Deutsche Bank, and he also spent seven years as a captain in the British Army.

Tony Sodhi, head of the legal, regulatory and compliance practice at GFT, said: "We are delighted that Rob Gibbs has joined our team. He will play an integral role in helping to propose and deliver outstanding regulatory solutions on behalf of GFT for our clients, bringing with him a wealth of experience in risk and wealth management."

Brown Brothers Harriman (BBH) has hired **Eoin FitzGerald** as managing director and country head in Ireland.

FitzGerald joins from Morgan Stanley, where he was managing director and a senior member of the fund services global leadership team, including oversight of Irish operations.

In his new role, he will report to BBH partner and co-head of Europe, the Middle East and Africa, Jean-Marc Crepin.

Crepin said: "With assets in Irish domiciled funds growing over 50 percent in the past three years, Ireland is a cornerstone for asset managers with global distribution objectives."

"BBH is committed to supporting Ireland's growing role in this global industry and to sourcing the local senior talent and expertise that allows us to generate trusted, valued, differentiated partnerships with our clients."

Specialist management consultancy Parker Fitzgerald has hired PwC's **Jeremy Scott** to its executive board.

Previously head of global financial services at PwC, **Jeremy Scott** joins the board of Parker Fitzgerald

He joins as managing director and head of institutional relationships. Scott was previously head of global financial services at PwC, a position he held for 10 years. Scott was also a global board member at PwC. He held the position of chair of the operations and risk committee.

According to Parker Fitzgerald, the hire is part of the firm's wider expansion and reorganisation, which is seeing a broadening of its strategic consulting services in risk management, regulation and financial technology.

Scott said: "The financial services sector is going through a period of unprecedented change as a result of macroeconomic, regulatory and technological drivers re-shaping and challenging the long-term viability of existing business models. As a result, the need to understand and proactively manage risk has never been greater."

Scott Vincent, CEO of Parker Fitzgerald said: "Jeremy Scott is a highly respected leader in both the financial and professional services sector. His experience has covered every aspect of consulting and will be critical in helping us steer the firm through the next phase of its growth."

The European Securities and Markets Authority (ESMA) has appointed **Anneli Tuominen** as vice chair.

Tuominen is director-general of the Finnish Finanssivalvonta, the authority responsible for banking, insurance, and securities supervision.

She replaces Carlos Tavares in the vice chair position, and will begin her two-and-a-half-year term immediately.

Tuominen is a voting member of several supervisory boards, including for the European Banking Authority.

Anneli Tuominen begins her term as vice-chair of ESMA, taking over from Carlos Tavares

She has also chaired various committees, including ESMA's Financial Innovation Standing Committee.

ESMA chair Steven Maijoor said: "As one of our longest-serving members, Anneli Tuominen has demonstrated her commitment to supporting ESMA in the pursuit of its goals, through her active participation as a board member and her previous chairmanship of the Financial Innovation Standing Committee."

He added: "I would like to pay tribute to Carlos Tavares who, through his contribution as vice chair of ESMA … has made an enormous contribution to ESMA's success to date." **AST**

Have an appointment to announce? Let us know via: markdugdale@assetservicingtimes.com

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