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EU confirms one-year delay to MiFID II

The date for EU member states to integrate the second iteration of the Markets in Financial Instruments Directive (MiFID) into national legislation has been officially pushed back.

The delayed date to transpose has been set for 3 July 2017, with the actual application date for both MIFID II and the Markets in Financial Instruments Regulation (MiFIR) moved to 3 January 2018.

The decision to push back the dates has been agreed by the European Parliament and was approved by the EU's Permanent Representatives Committee, on behalf of the EU Council.

Both the directive and the regulation were originally set to come into force on 3 January 2017, with member states having to transpose the legislation into their own laws a year before that date.

The EU Council blamed the delay on the technical implementation challenges of establishing essential data infrastructures by 3 January 2017.

"The new framework requires trading venues ... to provide competent authorities with financial instrument reference data that describes in a uniform manner the characteristics of every financial instrument subject to the scope of MiFID II."

"In order to collect data in an efficient and harmonised manner, a new data collection infrastructure must be developed. This obliges the European Securities and Markets Authority (ESMA), in conjunction with competent national authorities, to establish a data system covering a wider range of financial instruments, given the extended scope of MiFID II."

ESMA first alerted the EU Council that a delay to MiFID II and MiFIR was "unavoidable" in October 2015 when it suggested "neither competent authorities nor market participants will be in a position to apply the new rules on 3 January 2017".

"This would lead to legal uncertainty and potential market disruption," ESMA explained.

MiFIR, when it eventually comes into force, aims to improve transparency of, and competition in, trading activities by limiting the use of waivers on disclosure requirements and by providing for non-discriminatory access to trading venues and central counterparties for all financial instruments. It will also require derivatives to be traded on organised venues.

The second iteration of MiFID will amend rules on the authorisation and organisational requirements for providers of investment services and on investor protection.

The directive also introduces a new type of trading venue, the organised trading facility. Standardised derivatives contracts are increasingly traded on these platforms, which are currently not regulated.

Fund order automation on the up

Automation rates for cross-border fund orders received by transfer agents in Ireland and Luxembourg are continuing to increase, according to a report from the European Fund and Asset Management Association (EFAMA) and SWIFT.

The survey found that automation rates for fund orders received by transfer agents reached 85.4 percent in Q4 2015, compared to 84.4 percent in Q3. This also marks a significant increase from the 82.6 percent automation rate recorded in Q4 2014.

The 29 transfer agents taking part in the survey saw their combined order volumes increase by 11 percent from 30.6 million orders in 2014 to 34.1 million in 2015.

Use of ISO messaging standards also increased from 49.4 percent in Q4 2014 to 51.2 percent in Q4 2015.

Automation rates were found to be slightly higher among Irish transfer agents. Of all orders processed in Ireland, 89.7 percent were automated, compared to 85.6 percent in Q4 2014.

In Luxembourg, this figure was 82.9 percent, a slight increase from the 81.3 percent of orders automated in Q4 2014.

However, the number of automated orders using ISO messaging standards was significantly higher in Luxembourg, increasing from 57.9 percent in Q4 2014 to 65 percent in Q4 2015.

In Ireland, there was a slight dip in orders using the ISO standards, from 29.5 percent in Q4 2014 to 26.9 percent in Q4 2015.

Peter De Proft, director general of EFAMA, said: "The continuous progress towards ISO adoption and the impressive 15 percent drop in manual processing of funds orders confirms that the European investment funds industry continued to improve the efficiency of its back-office operations in 2015. This is tangible proof of the industry's commitment to reduce operational risks and to ensure ever-improving services for its clients."

Fabian Vandenreydt, global head of securities, Innotribe and the SWIFT Institute

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at SWIFT, noted that when the first EFAMA and SWIFT report on automation and standardisation of cross-border fund orders was published in 2009, the objective was to reach a "realistic, yet ambitious" automation rate of 80 percent.

He said: "Today, with more than 85 percent of cross-border funds orders automated, the ongoing progress of the transfer agent communities of Luxembourg and Ireland is a testament to the commitment of these markets to become more efficient for the benefit of their clients, and to alleviate the high costs and risks associated with manual processing."

He added: "With EFAMA's recommendation of a single ISO standard to be used in the funds industry, we are clearly moving in the right direction, and now is the opportunity to focus on the potential next buckets of automation, namely for transfers and account openings, where we see the biggest potential for standardisation."

LSEG and Deutsche Börse merger documents imminent

Shareholder documentation on the merger of the London Stock Exchange Group (LSEG) and Deutsche Börse is on track to be published in June, according to an update from the two institutions.

In a joint announcement, LSEG and Deutsche Börse said they are making progress on preparation of shareholder documents regarding the all-share merger of equals that was announced in March.

The documents will be subject to approval from the appropriate regulatory authorities in Germany and the UK, as well as from the board of LSEG and the management board of Deutsche Börse.

July is expected to see an LSEG shareholder meeting regarding the merger, and the end of the acceptance period for Deutsche Börse shareholders.

The announcement did not make any mention of the expected merger completion date.

The merger of the two institutions is set to be completed through establishing a new company that will acquire both LSEG and Deutsche Börse.

Under the terms of the deal, LSEG shareholders will own 45.6 percent of the new company, with Deutsche Börse shareholders owning the remaining 54.4 percent. The board of the new company will have equal representation from Deutsche Börse and LSEG, with Donald Brydon, current chair of LSEG, becoming chair of the new board.

The latest update comes after the Intercontinental Exchange confirmed earlier this month that it will not be placing a counter-bid to Deutsche Börse's merger offer. The exchange clarified, however, that it remains the right to reconsider in the event that the LSEG-Deutsche Börse talks eventually collapse.

Post-trade initiatives on the up in Asia

There is an increasing interest in post-trade risk mitigation and adoption of post-trade initiatives in Asia, although there is still room for improvement, according to a whitepaper from TriOptima.

The whitepaper, Post-Trade Risk Mitigation in Asia, pointed out that in a region as vast and diverse as Asia, there is no single regulatory regime or widely accepted criteria for best practice in over-the-counter (OTC) derivatives post-trade activities.

However, although countries have their own national regulatory regimes, they are also starting to move towards adhering to G20 principles and complying with global standards as set by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO).

The paper said: "Major markets such as Australia, Hong Kong, Japan and Singapore are leading the way in adopting post trade services to mitigate counterparty credit risk, reduce operational risk and control capital charges. In these countries, clearing, portfolio compression and portfolio reconciliation are widely employed and successful."

According to the paper, 15 percent of trades in the global OTC derivative market take place in Asia, with just over half of these occurring in Japan.

Of these 15 percent, almost 70 percent are now cleared through either the global clearinghouse LCH SwapClear or through national clearinghouses.

Portfolio reconciliation is also on the increase in Asia, a trend that the whitepaper attributed to pressure from counterparties in Europe and the US that are bound by their own regulatory reconciliation requirements.

The increase could also be in anticipation of new margin rules, expected to come in to effect in late 2016 or early 2017, as this margining will rely on portfolio reconciliation for accurate calculations.

Adoption of portfolio reconciliation has been particularly prevalent in China, India, South Korea, Malaysia, New Zealand, the Philippines and Taiwan, and regulatory authorities in Australia, Hong Kong and Singapore have already proposed new non-cleared margin rules in line with the BCBS and IOSCO framework.

In line with the G20's transparency goals around the OTC derivatives market, Asian regulators are starting to introduce mandatory data reporting, the report said.

TriOptima's repository reconciliation solution, developed to help firms identify and resolve any issues with inaccurate data, is now used by 20 institutions in Asia.

The report also suggested that the last few years have seen a rapid adoption of clearing rules and increased use of CCPs in Asia. In 2011, it said, there were only two CCPs in the region—the Japan Securities Clearing Corporation and the Singapore Exchange—while at the end of 2015 there were seven CCPs in operation.

However, it went on: "While clearing is an important risk mitigation tool, in some ways the proliferation of CCPs has resulted in increased fragmentation in the market."

The whitepaper concluded that in certain Asian regions, adoption of post-trade risk mitigation projects can be slow, as they are in competition for staff, budgets and IT resources within institutions.

There are opportunities for service providers in this space to advise regional players on the value of efficient risk management, and to help them easily implement services into their processes.

The report concluded: "There is room for improvement in the adoption of post-trade risk mitigation services like those offered by TriOptima in Asia."

"Local regulators continue to evolve their individual regulatory frameworks to conform to BCBS and IOSCO standards, which means that over time clearing, portfolio reconciliation, repository reconciliation and compression will become business as usual throughout the region," it explained.

"This represents an opportunity for service providers like TriOptima to educate and attract regional players to good risk management."

Investigators link cyber criminals to second bank attack in Asia

The cyber criminals who stole $81 million from the Central Bank of Bangladesh have been linked to a second attack in Asia.

Investigators at BAE Systems have discovered that a variation of the malware used to gain access to the central bank's system and issue instructions to transfer money to various accounts in the Philippines may have been deployed against an unnamed commercial bank in Vietnam.

The Bangladesh attack in February hinged on poor security at the central bank that allowed custom malware to infiltrate local SWIFT Alliance Access software running on its infrastructure.

The SWIFT network, core messaging services and software were not compromised at any point.

Further investigations revealed that the Bangladesh attack might not be an isolated case. BAE researchers Sergei Shevchenko and Adrian Nish wrote in a blog post on 13 May: "Our research into malware used on SWIFT-based systems running in banks has turned up multiple bespoke tools used by a set of attackers."

"What initially looked to be an isolated incident at one Asian bank turned out to be part of a wider campaign. This led to the identification of a commercial bank in Vietnam that also appears to have been targeted in a similar fashion using tailored malware, but based off a common code-base."

SWIFT moved quickly to reassure users of its messaging service, issuing a statement ahead of BAE's blog post on 13 May.

"First and foremost we would like to reassure you again that the SWIFT network, core messaging services and software have not been compromised," SWIFT said.

"We have however now learnt more about a second instance in which malware was used—again directed at banks' secondary controls, but which in this instance targets a PDF Reader used by the customer to check its statement messages."

SWIFT went on to explain: "In both instances, the attackers have exploited vulnerabilities in banks funds' transfer initiation environments, prior to messages being sent over SWIFT.

"The attackers have been able to bypass whatever primary risk controls the victims have in place, thereby being able to initiate the irrevocable funds transfer process."

"In a second step, they have found ways to tamper with the statements and confirmations that banks would sometimes use as secondary controls, thereby delaying the victims' ability to recognise the fraud," SWIFT added.

"The attackers clearly exhibit a deep and sophisticated knowledge of specific operational controls within the targeted banks—knowledge that may have been gained from malicious insiders or cyber attacks, or a combination of both."

SWIFT advised users to "urgently review controls in their payments environments, to all their messaging, payments and e-banking channels. This includes everything from employee checks to password protection to cyber defences."

"We recommend that customers consider third party assurance reviews and, where necessary, ask your correspondent banks and service bureaux to work with you on enhanced arrangements."

SWIFT also urged all users "to be forthcoming when these issues occur" so that authorities can act quickly to track down the culprits.

BNY Mellon and Prequin find 'real assets' increasingly attractive

Real estate, infrastructure and private equity managers anticipate strong growth in assets in the next five years, according to BNY Mellon.

Global macro-economic, social and environmental shifts are fuelling a need for investments in real assets, property and infrastructure worldwide, a report from the Bank and Prequin, entitled Building for the Future, revealed.

BNY Mellon and Preqin surveyed 340 private equity, real estate and infrastructure fund managers for the report.

Among its findings was the forecast that appetites for these assets will continue to grow, with 60 percent of infrastructure managers, 44 percent of real estate managers and 39 percent of private equity managers expecting their assets under management to increase by at least 50 percent in the next five years.

Alan Flanagan, global head of private equity and real estate fund services at BNY Mellon, commented: "Deep-rooted demographic and macro forces are driving an unprecedented need for investment in real assets such as communications networks, housing, hospitals and transport facilities."

He added: "These demands far outstrip the reach of government and public finances, and this creates huge opportunities for private capital to play a part in people's everyday lives."

The report also found that while institutional investors, most notably pension funds and family offices, currently have the biggest appetites for real investments, almost half of the private equity and real estate fund managers surveyed believe that retail investors will account for a higher level of capital inflows by 2020 than they do today.

Investment, they said, will come from affluent and high-net worth individuals in developing markets, the continued expansion of sovereign wealth funds and increasing numbers of defined contribution schemes.

"Investors are turning more and more to real assets to find yield, diversify their portfolios, and steer through volatile markets," Flanagan said. "The growth in real asset investments has been impressive and there is no sign of it slowing down."

He explained: "As a result, the marketplace has become increasingly competitive on deal sourcing, presenting challenges for managers to successfully deploy the capital [that] they have raised."

Euronext targets first acquisition

Euronext has placed a bid for a 20 percent stake in fellow central counterparty (CCP) EuroCCP, as part of its new strategic expansion plan.

Talks are currently underway, with the proposed stake valued at €14 million, including contributions to regulatory capital.

If the acquisition is successful, Euronext has pledged to launch a platform to allow trading participants within the eurozone a choice of clearing services for its equity markets.

In a statement on the bid, Euronext said it will open the preferred clearing model up to other CCPs "in due course".

The acquisition talks come as part of Euronext's strategic 'agility for growth' plan, which outlines a commitment to "disciplined and selected bolt-on acquisitions".

The expansion plan has been allocated up to €150 million in finance between now and 2019.

A successful deal will see Euronext join the likes of ABN AMRO Clearing Bank, Bats Europe, the Depository Trust & Clearing Corporation and Nasdaq, each of which own 20 percent of EuroCCP.

Stéphane Boujnah, chair and CEO of the managing board at Euronext, commented: "Our investment in EuroCCP and the implementation of a preferred CCP model will ensure the long-term delivery of clearing choice for our diverse range of equity clients."

"It further reduces the frictional costs of trading on our equity markets."

"This is a step forward in our commitment to offer optionality to all our clients in the eurozone and to power pan-European capital markets to finance the real economy."

Jan Bart de Boer, chair of the supervisory board of EuroCCP and chief commercial officer at ABN AMRO Clearing, added: "Sustaining competition in clearing has long been our goal at EuroCCP and we are delighted that Euronext joins us in this vision as a strategic investor and service partner."

He said: "We look forward to working closely with them on the roll-out of their preferred clearing model."

HSBC tackles swap clearing rules with new collateral service

HSBC has launched a new over-the-counter (OTC) clearing collateral service to support clients in meeting the requirements of the G20 swap clearing reforms.

Reforms coming into effect through regulations such as the European Market Infrastructure Regulation (EMIR) require buy-side firms to better manage and mobilise collateral.

EMIR mandates clearing of OTC derivatives through a central counterparty. Similar initiatives are underway in Asia.

The new capability from HSBC will provide an independent and automated collateral management service including calculation and verification of margins and interest, and automated margin payments.

Collateral movements will be processed on a straight-through basis using standard SWIFT links with custodians.

HSBC's client portal will provide underlying trade and collateral position information, as well as reporting services.

Craig Cowe, head of collateral management product and securities services at HSBC, commented: "Incoming regulations to centrally clear OTC derivatives mean that it's crucial for investment managers to know where their assets are and what they can be used for."

"We've put in place collateral processing hubs in Europe and Asia and have invested significantly in our capability to ensure our clients can keep pace with global regulatory change."

John Van Verre, HSBC global head of custody and treasury, added: "In the past, collateral management has been viewed by many institutional investors as a back office activity."

"These new regulatory requirements mean that the process is becoming more firmly integrated with the front office, which requires much more proactive management of positions than historically was the case."

Calastone builds on Australasia network to improve transaction flows

The fund transaction network Calastone has expanded to New Zealand in a bid to improve transaction flows across Australasia.

According to Calastone, the expansion was driven by demand from Australian clients for cross-border opportunities and by clients in New Zealand increasingly adopting automation. The network now allows for transactions between platforms, fund managers and counterparties in the two regions, and the first transactions have already been completed.

The Calastone technology offers improved interoperability, meaning asset managers and custodians do not have to standardise their own legacy technologies for straight-through processing.

It connects to existing systems to facilitate smoother processing and confirmation of

fund orders between sending and receiving parties. This means improved efficiency, allowing for higher volumes of transactions at a lower cost.

Sarah Hayward, Calastone's managing director for Australia, said: "New Zealand firms can now benefit from the efficiency of streamlined processing that we provide around the globe, where momentum, size and governance have out-dated manual processing."

She added: "The New Zealand funds management industry is an international-facing market in which transaction volumes are increasing significantly."

According to Tom Reiher, who is co-founder of fund administration business MMC, an increasing number of New Zealanders are starting to invest, and manual processes will become unsustainable.

"Calastone brings a scalable, manageable and controllable solution that relieves us from the intense information flow associated with the large volume of transactions we manage every year."

Broadridge boosts derivatives position with Dojima acquisition

Broadridge has added clearing for exchange-traded derivatives (ETDs) to its Global Post-Trade Management (GPTM) solution through the acquisition of technology firm Dojima.

Dojima, rebranded as Broadridge Derivatives Clearing, means GPTM can now facilitate central clearing for exchange-traded and OTC derivatives, providing connectivity to global clearinghouses and exchanges.

Auto-clearing facilities are designed to let trades flow quickly and easily between clearinghouses, clearing members and end clients, allowing for improved time-to-market. The solution is also designed to be flexible, addressing the complex and often changing requirements of derivatives reforms. Terms of the deal have not been disclosed.

This acquisition comes as a part of a general improvement of Broadridge's post-trade offering for banks and brokers.

In March, the firm announced a strategic alliance with The Technological Company, intended to improve Broadridge's post-trade offering for futures and options through margin calculation capabilities.

Tom Carey, president of global technology and international operations at Broadridge, said: "This strategic expansion of our futures and options offering is an important addition to our GPTM roadmap, enabling us to offer a broader, tightly-integrated global post-trade processing solution for investment banks and brokers."

The former CEO of Dojima, Nachi Muthu, has joined Broadridge in the position of head of derivatives trading and clearing solutions, global technology and operations.

Muthu said: "Broadridge has been a leader in helping companies transform the breadth and economics of their operational models through global, seamlessly integrated post-trade processing solutions."

"We are pleased to join the Broadridge team, leveraging our multi-tenant, multi-currency and multi-asset class technology to help firms meet rapidly-evolving market and regulatory changes in the exchange-traded derivatives marketplace."

Korea Exchange pairs with DTCC

The Depository Trust & Clearing Corporation (DTCC) has signed a memorandum of understanding with the Korea Exchange (KRX) to cooperate on a trade repository solution in South Korea.

KRX is the only securities and derivatives exchange operator in South Korea. The two institutions intend to build a long-term relationship, exploring the potential of direct links between the DTCC Global Trade Repository (GTR) and KRX.

A partnership could allow international firms to use GTR for cross-border transaction reporting to the South Korean regulator, improving transparency and cooperation across jurisdictions.

In this way, DTCC and KRX could help users to satisfy their regulatory reporting obligations through standardised and harmonised reporting fields.

Peter Tierney, head of GTR in Asia, commented: "With the introduction of trade reporting in the US, Europe and across many Asia jurisdictions, a significant portion of the world's over-the-counter (OTC) transactions have already been reported through the GTR platform. A large percentage of the cross-border data needed by Korean regulators has already been collected."

"Partnering with KRX will allow us to explore opportunities to bring operational efficiencies to firms that will be required to report Korean trades and deliver the highest quality data to the Korean regulators," Tierney explained.

Kiwon Kang, president and COO of the KRX derivatives market division, added: "KRX plans to support the new OTC trade reporting regime for Korean regulators for local reporting."

"By combining our effort to establish an effective trade repository with DTCC's abundant expertise and leading GTR solution, market participants will be able to report their OTC market transactions in a cost effective, streamlined manner."

GFT launches compliance tool

Consulting and software service provider GFT has launched its new Regulatory Change and Management Service, a tool for helping firms track regulatory changes in the industry.

The new service is intended to reduce the risk of non-compliance and to help reduce the costs associated with new regulation by providing tracking for the likes of the Markets in Financial Instruments Directive II, the European Market Infrastructure Regulation, the Dodd-Frank Act and Senior Managers Regime, and to help senior managers to handle regulatory change in a structure way.

It provides updates on changes drawn from various data sources, and a process tool that links business requirements and individual regulations, automatically generating requirements for each regulation and asset class.

Users will also have access to a visual dashboard, which will help to improve workflow.

State Street takes over Dealis

State Street is taking over Dealis Fund Operations, a joint venture of Allianz Global Investors and DekaBank, to provide investment services for €500 billion in assets.

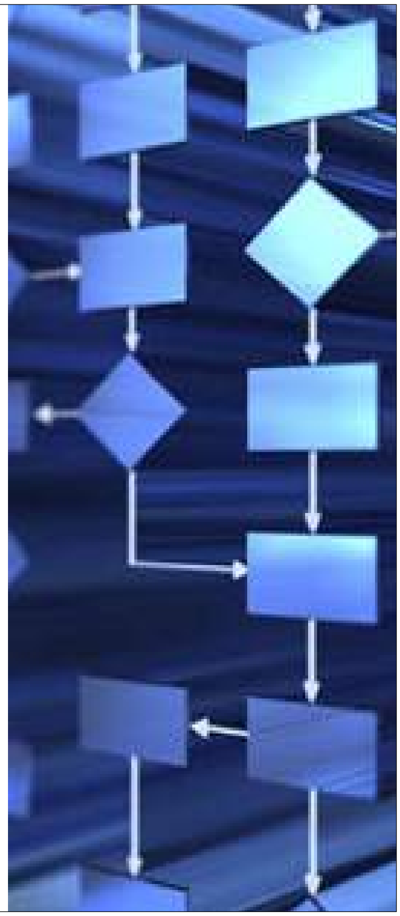
State Street will now provide fund accounting, fund administration, data management, reporting and tax support services for Allianz and DekaBank.

It will use the Dealis technology infrastructure and 350 Dealis staff members will join State Street's offices in Germany and Luxembourg.

Dealis was set up in a joint project in 2009, to provide investment services for Allianz and DekaBank.

Daniel Kapffer, COO of asset management at DekaBank and a member of the Dealis shareholders' committee, commented: "Through the involvement of a globally integrated and leading service provider for fund administration, we can successfully establish a strategic partnership offering added value, also with regard to our savings bank customers' demand for quality."

Jeff Conway, CEO of State Street for Europe, the Middle East and Africa, added: "This appointment builds on our position as a leading service provider for fund administration and reflects State Street's strong commitment to Germany as one of our key markets in Europe. With an expanded technology infrastructure, our clients will benefit from an enhanced product offering and end-to-end technology platform."



ICAP to rebrand for NEX generation

ICAP is set to change its name to NEX Group after the sell-off of its hybrid voice broking and information business.

The markets operator and service provider will rebrand once the deal to sell the business to Tullet Prebon is complete.

As part of the transaction agreement, the ICAP name will be transferred to Tullet Prebon in the sale.

ICAP will take on its new identity from the day after the proposed transaction is completed, expected to be before the end of 2016.

As NEX Group, the company will focus on electronic markets and post-trade business. It intends to position itself to be able to meet the changing requirements of customers, and to enter new market segments through innovation and product development.

It also intends to help clients manage demand from regulators for post-trade risk mitigation and electronic trading.

ICAP CEO Michael Spencer said: "The process to decide our new name has been a lot of fun and hugely important. It has been a true collaborative process and we assessed more than 300 names suggested to us by employees, friends, customers and members of the great general public, in addition to 600 other suggestions."

"I would like to thank everyone who took part in this process for their ideas, energy and creativity. NEX Group will be a fast moving, entrepreneurial pure electronic and post trade leader, well positioned for growth."

IPC Systems adds Otkritie Capital

IPC Systems, a communications service provider to the financial markets, has expanded its network with the addition of Russian brokerage firm Otkritie Capital.

Otkritie is the newest client to the IPC financial markets network.

The cloud-based platform will allow users to connect with Otkritie in order to trade in Russian equities and derivatives, and to receive global prime services.

According to IPC Systems, the financial markets network, which currently hosts more than 6,000 participants, provides services for the likes of Connexus Financial Extranet, Direct Connect and MPLS WAN data services, as well as trader and enhanced voice connectivity services.

Serge Alexandre, head of international prime services sales at Otkritie, said: "Otkritie plays a central role in the success of most institutional investors, fund managers and proprietary traders, particularly for firms interested in borrowing securities, getting margin trading facilities and having direct access to multiple asset classes and liquidity pools available on the Moscow Exchange, with a strong focus on RUB-related instruments."

He added: "We are thrilled to collaborate with IPC to offer global investors with state-of-the-art connectivity and communications solutions for financing trades and managing risk."

David Brown, senior vice president and managing director for the financial markets network at IPC, said: "It is our goal to provide institutional investors, corporate treasuries and fund managers with innovative solutions to source liquidity and execute compliant trades across asset classes."

"Connectivity has become a cornerstone for investors, especially for those taking short positions and seeking to amplify profits through leverage. We are delighted to welcome Otkritie Capital to our diverse and secure financial markets private cloud."

SocGen sees strong Q1 prime growth

Societe Generale's prime services registered an 11 percent increase in revenue in Q1 2016, the bank's latest quarterly results have revealed.

Revenue totalled €161 million during Q1 2016, up from €145 million in the same period in 2015.

Societe Generale said the positive result "reflects a healthy commercial momentum, notably in prime brokerage activities, with the winning of new mandates resulting from the revenue synergies achieved with the integration of Newedge".

At the same time, however, the bank's securities services revenue fell by 15.9 percent. Revenue peaked at €159 million in Q1 this year, down from €189 million in Q1 2015.

Societe Generale cited the "uncertain and declining market, leading [to] reduction in trading volumes and the asset base, as well as a negative interest rate environment" as the cause for the revenue dip.

The bank's total assets under administration fell by 6 percent to €574 billion over the same period, while total assets under custody saw modest growth during Q1, reaching €4.02 trillion.

Clarient Entity Hub expands in Lux

Schroders Investment Management in Luxembourg has adopted the Clarient Entity Hub utility-based service for simplifying client data and document management.

The solution is designed to reduce operational costs and risks involved the exchange of documents and data between hedge funds, corporations, broker-dealers and custodian banks.

According to Clarient, Schroders will use the solution to help with know-your-client (KYC) processes for intermediary and institutional investors.

With functionality to identify, collect and validate data required for meeting KYC requirements, the hub is intended to help firms establish and maintain client relationships, and the associated data and documentation, in one location.

"KYC has become more demanding over the past 10 years," said Noel Fessey, global head of fund services at Schroders.

"Legislators and regulators demand higher standards of defence against money laundering, terrorist financing and tax evasion. Investors also demand better protection against operational and conduct-of-business risks in intermediary fund distribution networks."

"The list of documents to be obtained from a prospective customer or counterparty is long, and ongoing review obligations means that they must be regularly checked and renewed if necessary. This is challenging for fund promoters, investors, intermediaries and counterparties, and repetitive for many of them."

The Clarient Entity Hub now has more than 100 investment managers, corporations, broker-dealers and banks on board, including The Depository Trust & Clearing Corporation (DTCC) and the Clarient founder banks, Barclays, BNY Mellon, Credit Suisse, Goldman Sachs, JPMorgan Chase and State Street.

Matthew Stauffer, CEO of Clarient Global, said: "We are pleased to see continued adoption of the Clarient Entity Hub service across all market segments, as more and more firms are considering utilities for their client entity data management processes."

"As an industry-owned and governed organisation, we will continue to enhance the service to meet clients' evolving data and documentation management needs," Stauffer added.

Whether the weather be fine

For once, the British public are talking about a different sort of 'whether', and financial services firms are trying to predict what the forecast may be if the UK remains in the EU, or if a 'Brexit' is on the way

The UK's referendum on EU membership is almost upon us, and the country has got itself in to something of a tizz. Just one of many industries likely to be affected by a British exit from the political and economic union, the financial services sector is arguably in line to be one of the hardest hit, with uncertainties surrounding everything from regulatory scope to the fate of Europeans employed in The City.

Ronald Gould, European chairman of governance, risk management and compliance solutions provider Compliance Science, and a former senior adviser to the UK Financial Services Authority (now the Financial Conduct Authority), argues that a so-called 'Brexit' would inevitably lead to "some negative fall-out" for the UK financial services sector, at least in the short to intermediate term. While acknowledging that the long-term effects are harder to call, he says: "For the first couple of years, I think an exit vote would work to the disadvantage of the UK financial sector."

There is no contention that a vote to exit would bring considerable change to the market. One major issue to arise is that of passporting rights. While UK-based service providers currently benefit from the right to conduct business in other member states, in the case of an exit from the EU, this would potentially cease to be the case, meaning firms would have to apply for a passport in order to continue their business with mainland providers and clients.

While Gould notes the convenience of being able to access the broader European community "without having to go through a lot of time-consuming and costly regulatory hoops, country-by-country", Nikolas Xenofontos, director of risk management at the online trading service provider easyMarkets, expands on this, suggesting that if they find themselves outside of the EU, UK firms may have to prove themselves to the EU authorities, often for the first time, in order to gain permission to continue trading on the continent.

Xenofontos says: "Firms wishing to operate in the EU would be required to conduct an 'equivalence' test to prove to Brussels that the UK's new rules are in line with the EU's structure."

According to Gould, while some would argue against the importance of passporting, they are fooling themselves. There is a major risk that other countries with significant financial centres could take advantage of the uncertainty brought by a UK exit, and that other financial centres may not necessarily make it easy for the UK to negotiate new agreements.

While acknowledging the business that the UK gets from the EU is "not such a large proportion of the total that it becomes debilitating", he goes on to warn: "You're taking a pretty optimistic view if you think the loss of easy access is going to leave firms in the UK unscathed."

Taking the opposite view, however, while speaking to financial services professionals at the SWIFT Business Forum event in London in April, John Redwood, the current Conservative Party member for Wokingham and chairman of the Conservative Parliamentary Economic Affairs Committee, suggested that after an exit from the EU, The City would actually look very much the same.

He said: “We have a set of perfectly good arrangements at the moment for dealing with our trade. I would suggest that we don’t change anything, and it would be up to [the European counterparties] to suggest what changes they wish to make.”

Arguing the other side of the debate at the SWIFT event, Vince Cable, former secretary of state for business innovation and skills within the previous coalition government cabinet, said: “The underlying principles of passporting, which are critical to the operation of financial institutions, have worked very well for the City.”

“I think the vast majority … are comfortable with the status quo.”

Similarly, Xenofontos notes that some 5,300 financial businesses in the UK operate across the EU, and that for these firms, it is the loss of the passporting facility that could prove to be the most costly.

He says: “This would necessitate creating European subsidiaries throughout the EU rather that operating additional branches. This could require significant restructuring, not to mention operational costs.”

Another oft-cited sticking point in the debate is that of regulation. Legislation from the EU falls into two categories: regulations that are applied throughout the EU with immediate legal effect, and directives that are developed by European authorities and passed on to local legislators to be transposed. The latter can be interpreted, to some extent, before new rules are enshrined into domestic law.

The Market Abuse Directive, for example, was produced and developed by EU regulators and transposed into law through the legislative process in the UK.

The Market Abuse Regulation, however, due to come in to effect in July 2016, will supersede the directive without the need for transposition into UK law. If the UK was to vote to leave the EU, then once that split is effective, the regulation might, in theory, cease to apply.

“This is where we will require some explanation from the authorities,” says Gould. “If an EU regulation is in place and we are already operating under it, local authorities are likely to continue operating under those same rules. But that’s just an assumption at the moment.”

Redwood dismisses concerns such as these, suggesting instead that the UK will be free to make its own rules and to take up a place on international bodies such as the World Trade Organization, playing a bigger part in creating the rules with which UK banks must comply.

He told SWIFT London delegates: “We will be on world standards bodies who often inform the very European directives and rules which end up on your desks for you to have to comply with.”

“So we will be leap-frogging the mezzanine level and we will be there at the top table.”

Gould expresses the opinion, however, that the EU’s regulatory regime may not have been all bad for business in the UK.

He says: “There are a lot of arguments that some of the regulations are over the top or too difficult to implement, and in individual cases that might be true. But in general, EU regulation has improved the climate for investors and for consumers, and it has given the public more comfort that some of the historic abuses in the industry are better under control. That has to be a good thing.”

Comment from the industry sees the same words repeating: uncertainty, unsure, hard to call, division, disruption. With no real clarity on what might happen for the financial services sector in the case of an exit, it’s a difficult eventuality to prepare for.

A lack of preparation, however, has been noted by the Leave Campaign as an undermining of its position, placing the industry again in the spotlight of the mainstream media.

According to Xenofontos, London’s financial sector is divided. He suggests that British exports of financial services accounted for £20.2 billion in 2014, equivalent to almost 1 percent of the country’s GDP.

An exit from the EU could complicate London’s relationship with the EU, he says, but it won’t necessarily derail the industry completely.

“Several large institutions, including HSBC and Goldman Sachs, have declared they would like to avoid Brexit.”

“However, as one of the world’s largest financial services centres, London’s competitive advantage is unlikely to be harmed in any significant way due to Brexit.”

Despite the strength of The City, Xenofontos goes on to note that several analysts have cited a two-year period between vote to leave and the UK effectively withdrawing from the EU, and that it is difficult to predict what will come about in that transition time.

He asks: “Will there be any transitional structures or provisions that would protect existing arrangements within the EU? What new regulatory, fiscal or trade measures will the UK adopt in the event that it leaves the EU? Likewise, how will the EU respond?”

Building on this, Gould suggests that, without knowing what to prepare for, the financial services industry has instead been acting on an assumption that Brexit simply won’t happen. This means “the amount of preparation has, until recently, been fairly modest”.

Gould says: “If we are going to deal with the challenges, it will require a huge amount of preparation and advanced planning, which, so far, we haven’t really seen evidence of.”

“Whether it’s an ‘in’ or an ‘out’ vote, institutions have a responsibility to consider how they would manage an exit.”

With those in favour of Brexit working on the assumption of more regulatory power and relying on the strength of The City as a standalone financial centre, and those opposed to an exit fretting about the various great unknowns, it appears the one thing that everyone can agree on is uncertainty. And, as Gould points out: “Uncertainty makes banks nervous.”

He says: “Uncertainty could make firms postpone anything they’re planning with the UK, and if institutions are stopping their business plans with UK firms, that will not be a good thing.”

At the SWIFT London conference, Cable expressed a similar view, calling a potential exit a “leap in the dark”.

Cable commented: “In a world which is currently massively uncertain, where there is a large amount of risk, why take the additional leap into the unknown, with all the potential dangers involved in that?” **AST**

READY TO RUMBLE

SUB-CUSTODIANS COME OUT FIGHTING

The landscape is changing for sub-custodians, with regulations shifting and clients becoming more and more demanding. Now that global players are showing more interest in individual markets, can the local guys work with them, or should they see them on their way?

Those providers that are able to cover the CEE region as one complex market are taking advantage of the economies of scale

Marek Začal, Custody relationship manager, CSOB

How has sub-custody evolved over the last few years? What are the main drivers of change in the industry?

Ryan Cuthbertson: Globally-focused regulatory change means that custodians are tackling a number of challenges including IT infrastructure overheads and margin compression. At the same time, it's more important than ever to explore new technologies such as distributed ledger, or blockchain, while also developing and investing in value-added services for clients.

From a client perspective, buying habits have also changed over the last few years, with more clients looking for a regional or global approach.

Finally, frontier and emerging markets continue to develop and become easier to access for foreign investors.

Marek Začal: Sub-custody business in the Central and Eastern European (CEE) region is continuously developing hand in hand with the rest of Europe. This is namely due to the fact that CEE is not a separate or 'autonomous' region. Of course, it plays its unique role in larger European system, but CEE today is often just perceived in geographical or historical perspective.

We need to realise that, like many things, the world of custody is becoming more and more globalised, and CEE is just one of many parts of the world. In this sense, one of the trends that can be seen today is a more regional coverage, which appears to be more and more in demand from global players.

Still, some key custody industry players prefer to stick to the best available agent in particular markets, even if such an agent does not cover the whole region. It is, nevertheless, obvious that those providers that are able to cover the CEE region as one complex market are taking advantage of the economies of scale and mean to be a part of the regional coverage concept as a long-term and continuing trend.

Rob Scott: Sub-custody has not changed to a great extent over the last few years, performing the same basic functions and services for their clients—with a few notable exceptions.

Firstly, there is a more active dialogue and review with clients surrounding the consumption and use of services at the sub-custodian level. Sub-custodians, like many other market participants, are not immune to cost and regulatory pressures, and have been more transparent and open with clients. As this dialogue has increased, more efficiency has been achieved and clients have gained a better understanding of both their consumption of service and the associated costs.

Secondly, we have seen the emergence and evolution of new products and services, such as trade repository reporting, collateral management outsourcing and integrated direct market access with custody models, all of which serve to help clients with the cost of market participation and the associated regulatory compliance challenges. There is a focus on these products being important in some areas, for example Target2-Securities (T2S). Core settlement may be removed from local participants in favour of more centralised servicing.

Due to their local proximity and thorough understanding of clients' needs, sub-custodians are able to be innovative and adapt to new business models, helping both clients and themselves to navigate through the market and regulatory challenges nimbly and effectively.

To what extent have regulations affected sub-custody, and how do they continue to do so?

Cuthbertson: The market has seen a huge shift in global regulatory change over the past few years, which will also continue into the future. Previously, regulatory change was viewed from a singular market- or country-specific view. However, regulations such as the Markets in Financial Instruments Directive (MiFID) II, UCITS, the Alternative Investment Fund Managers Directive (AIFMD), the Market Abuse Regulation and Directive (MAR and MAD), the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standards (CRS) are taking a global approach that demands cross-border collaboration. As a result, custodians are increasingly fostering a harmonised post-trade environment through consolidation and standardisation, aided by the engagement and support of regulators.

Differing regulatory agency structures—such as the separate regulatory entities in Hong Kong, the UK and the US as opposed to a single entity in Singapore—and infrastructure development, such as the advent of the new Central Securities Depository Regulation (CSDR), add to the complexity and requirements that sub-custodians and their clients need to understand and comply with.

HSBC welcomes the regulatory changes and frameworks and continues to act as an agent for change, providing proposals and solutions for clearing, settlement and custody.

Scott: Regulation has had a profound impact on all market participants. Regulation, outside of increased reporting requirements, has principally concentrated on asset safety and segregation of clients. Within many sub-custodians this has prompted debate

> ***There are many risks, including the speed of change that regulation is driving, and the costs associated with it***

Ryan Cuthbertson, Global head of direct custody and clearing products for securities services, HSBC

and discussion with clients regarding the use of omnibus versus segregated account structures.

It is usually the case that sub-custodians can and do segregate effectively in their systems, however in some cases there remain considerable challenges of full segregation at the local depository level. Sub-custodians continue to work with local infrastructure to solve this problem.

Secondly, due to regulation there has been a greater emphasis on clients to perform due diligence on their choice of local provider. This has led to increasing reviews of client set-up, account structures, reporting requirements and tax status, all of which have resulted in increased efficiency between the custodian and their clients as well as increased understanding of consumption of service.

Začal: There is no doubt that there is a significant impact of regulation that is imposed on the sub-custody business. We can mention some of them: CSDR, UCITS V, AIFMD, the European Market Infrastructure Regulation (EMIR), MiFID, T2S and others. These present challenges that are still ahead of us, although a lot of work has already been done.

Generally speaking, the European fragmented market is continuously subject to unifying pan-European regulation. This, however, is not appropriate for such a fragmented market and thus its implications are large and mostly negative in terms of cost.

What are the main risks in the market for 2016?

Scott: The main challenge for a sub-custodian is the quick adaptation of their business model. It is interesting to note, however, that people have been talking about the demise of sub-custody models for many years and yet, despite this, many continue to thrive and evolve their services and adapt to new norms. This may be due to their comprehensive knowledge of client needs coupled with local knowledge of infrastructure and regulation.

Začal There are always many challenges and opportunities in the market, and it will not be different in 2016. In spite of this positively resonating background, there are several challenges in the Czech market that are continuously on the table for the long term. For example, the absence of the full nominee concept in the Czech CSD—perhaps the mostly frequently debated topic between local providers and foreign investors; missing SWIFT connections between the CSD and local providers, which are well familiar with SWIFT communication to their clients; and the wide range of regulatory requirements enforced by local, EU and other regulatory bodies.

There is still a market debate on asset safety and appropriate usage of securities account types. We are awaiting the planned amendment to the Capital Market Act, which will be more harmonised with another regulation, the CSDR. The effectiveness of these amendments is currently planned for the end of 2016.

Also, the Czech capital market is facing the introduction of a central counterparty (CCP), which aims to start functioning at some point in 2018. And, last but not least, we expect the local CSD, CSD Prague (CDCP), to continue in its efforts to become a single information source for all corporate actions. Since CDCP is not currently an official source recognised by law, local agents still have to use several different official sources.

Cuthbertson: There are many risks, with one of the most significant being the speed of change that regulation is driving, and the costs associated with it. It's something no firm can afford to get wrong but it comes with a large cost to build and effectively measure.

Considering market specific risks, the ongoing slowdown and recent volatility in China has had an impact across Asia. Continued low commodities prices are affecting Australia, the Middle East and Latin America, leading to index decreases and lower assets under custody.

How do the challenges for emerging and frontier markets differ from those in the more established ones?

Začal: This particular question does not have a one-sided answer, and it also depends on the classification of emerging, established and frontier markets. While large and developed markets face mostly regulatory challenges while infrastructural challenges might not be that tough—bearing in mind that these markets already handled infrastructural projects such as CCPs—for the emerging markets, the regulatory and infrastructural challenges are equally important.

It is true that some small markets outside of the EU and with low volumes might not be affected that much by the need for strict regulatory and infrastructural changes.

On the other hand, the small markets within the EU must tackle both sides of the coin—infrastructure and regulation.

Cuthbertson: Emerging markets pose different risks to custody through the somewhat closed and highly regulated nature of some of the markets. The world's second largest economy, China, is still in the process of opening its capital account. Foreign exchange

market restrictions pose further limitations, as do the structure of the markets.

Saudi Arabia is a prime example of an evolving, opening market. It is introducing foreign ownership limit changes and relaxing the size and characteristics for foreign investors entering the market.

By overcoming many of these hurdles, the markets are encouraging greater liquidity, greater investment and a decreased risk perception. This is something that will continue to change through continued de-regulation.

Scott: Servicing clients in emerging and frontier markets is challenging on two fronts. Firstly, in establishing a business case to enter the market in the first place, creating enough critical mass in order to reduce the challenges of increasing cost and changing business models for both providers and customers. The days of 'build it and they will come' are over. There has to be either a strategic and compelling reason to enter a market, or a reason of attainment of critical mass and client demand.

Secondly, emerging and frontier markets infrastructure and regulation are likely to be materially different to more established markets. Having a thorough knowledge and understanding of local specificities is key, in order to navigate the market effectively and reliably on behalf of the client. Understanding in detail not only settlement and asset servicing requirements but also items of tax and local compliance is paramount.

This is why so many global custodians still employ and engage the sub-custodians in these markets until either there is enough of a business case to enter the market in a direct manner themselves or there is a strategic imperative to do so. It is sometimes simpler to use an established partner in these markets.

Can sub-custodians compete with the larger global custodians? Are there any advantages to being a smaller player?

Scott: I believe there are still very compelling reasons to use sub-custodians. They are the best placed to understand local clients' needs and requirements, regulations, and market nuances and specificities.

They are also best placed to represent the interests of clients locally with regulators and market infrastructures due to both proximity and local contact.

Sub-custodians are also usually more adept at servicing clients' changing needs as well as those of regulators. They are usually quicker at changing their underlying systems and reporting requirements due to various degrees of flexibility and a high level of customisation housed within their core technology platforms.

By retaining both flexibility and a real detailed understanding of the client and the market, the proposition of sub-custodians is a compelling one. I foresee a continuation of business growth despite wholesale changes in market initiatives such as T2S. There will always be the need to service clients locally, with detailed understanding and market representation, and to do so in a quick and effective manner, customised to the client's needs.

Cuthbertson: With the exception of state-mandated markets, there are only two markets in Asia and virtually none in the Middle East where truly domestic custodians remain prevalent. Global investors want a globally consistent experience as well as access to global liquidity and credit, so it is becoming more and more difficult for single market players to offer this.

Historically, the case can be made that a single market player may have had a better focus or more local insight, however the large global players have been well-established in their chosen markets for significant periods of time now, and this advantage has dissipated considerably.

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

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

It will be more and more important to consider whether such a role will become static, or whether these players will take a step further and become more diverse. In other words, local players might be thinking more globally, trying to concentrate on other markets, whereas global players might focus on each individual market more closely, becoming significant competition to established local sub-custodians. **AST**

There will always be the need to service clients locally, with detailed understanding and market representation, and to do so in a quick and effective manner

Rob Scott, Head of market services, Commerzbank Corporates & Markets

One data set to rule them all

Solvency II is still a challenge for asset managers, but once they round up all the right data, the exercise could be more valuable than originally suspected, according to Ashley Smith of Silverfinch

What challenges does Solvency II still pose for asset managers?

Asset managers each run their own specific strategies. Any insurers investing in an asset manager's funds will be subject to Solvency II reporting requirements, and so the asset manager has to find a way of packaging the data required.

This historically would have posed two problems. Firstly, the asset managers don't tend to want to reveal their investment strategies—they're worried that their trade secrets will get out. Secondly, they may not have necessarily understood who some of the insurers investing in their funds were. They could come through a fund-of-fund, a multi-manager fund, or through a management platform. Solvency II has prompted action on both fronts.

A major hurdle to the success of the whole process of Solvency II compliance has been that insurers and asset managers traditionally didn't talk a great deal to each other. Generally, I would say that there has been a good level of understanding of what data is needed, the

timelines involved and the formats, and some firms did formulate a plan early on, but others have been far more reactive and left it all to the last minute.

For the asset managers, this is a client regulation at a time that they have a lot of their own regulatory demands on their plates. Given that some of the insurers have been slow implementing their own programmes, it's understandable that a lot of asset managers waited for a demand before they took any action. It does mean, however, that the issue has been condensed in to quite a small time frame, which has yielded some positive differentiation for those managers who took action early.

There has been some very advanced thinking on both sides, but some very slow processes of execution as well, so we have seen a wide variety of responses.

How does the Silverfinch technology help?

Three years ago, we expected that the major fund administrators would work together in sharing this data. As it transpired, their clients were not necessarily ready for them to act at that point. As a result, Silverfinch has been positioned to sit in the space between the insurers and their asset managers, alongside the likes of the fund administrators.

Because many asset managers are playing catch-up now, they're putting pressure on the administrators to get things done very quickly. The Silverfinch product provides streamlining and standardisation for this, acting as a kind of conduit of information.

Insurers list their requirements with us, and they translate into requests to asset managers, as a single point of distribution connecting the asset managers and their insurer investors. It's a completely utility-based business model with a standardised approach to everything, so we have been able to automate a lot of it. We try to just take all of the noise away from a complex process of mass data exchange.

Some insurers have upwards of 200 asset managers, so to have an in-house programme going out to capture all the data needed for Solvency II compliance would be an enormous task. Equally, asset managers have insurers scattered around Europe, all asking for different things in different formats and different languages. We offer a standardised distribution approach to fit all those requirements in a single response, making it operationally efficient, streamlined and specific to the particular piece of regulation.

Can that be applied to other regulations?

Some clients are seeing the work being done on Solvency II and looking ahead to others that are still to come.

We are tracking about 15 regulations to see where they overlap and where the Solvency II data can be leveraged. For example, there are some domestic German regulations specifically for asset managers distributing their funds in Germany, which require almost exactly the same data set as Solvency II. There is no reason they couldn't reuse the same data. That way, if an asset manager has done the work on Solvency II, it can tick off another three or four regulations. It makes good business sense for our clients.

The Solvency II data has been painful to collate for many firms, but there is an awful lot of good information in there. We're just beginning to see the first glimpses of appreciation of the power that this data set has—there are some excellent potential uses for it, and that can only improve things across the industry.

The key to strategically aligning regulation is capturing the maximum amount of data now. It doesn't matter what it might be used for, but if it's collected and stored then it can be mined later. If you have 110 data points offered to you, grab the whole lot, I would suggest. Filter out what you need immediately, but store the rest as it may come in handy later on.

How can asset managers balance transparency with retaining commercial advantage?

Asset managers really don't want to share their data at all, which is understandable, but they know that if they want to retain their insurer clients, they have to do it. The challenge is protecting their investment strategy and their intellectual property at the same time.

The trick is to look at the challenge from the other way around; not just by addressing the data that the insurers need for their regulatory reporting, but also by creating a secure environment that the asset managers need in order to contribute that data in confidence.

The asset managers need a secure framework that is not broadcast and that is completely permission controlled by the asset managers themselves. That way they themselves control the granting of permission to either allow or deny access to investors that request data. This is the environment that Silverfinch has created. **AST**

The Solvency II data has been painful to collate for many firms, but there is an awful lot of good information in there

Ashley Smith, Senior vice president for business development, Silverfinch

Once upon a bitcoin

BNP Paribas recently gathered a handful of experts together to discuss what distributed ledger tech has in store for financial services

It may have been bitcoin that brought blockchain technology to mainstream attention, but increasingly, large institutions and start-ups alike are looking beyond digital currencies to other uses for distributed ledger technology. In some instances, they are straying from financial use cases altogether.

At a London breakfast event, Beyond Bitcoin, hosted by BNP Paribas, a panel discussed the various applications of the enigma that is blockchain.

Moderator Scott Riley, blockchain business lead at commodities technology company Kynetix, conceded that some elements of disbelief have to be suspended.

Riley went on to suggest that, actually, the concept of networks and distribution is not a particularly new one, and that the notion first appeared in theory papers as far back as 1962.

He said it is simply that "some components have come together and are being looked at in a slightly different way, which is what gives us a new look on that."

Disruptive forces

While it's a common assumption that institutions are approaching blockchain with caution, viewing it as a technology set to change the very fabric of their organisations, the panellists generally disputed this view.

Calogero Scibetta, head of operations and business development at Everledger, argued that his firm uses blockchain not to disintermediate players, but to improve the whole process. Everledger uses blockchain in the diamonds industry, creating a 'digital thumbprint' of individual diamonds in order to prevent counterfeit and fraud.

In this environment, Scibetta said, blockchain is "enabling the industry to do something that wasn't possible before".

"Instead of disrupting or carving out the middleman, we're actually empowering every player on the buyer chain, because fraud and counterfeit … hurts the buyer chain itself, and everyone pays a price for it," Scibetta added.

Despite the differences between the two sectors, a similar approach can be taken to blockchain in financial services.

Philippe Denis, chief digital officer at BNP Paribas Securities Services, drew attention to the bank's strategic partnership with the direct investment platform SmartAngels. The pairing is intended to allow private companies to issue securities on the SmartAngels private market, allowing them access to a secondary market using blockchain.

According to Denis, BNP Paribas and SmartAngels are identifying niche areas of the industry that, so far, have been relatively untouched by technology, such as unlisted stocks.

"There was an opportunity to bring value to these kinds of activities," he said.

"People then are going to use the blockchain not to disintermediate or to disrupt the market, but to use new types of technologies … to help the market to be more free and more efficient at the end of the day."

Sean Murphy, partner and blockchain practice lead at Norton Rose Fulbright, suggested that the law firm is being actively approached by clients looking for blockchain solutions in areas such as post-trade settlements and identity.

Murphy also highlighted his interest in the "concept of central banks potentially issuing their own digital currency", which he said could be "a pretty profound moment".

The consensus appears to be that, rather than disintermediating sections of financial services, blockchain should actually be viewed as a solution to previously un-solved issues.

Gavin Wood, founder of blockchain technology provider Ethcore, suggested that one such issue will be that of provenance and supply chain tracking, "mainly because it's already a latent problem".

He said: "It's not something there is a huge amount of regulation around; it's not something that there is a vast number of incumbents that have offerings that can protect their territory already."

On the other hand, while the technology is young, the industry should perhaps keep an open mind to the existing challenges blockchain could potentially address.

Scibetta said: “We’re still breaking out in a small market. The landscape of the technology will be changing dramatically in the next months or years. So from an implementation point of view it’s hard to commit on something today.”

The customer’s all right

For all the possibilities blockchain brings, the developments likely to take hold are those that bring value to financial service providers and those that improve the customer experience. Ideal solutions will do both.

Riley addressed three aspects of usability: the scalability of the technology; the latency of it and the fact that one bitcoin ‘block’ is only created approximately every ten minutes; and the potential effects on wider enterprise.

With regards to the issue of latency, Woods conceded that blockchain is a nascent technology, and that in use cases such in trading and matching engines that require a turnaround of milliseconds, blockchain, currently, won’t cut it.

However, while bitcoin blocks are slow in the making, the Ethcore product Ethereum, which Woods called a “second generation blockchain”, can create a block every 15 seconds.

Woods said: “As you move to more semi-centralised architectures where, maybe, everything is sitting in a single data centre because it’s actually a consortium change, I think we can reduce block times even further, probably into the sub-second.”

He added: “In terms of latency I think it’s early days, but I don’t think it’s a sizeable problem.”

Woods also accepted that scalability could be a potential issue, suggesting that ideally, transactions would be split and directed around the network, coming to a “magic consensus” where “everything works perfectly”.

In computer science, he said, such networks have been in use for several years. The challenge is “trying to apply those same principles with some degree of decentralised consensus”.

Finally, on the issue of creating enterprise-ready solutions, Woods suggested that as blockchain is a decentralised technology, there is no single point of failure or single point of control.

By definition, therefore, blockchain removes some of the worries that businesses face in the everyday.

He added that the aim is to “remove this notion of mining and get rid of all this stuff from the public chain … and actually boil it down to the bare essentials.”

While Riley pointed out that solutions should not come as a replacement to existing infrastructure, but in niche areas of the market where “needs aren’t currently catered for”, Murphy agreed that consumer applications should be at the forefront of companies’ plans.

In fact, Murphy suggested that in ten years’ time, “most consumers won’t even know they’re using distributed ledger technology”, and that this will be the real measure of success.

Regulation, regulation, regulation

For a technology in its infancy, there is some debate over how harshly blockchain should be regulated, and what such regulation could, or should, entail. However, Murphy suggested that some of the hesitation to adopt distributed ledger solutions comes from inside institutions, not from regulatory barriers.

Currently, the majority of firms are in a ‘proof-of-concept’ phase, as innovation teams explore and experiment with the possibilities. “Before you can move from proof-of-concept to deployment phase, particularly if it’s a financial institution, you have to get, at that point, approval from your legal team, your regulatory team, your compliance team,” said Murphy.

“They, understandably, will want to really understand what the implications of the use case, or implications of the technology, are and satisfy themselves about the legal, regulatory and compliance issues.”

Murphy went on to suggest that, in fact, regulators such as the Financial Conduct Authority in the UK are waiting for companies to present potential applications of blockchain before they consider what their response may be, a “great open-mindedness on their part”.

Ultimately, the technology is still simply a tool, and regulators will be unlikely to impose any restrictions on the blockchain itself. Rather, they will focus on the way in which it is used, and whether these activities would typically be controlled.

Equally, Murphy pointed out that regulators could benefit in their own right, using blockchain for monitoring transactions, for example, or for ensuring compliance with anti-money laundering rules. He explained: “Regulators have a two-fold interest in distributed ledger technology, both in terms of [the fact that] the entities they’re regulating use it, and also in terms of [the ways] they can use it themselves.”

Building on this, Riley agreed that regulations should be appropriate to the use case at hand, pointing out the differences in regulatory requirements between financial contracts and currencies, digital or otherwise. If the blockchain is simply serving as an enabling technology, “it won’t be regulated as a financial service provider.”

While bitcoin and other crypto currencies may have been at the centre of the hype for a time, institutions are now looking beyond the concept of financing in itself and paying more attention to the technology that makes it work. And if they’re not, they definitely should be.

Woods said: “The important thing about bitcoin is not the currency, it’s the underlying technology that allows there to be a currency at all,” while Denis summed it up concisely, instructing attendees to “forget currency; think protocol”.

However, no matter how many initiatives are underway, few are outwardly peddling blockchain solutions. It is still a relatively unknown entity, and no firm has yet stuck its neck out to become the first mover. Riley pointed out that it is currently difficult to identify any front runner in the distributed ledger race, suggesting that they may be wary of risk to their current operations, or more importantly, their reputations.

There is no real rush of firms “hoisting [a] flag up the totem pole”, commented Riley, adding: “I think there’s a good reason that lots of the start-ups and lots of the enterprises are operating in stealth mode.” **AST**

Regtech and roll

Regulators must encourage innovation in asset management to make compliance easier for everyone, says Confluence's Nicola Le Brocq

The monitoring of systemic risk and data-driven regulatory oversight are two of the most prominent and growing trends within the current global regulatory arena and, to a certain extent, they're intrinsically linked together. In relation to the latter, data-driven/machine-readable reporting is gathering momentum at an astonishing pace.

What is less surprising though is where it comes from. The 2008 financial crisis, the compliance failures at firms and the internal deficiencies highlighted during regulatory examinations have all contributed to more and more demanding oversight requirements. But the largest firms that have suffered severe penalties for non-compliance have responded by significantly growing their compliance department staff, something that does add to the cost but doesn't necessarily produce a better compliance function.

Similarly, the global focus and concern in relation to liquidity within the markets, as well as the recognition and subsequent evaluation of non-bank systemically important financial institutions (SIFIs), also had a part to play in the push for more adequate monitoring of systemic risk. Regulators are concerned that the modern day structuring of financial instruments has been less than transparent. The result is a general undertone that no one really understands what is lurking beneath. And arguably, rightly so.

Compliance monitoring and quantitative analysis are two different things, and as we observe this shift to more quantitative-based regulatory oversight, the function of compliance needs to adapt.

Increasingly, the regulators and the regulated are embracing the ideology that technology can work for them to alleviate the pressure, especially in this new data-driven/machine-readable world. This has led to the emergence of 'regtech', a term that has become more widespread since its first use at the International Organization of Securities Commissions 40th Annual Conference in June 2015. Key regulatory authorities and industry leaders have since then been talking about regtech as the new phenomenon that could help in solving some regulatory problems.

In support of regtech, regulators have openly communicated their wish to support digital markets and financial innovation, obviously with a caveat that providers must demonstrate ability to improve fairness and transparency.

Going forward, using technology to implement more efficient processes for data-driven monitoring and machine-readable filings should be a strategic objective for controlling compliance costs. It should also be used to mitigate against the cost of noncompliance due to human error from manual workflows. The latter is trending right alongside regtech within the industry. The realisation is that asset managers have everything to gain from embracing the technology shift in order to comply more accurately and quickly, which in turn reduces operational cost. Technology will therefore become a crucial tool, and the firms that provide it will now be seen as strategic partners.

The notion of regtech works both ways, too. While the industry is actively searching for more efficient and appropriate systems and processes to deal with regulation, the regulators also recognise the need to become much more tech-savvy in order to manage the data requests and understand and assess the financial technology space. Of primary concern to the regulators is how to handle the submission of data-heavy files, to then manage and deliver the data analysis. The crux of their supervisory role has shifted on the back of the two trends discussed here and has now become a more quantitative role compared to the historically more qualitative desk-based supervision. A perfect illustration of this is the UK Financial Conduct Authority's (FCA) recent launch of a dedicated working group to look closely at regtech and the flurry of 'fintech' innovation within the financial services industry.

Embracing digital and fintech disruption is the building block for implementing cultural and behavioural changes. Asset managers are beginning to recognise that the necessary data gathering is valuable for their own internal management information, corporate strategy and objectives. Similarly, regulators can find ways to link the data submissions to more efficient supervisory processes. Scoping out and implementing technology will help them achieve their regulatory objectives to monitor global systemic risk and improve cross-border communication and information flow between agencies.

In addition to their supervisory activities, regulators are accepting the role they play in better understanding the technology start-ups in their jurisdictions, in order to identify their regulatory status quickly, provide clear guidance, and help them go to market faster with these efficiencies. This will assist wider government and economic initiatives, and drive innovation. **AST**

"Embracing digital and fintech disruption is the building block for implementing cultural and behavioural changes"

Nicola Le Brocq, Regulatory and compliance market analyst, Confluence

Better to be bold

Over-zealous know-your-customer rules are a risk to financial services if left unchecked, says Olivier Portenseigne of Fundsquare

Many financial sector business lines are becoming increasingly uneconomic due to regulation. In particular, the global push towards tougher rules against money laundering and terrorist financing are being felt. So-called know-your-customer (KYC) utilities are helping, offering centralised, cheaper KYC services. However, these have yet to reach their full potential and a new bold approach might be needed, particularly in the fund sector.

Convictions for sanctions violations and money laundering have cost major international banking groups multi-billion dollar fines in the US in recent years. These penalties are indicative of a new regulatory mood of getting tough with companies that aid criminal activity, even inadvertently. This policy has strong support from voters and thus politicians and regulators, but it is making it tougher to provide the services needed.

For example, a consultative report on correspondent banking from the Bank for International Settlements committee on payments and market infrastructures, released in October 2015, said: "While the correspondent banking business seems profitable in aggregate, parts of this business are not and, as a result, correspondent banks have been dropping their less profitable customers or jurisdictions." The report pointed to KYC and know-your-customer's customer (KYCC) requirements as the main cause of increased costs.

Fund businesses have become more thorough in checking clients' backgrounds, but many are still unsure how much detail they should take into account. The term 'de-risking' is becoming commonplace, often resulting in 'de-banking'. Many players see it as too much work to cherrypick clients in high-risk areas. Even when the fund industry does seek to engage with new clients, the paperwork can be stifling, and new customers are often required to submit duplicate information. Moreover, handling this mass of data is complicated and costly. Some of the biggest financial institutions could have tens of thousands of vendors on which they need to conduct due diligence.

KYC utilities might be an answer for the fund industry. Information on existing customers is uploaded to a central warehouse by participating industry players, and can be accessed by others when needed. This means institutions can check whether data already exists in the utility when on-boarding clients, meaning there is no need to collect this information repeatedly. The end client would have to give permission before the data is accessed, and, if the data isn't on the utility already, it would then be uploaded. All participants would strive to keep the information up to date when appropriate.

Advocates of this model point to successful mutualised utilities in other areas of the financial sector, particularly clearing and settlement houses. The research and advisory firm Aite Group points to one example of a global bank, using an automated KYC process, that spends approximately $400 per client. Another institution, however, using primarily manual processes, spends about $6,000 per client. A utility model should also be more convenient, more accurate, and speedier.

Several utilities have emerged recently, each run by different financial sector data providers, and each meeting different client requirements in different jurisdictions.

Thus, the market has developed various options tailored to different business segments, needs and geographical areas, but these services are not always as rich as clients would like. Moreover, regulators still insist that financial businesses make their own KYC checks even if they use utilities, meaning the full benefits cannot be realised. Also, certain business segments are not being fully catered for, and more could be done to serve the fund sector.

Unified standards would cut costs, increase speed and boost reliability as different layers of data would help the crosschecking process. Maybe there would be an external accreditation process to ensure standards are being complied with and that data is accurate.

It appears that only a concerted effort could create a robust reliable utility, a process similar to that which led to the formation of the clearing and settlement utilities. More work could be done to collate information that is already publically available and match this with privately held information. It is possible that even biometrics technology could play a role.

However, there are several reasons that market forces have not previously driven utilities to achieve immediate, universal acceptance. A key factor is that different suppliers are responding to varied client needs, which depend on a range of risk appetites and commercial business requirements of how data is used. There is no doubting the size of the task. Data services provider SWIFT has suggested that its 7,000 banking clients have more than 1 million individual relationships, meaning the number of KYC-related documents it is dealing with is a multiple of this. These records will need to be kept up to date as well. This is a major task, but with the potential goal so attractive, a solution is surely feasible.

A new approach is required. Each sector needs KYC utilities dedicated to their precise needs, yet few of the KYC utility providers have worked closely with potential clients to fully understand their needs. Fundsquare is talking to the fund industry about such possibilities. There needs to be greater harmonisation and more standards related to the required freshness and detail of data kept on the utility. Data templates and procedures need to be streamlined and best practice defined.

Given that movement in this area is so important to future profitability and even viability, the fund industry will need to seek greater consolidation and harmonisation. Industry players understand it is important to impose common standards at an early stage, and seek to nudge existing utilities towards greater cooperation. However, to really make a major step forward, the fund sector, legislators and regulators may need to take an imaginative leap to help build a utility which can serve the European and maybe even the global funds industry. Fundsquare, with its long experience providing mutualised utility services, is working on finding the inclusive, practical solutions the industry needs.

Yes, there are justified concerns about the financing of crime, and KYC rules are central to combating this. However, it is important not to lose sight of the major economic and social benefits of providing financial services, given that the vast majority of people are law-abiding. This is a particular concern in the developing world, and public and private actors might need to be bold. **AST**

Each sector needs KYC utilities dedicated to their precise needs and there needs to be greater harmonisation and more standards

Olivier Portenseigne, Managing director and chief commercial officer, Fundsquare

Chilling out, merging, emerging all cool

The UCITS regime is merging more and more in to something that looks a little like AIFMD, but convergence of the two may be a way off yet, according to Etienne Deniau, Serge Balatre and Jean-Pierre Gomez of SGSS

Distribution is a critical consideration for those wishing to market their hedge funds into Europe.

But regardless of whether that fund is UCITS-compliant or an alternative investment fund (AIF), the continuous evolution of European regulation means that managers have to stay one step ahead and evaluate just how much of an impact it will have on their marketing distribution strategies.

The Alternative Investment Fund Managers Directive (AIFMD) was broadly transposed into national law across the EU in July 2013, and since then asset managers have steadily adjusted to life under the new regulatory regime, one which, unlike UCITS, which is a fund-based regulation, focuses on regulating the alternative investment fund manager.

Most EU asset managers are now fully compliant with AIFMD and availing of the funds passport to launch AIFs from various jurisdictions. We are seeing, in particular, quite a lot of UK AIFs being distributed into continental Europe.

One of the biggest headaches that managers face today is reporting.

Under AIFMD, this involves completing an Annex IV report, which contains over 300 separate data fields, similar to Form-PF reporting in the US.

It has been a new opportunity for service providers because a lot of asset managers do not know how to produce Annex IV reports. The expertise of firms like SGSS means that we can provide an Annex IV reporting solution to asset managers.

Time for a refresh

UCITS V is the first sign of EU regulators attempting to harmonise the UCITS regime with AIFMD. UCITS V will provide even further protection to retail investors. The problem is that while level-one measures have been clarified, which broadly outline the scope of regulation, the industry is still waiting for clarification on level-two measures. These regulatory technical standards are yet to be approved by the European Parliament and Council, meaning that asset managers will have to appoint a depository in compliance with UCITS V without knowing the contractual details of what that arrangement will entail.

Depository roles

Under UCITS V, an appointed depository must be a Capital Requirements Directive (CRD) IV-authorised credit institution, another legal entity that can meet the minimal capital requirements or a national bank. The role of the depository under UCITS V will cover the main tasks as apply to AIFMD, namely safekeeping of the AIF's assets, cash management and general oversight, and as such, most European depositories should be well placed to carry out their duties under UCITS V.

However, UCITS V goes further. While it has replicated the higher standard of protection under AIFMD, there are additional duties placed on the depository. Principally, the depository has to control the entire custody chain under UCITS V. There will be no exemption to the restitution of assets of a sub-custodian, which in some cases can apply under AIFMD.

Under UCITS V the depository has much wider responsibilities with respect to both the custody and the safekeeping of assets. This will require more control processes and legal expertise in non-EU countries where sub-custody arrangements apply.

There will also be more stringent cash controlling and global asset restitution, meaning the depository will need to do proper due diligence on the counterparty to have full oversight of all counterparts to the UCITS fund and have a global view of the fund's assets.

The assets of a UCITS fund will also need to be fully segregated and held in the custody account, which again goes further than AIFMD, where the depository is responsible for the AIF's assets under custody, but not responsible for the safekeeping of those assets.

Before, securities had to be you had to segregated depending on the country. Now, the segregation of securities has to happen across the sub-custody network.

Under AIFMD, the depository can relinquish responsibility of the AIF's assets if it has third-party custody arrangements in place, as chosen by the asset manager. Under this arrangement, the depository is not responsible for the AIF's assets, should anything go wrong. This is not an option for depositories under UCITS V.

Also, with respect to the oversight function under UCITS V, if the asset manager or shareholder in the fund can prove that the depository did not properly perform its oversight duties, the depository will be on the hook for any losses incurred in the fund.

Another important point under UCITS V is that there is independence of asset managers and depositories within the same group. Where a group acts as both the depository and also as asset manager within the same group, there must be a set of rules and walls between the two businesses. This is to guard against potential conflicts of interest.

Distribution and development

The AIF brand has a long way to go before it can ever be considered on a par with UCITS, which has had the best part of 30 years to build its reputation as the 'gold standard' for investment funds among global investors. AIFs have only been able to avail of the AIFMD passport since July 2014.

> ***The depository will need to do proper due diligence on the counterparty to have full oversight of all counterparts to the UCITS fund and have a global view of the fund's assets***

Etienne Deniau, Head of business development,
asset managers and asset owners,
Societe Generale Securities Services

But there are signs that the distribution potential of AIFs is on the rise. In Ireland, for example, assets in qualified investor alternative investment funds (QIAIFs) were up 21 percent through November 2015 over a 12-month period.

Net inflows to QIAIFs were €31 billion through November 2015, giving an overall aggregate total of €384 billion.

Europe wants to create a brand with the AIF just as it has done so successfully with UCITS. Indeed, UCITS V has just been translated into Chinese, representing a major distribution channel for asset managers in the coming years.

AIFMD needs to walk before it can run. The question is, with greater convergence between UCITS V and AIFMD, could Europe see the emergence of a single regulatory regime in the form of AIFMD II or UCITS VI? If so, what impact could that have on the distribution and brand potential of AIFs?

Despite some differences, regarding the role of the depository, for example, the two are roughly the same. Why continue with two regulatory regimes? One could argue that UCITS is designed for the retail investor and AIFs are designed for professional investors, but if the regulation is

> ***One could argue that UCITS is designed for the retail investor and AIFs are designed for professional investors, but if the regulation is well written, one regime could suffice***

Serge Balatre, Head of business development and depository services, Societe Generale Securities Services

well written, one regime could suffice. The AIF may not yet be a brand, but it could become one as AIFMD evolves. That was certainly the case with the UCITS regime, which has gone through multiple iterations. But AIFMD is still in its first iteration, and we haven't seen a tremendous evolution. Why?

The passport is given to the fund under UCITS. Under AIFMD, the passport is given to the fund manager. Therefore, if you have an AIFMD licence, in theory you are allowed to sell your fund across the EU. A manager based in London or Paris, with a Luxembourg special investment fund, that wants to sell its fund to German investors, for example, will need to apply to BaFin, the German financial regulator, and await its approval.

Under UCITS, managers can freely distribute their funds to German investors without requiring any approval from BaFin. BaFin has the right, under AIFMD, to prevent a EU AIFM from passporting its Luxembourg AIF into Germany if the regulator feels it is too different to the German AIF.

That is a big difference, from a distribution perspective, between UCITS and AIFMD.

The other distribution hurdle that the AIF brand must overcome is that it currently only seems to be available to professional investors, even though some people know about non-UCITS retail schemes.

One of the main attractions of UCITS is that it can be distributed to all types of professional and non-professional investors.

This is thanks to the strong regulation that UCITS funds must adhere to. AIFs, while attractive to hedge fund or private equity managers wishing to fully replicate their offshore strategy, do not have to offer daily liquidity. This limits the scope of distribution.

Nearly 70 percent of funds registered for distribution worldwide are Luxembourg-based funds. When clients want to sell an AIF to German investors—institutions or high net worth individuals—it remains complicated.

There are many questions from BaFin. Under AIFMD, managers can still use the National Private Placement Regime or reverse solicitation, so there are other distribution options available.

Third-country passports

One catalyst for increased distribution of AIFs in Europe will be the third country passport. The European Securities and Markets Authority (ESMA) has recommended Guernsey, Jersey and Switzerland for passporting, meaning AIFMs and AIFs operating out of those jurisdictions would be able to market freely across the EU, provided there were equivalent enforcement capabilities of the home regulator to ensure that they comply fully with the directive.

The decision on when the passport will become enforceable in those three jurisdictions has been delayed, at least until the end of June, by which time ESMA will have assessed a second wave of jurisdictions including the US, Singapore and Hong Kong.

There may be some kind of boom, an increase in fund activity under AIFMD, once ESMA establishes the rules of conduct, but this may not be feasible in 2016.

If the third-country passport is enacted next year, it is possible that the number of AIFs being distributed across Europe will grow.

When ESMA allows US managers to enter the European market and passport their funds, it will enhance the AIF brand.

> ***If you have an AIFMD licence, in theory you are allowed to sell your fund across the EU***

Jean-Pierre Gomez, Head of regulatory and public affairs in Luxembourg, Societe Generale Securities Services

Under these regulatory conditions, there would appear to be a convergence between UCITS and AIFMD regulations, which in turn should make managers' compliance frameworks easier to implement. But from a pure branding point of view, AIFMD will likely need to go through one or two more iterations before AIFs start to resonate with professional investors. **AST**

Prim and proxy

A common market model can mean better voting processes for both investors and issuers, according to Demi Derem of Broadridge Financial Solutions

How would you summarise the challenges that this sector is currently facing?

Regulators and investors continue to drive change around corporate governance, transparency and risk management. Although many of these changes have been good for the industry, and have provided greater protection for investors, they have also had a direct impact on operating margins and helped drive infrastructure change costs for custodians and asset servicing firms. Add to this the normal pressures of demonstrating a healthy return on investment to shareholders, increased competition such as that from central securities depositories (CSDs) and international CSDs (ICSDs), and a backdrop of historic low interest rates, and market participants have been forced to look long and hard at their business models and to examine ways to remain competitive.

In consultation with our custodian and asset servicing clients, Broadridge has taken a collaborative approach in listening to their changing needs. Proxy management is an area where we have observed the greatest need—where comprehensive meeting results, vote confirmation and transparency reporting solutions have been recurring themes in our market dialogue.

What are the evolving needs in governance risk?

There is a very discernible increase in firms strategising to reduce environmental, social and governance risk, collectively referenced as ESG. While efficient proxy processing has always been an effective mitigation vehicle for governance risk, the introduction of national corporate governance codes, stewardship practices and the heightened focus on executive remuneration have led to a significantly higher degree of scrutiny.

Institutional investors are seeking deeper levels of analysis relating to portfolio governance risk, for example by identifying how a company's executive pay and governance practices differ from peers and are aligned with performance. From the perspective of corporate issuers, there is a reciprocal desire to engage more proactively with investors, especially those that may be more vocal on executive pay and governance matters, with a goal of attaining higher levels of buy-in and ultimately attracting increased investment.

Corporate governance analytics is an area of growth and investment for Broadridge, most recently through the launch of our Broadridge DirectorInsight solution, which offers objective intelligence for improved investment decisions and stewardship, while enabling corporations to gain greater insight into pay, governance and performance.

How can custodians address proxy-related issues?

Robust corporate governance practices should be in place in order to attract investment and maintain investor confidence. This means demonstrating effective stewardship, performance and peer group alignment, and providing shareholders with a mechanism to express support for decisions. In today's world, voting at general meetings is where good issuer and investor corporate governance come together. For this reason, institutional investors are turning to their custodians to provide accurate and timely voting notifications, extended voting windows, and better reporting in regards to valid receipt of voting intentions and meeting outcomes.

Custodians and asset servicing firms are increasingly partnering with specialist providers for innovative, fully managed and mutualised cost-effective solutions.

For many of the leading global custodians, we already provide a proven capability for global proxy management to support the vote processing in over 100 markets.

A shared service model that provides an end-to-end proxy solution covering agenda sourcing and translation, distribution of meeting announcements and vote execution at a local market level would really help custodians tackle some of the complexities that exist within their markets today.

What are the benefits of an improved local custody model for the proxy process?

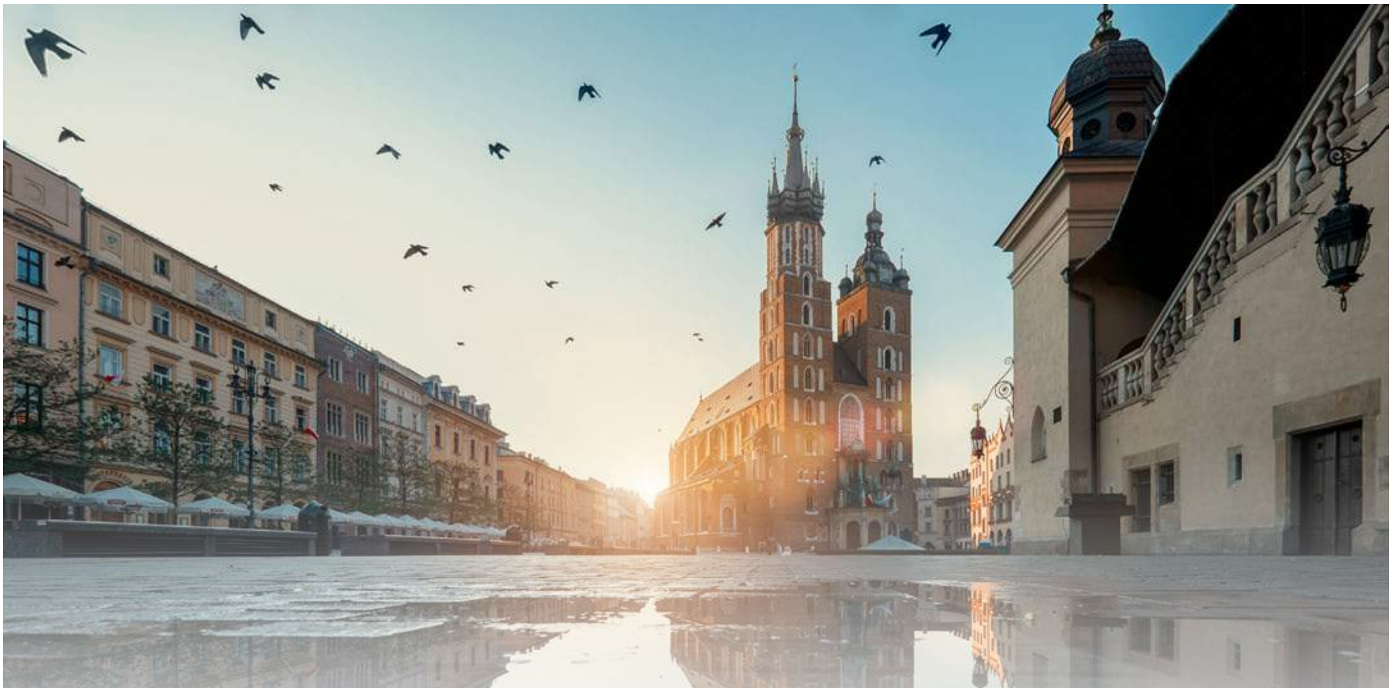
If all market participants embraced a common, local market, shared service model, it would support all constituents—investors, issuers, global and local custodians—in meeting their common objectives of efficiency, accountability, transparency and reporting.

Robust corporate governance practices should be in place in order to attract investment and maintain investor confidence

Demi Derem, General manager for investor communication solutions, international, Broadridge Financial Solutions

The added benefits for a common market model for proxy could include a reduction in missed entitlements and less time spent on reconciliations and manual processes. This not only leads to greater timeliness and accuracy, but also provides investors with a broader window in which to conduct pre-meeting research and submit votes.

Because proxy is a highly specialised area, it is difficult for custodians to go it alone. Broadridge is a big advocate of a shared service model for local and global market proxy processing, where economies of scale and expertise can help custodians achieve operating efficiencies, provide greater risk management and improve overall vote transparency for investors. **AST**



The sound of the CEE

No nation is an island, and the Polish CSD has post-trade services to cater to all of Central and Eastern Europe, says KDPW's Iwona Sroka

Poland is the largest and the most attractive market for foreign investors in Central and Eastern Europe (CEE). It has a critical mass to attract new investors, especially those acting on emerging markets. The country has a stable economy with a relatively strong banking sector and is well perceived by foreign investors, who are confident in the high resilience of the Polish economy to potential financial downturns.

Looking at the financial market and its infrastructure, it is really worth noting the way in which the KDPW Group has built Central Europe's leading clearing and settlement infrastructure. Thanks to services offered in KDPW, the Polish central securities depository (CSD), and KDPW_CCP, the clearinghouse, the quality and safety of the Polish financial market and its attractiveness to international investors has been strongly improved. KDPW Group offers the services of an authorised central counterparty (CCP), including over-the-counter (OTC) clearing, a registered trade repository and a global numbering agency, and it is also preparing for CSD authorisation.

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

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

OTC clearing

In December 2012, KDPW_CCP started to provide the clearing and guarantee of OTC derivatives and repo trades (OTC_Clearing). KDPW_CCP began in this way to process interbank trades, mainly aiming to reduce the risk of default by trading counterparties and, consequently, to generate growth in this market sector.

In its OTC_Clearing service, KDPW_CCP clears transactions accepted to the kdpw_otc system, acts as an intermediary in the settlement resulting from the clearing process, manages clearing risk, administers collateral, acts as the CCP using novation and reports to the KDPW_TR trade repository.

Collateral management

KDPW_CCP is planning to add new types of acceptable collateral to its collateral management service, including collateral posted as margins or contributions to funds, both in organised and non-organised trade.

The new functionalities added to the existing collateral management structure include capability for contributing cash or securities denominated in euro as collateral, and additional messages with extended information for clearing members and payment agents of clearing members. The new mechanisms are available for testing in the test environment.

Netting

The Polish clearinghouse offers a netting mechanism which allows KDPW_CCP to generate one settlement instruction which is sent

to KDPW or another settlement institution (for securities and/or cash settlement) for all operations that credit or debit a designated settlement account. The implementation of netting and aggregation of debits and credits, in securities arising from cleared transactions concluded on the regulated market or in an alternative trading system, implies improved operating standards of the clearing process which can result in a significant reduction of the number of instructions sent for settlement, while also reducing the cost of trade settlement.

RMA application

Last year, KDPW_CCP, in collaboration with GPW, launched the Risk Management Access (RMA) application for all entities that clear transactions on the exchange. RMA allows all clearing members and brokers that provide clearing services to define maximum limits on the value of orders entered by an exchange member whose transactions it clears.

The application allows users to configure filters and offers a 'kill switch' functionality, which blocks new orders of an exchange member and cancels any orders already on the order book.

Trade repository

KDPW_TR was one of the first trade repositories in Europe to be registered by the European Securities and Markets Authority (ESMA) in confirmation of compliance with all international standards that guarantee the highest quality of service.

KDPW_TR has participated in the implementation of EMIR from the very beginning and is engaged in active dialogue with all market participants, regulators and other trade repositories as well as reporting participants. KDPW_TR aligns its services with the legal requirements and the ESMA guidelines and follows the needs of market players covered by the reporting obligation.

Some strengths of KDPW_TR include: secure and certified access to the application; a user-friendly, intuitive website interface with reporting functionalities and direct access to maintained data; global communication standards such as XML messages and dedicated message queues; access to expert support; existing procedures applicable in the event of contingencies and solutions ensuring high security standards; and business continuity in data collection and maintenance, including a back-up site.

The trade repository offers the reporting of derivative trades via a user-friendly secure website interface or over automatic direct connections. Derivatives trades are reported in messages developed in line with the scope of information required under the EMIR technical standards. They include all data necessary for the trade repository to identify trades and process reports as required by ESMA.

Numbering agency

As the Polish CSD, KDPW is the only institution in Poland, and one of few institutions in Europe, to offer such a broad range of numbering services for financial market entities and instruments. It can assign LEI, ISIN, CFI and FISN codes.

Since 1994 KDPW has been a member of the Association of National Numbering Agencies (ANNA), and since 1996 it has played the role of a national numbering agency.

In August 2013, KDPW was assigned the prefix (2594) necessary to issue legal entity identifier (LEI) codes. The prefix was assigned by the Regulatory Oversight Committee (ROC) Secretariat, and identifies LEIs issued by KDPW in the global LEI system. The Polish Financial Supervision Authority was the sponsor of KDPW's prefix, and in December 2013, the ROC made the decision and authorised KDPW to issue LEIs.

Since then, KDPW has issued approximately 6,000 codes to entities in more than 20 EU member states. The main advantages of the KDPW LEI service include: customer service in English and Polish; competitive fees for the issuance and renewal of LEIs; prompt processing of orders; a dedicated account manager for each order, available to clients at every step of the application verification process; automatic communication of all events in the processing of orders; competent staff dedicated to customer service, and with an understanding of the specificity of the Polish capital market, including local legal requirements.

The online application site is available in Polish, English and Romanian, and allows LEI holders to access management services such as filing applications for issuance or transfer of an LEI with KDPW; filing applications for the issuance; reviewing and processing of issued LEIs, including data updates and corporate actions; reviewing of order history including payment details; invoice downloads; and user account management. It also offers automatic communication with KDPW, reviews of the details of entities holding LEI, and access to detailed information on LEIs and LEI issuance.

KDPW Group offers post-trade services to the market with the largest turnover in the CEE region. This is a strong market, which provides a stable revenue stream that in turn allows us to offer low-cost processing of trades. **AST**

"The country has a stable economy with a relatively strong banking sector and is well perceived by foreign investors"

Iwona Sroka, President and CEO, KDPW and KDPW_CCP

Industry Events

Data Management and Regulatory Reporting for Investment Firms

Date: 07 July

Location: London

This one-day conference explores how to improve regulatory reporting by streamlining operations and creating appropriate data architecture. Hear a mix of reporting specialists, solutions-providers and IT experts provide a comprehensive and concise overview of a challenge that will not go away any time soon.

Sibos

Date: 26-29 September

Location: Geneva

Sibos is the world's premier financial services event. Sibos is the annual conference, exhibition and networking event organised by SWIFT for the financial industry. What started out as a banking operations seminar in 1978, has grown into the premier business forum for the global financial community to debate and collaborate in the areas of payments, securities, cash management and trade.

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

Industry Recruitment

Business Analyst

Recruiter: Bruin
Location: Canary Wharf

Our top tier asset servicing client is looking for a business analyst to focus on client intiated projects of all types.

AIS Team Manager, CRM Tier 1

Recruiter: BNY Mellon
Location: London

This position manages a team of three-plus relationship managers, and oversees a portfolio of many large tier-one hedge fund and alternative investment relationships, which generate a significant portion of division revenues.

Systems Analyst Role

Recruiter: EquiLend
Location: London

EquiLend is seeking a systems analyst for the London office to work closely with the EquiLend product owners and scrum team to execute projects from inception through production release. The selected candidate will complete projects and implement solutions that build upon EquiLend's global platform for the equity community.

Global Head, Securities Services Operations Client Service

Recruiter: HornbyChapman Ltd
Location: Hong Kong/Singapore

This role has responsibility for the oversight of the securities services operations client experience. The role will be part of the securities services operations team, which supports securities services clients and products (custody and clearing, corporate agency and trust, and fund services).

Comings and goings at CIBC Mellon and more

CIBC Mellon president and CEO **Thomas Monahan** is preparing to retire at the end of 2016.

A successor has not yet been confirmed, but CIBC Mellon is currently implementing a leadership transition plan.

During Monahan's time at CIBC Mellon, the bank has grown to manage CAD 1.6 trillion (USD 1.2 trillion) in assets under administration, strengthened its risk and governance regime and launched several new solutions for institutional investors in Canada.

Monahan said: "I've been fortunate to lead a successful company that is committed to client service, employee engagement, corporate social responsibility, operational excellence and strong governance."

"I am proud of the CIBC Mellon team that we have built and the standard of excellence we have established in Canada. In the best CIBC and BNY Mellon tradition, our executive management team will work collaboratively with the boards to ensure an effective transition."

Samir Pandiri, CEO of BNY Mellon's asset servicing business and chairman of CIBC Mellon, added: "Thomas Monahan has been a strong leader and advocate for our business and our clients, successfully managing CIBC Mellon through challenging times and uncertain markets."

"We are grateful for his outstanding contributions to our clients, our company and the investment services industry in Canada."

Members of the European Central Securities Depositories Association (ECSDA) have re-elected **Mathias Papenfuß** of Clearstream as chairman.

Representatives of 41 central securities depositories (CSDs) gathered for the election during the ordinary general meeting on 20 May held at KDPW's headquarters in Warsaw.

Papenfuß will continue to be supported by vice chairs **Brigitte Daurelle** of Euroclear and **György Dudás** of KELER.

Georg Zinner of OeKB CSD was also re-elected as treasurer of the association.

Papenfuß commented on his re-election: "I expect the next three years to witness an unprecedented level of harmonisation of CSD activities, as well as stronger competition within Europe."

He added: "Each CSD will face its own specific challenges, but as an industry association ECSDA can play a key role in ensuring that the new rules of the game are applied consistently and meaningfully across national markets."

SmartStream has named **Haytham Kaddoura** as its new CEO, while current CEO **Philippe Chambadal** will take on the role of president.

The shake-up has been attributed to significant growth in the managed services part of the business, as well as the success of the SmartStream Reference Data Utility (RDU) and Fees Management Utility.

As president, Chambadal will focus on these areas and other strategic initiatives.

Kaddoura previously served as an advisor to the board of directors. He is also a member of the board of directors of the RDU.

He said: "I am incredibly proud of all that has been accomplished at SmartStream over the last several years and look forward to working with Philippe Chambadal, the executive team and our world-class partners to continue positioning SmartStream at the forefront of the industry."

Khalifa Al Daboos, chairman of the board at SmartStream, added: "On behalf of the board, we are very proud of the work Philippe Chambadal has done over the past eight years. He has taken SmartStream from a software vendor to a global managed services provider working with the largest banks in the world."

"The SmartStream Reference Data Utility, Fees and Expense Management, and Transaction Lifecycle Management solutions are each leaders in their respective categories. We support Haytham Kaddoura and Philippe Chambadal in their new roles and expect this change to further expand the company."

Brendan Bradley has departed from his position as chief innovation officer and member of the executive board at Eurex.

Bradley departed Eurex Group on 6 May and is now on gardening leave.

He said: "Given the changes in regulation for MiFID II and the developments in the FinTech environment I feel there are numerous opportunities that can be exploited and look forward to exploring those in the coming months."

Bradley had been a member of the Eurex executive board since October 2013. He joined the group in 2006 as global head of product strategy, before becoming global head of innovation management in 2013.

Broadridge's **Michael Collins** has been promoted to the role of vice president and general manager of mutual fund proxy voting and solicitation.

Collins takes over from **Peggy Schooley**, who has retired from the position. He will lead the mutual fund proxy voting business, with a focus on strategic planning, client relations and regulatory oversight.

Having joined Broadridge in 1996, Collins is credited with helping to build the mutual fund client service and account management functions.

Michael Liberatore, Broadridge president of mutual fund and retirement solutions, said: "As the mutual fund industry experiences increased regulatory and market driven changes, cost and compliance pressures mean funds need innovative strategies to efficiently reach shareholders, obtain quorum and pass proposals."

He added: "Michael Collins's wealth of expertise and superior track record will help our clients navigate these challenges and execute successful proxy voting campaigns."

Credit Agricole has reshuffled its senior leadership team within within the bank's major client division.

Jean-François Abadie, previously head of global operations in Credit Agricole's corporate and investment banking business, has been appointed CEO of CACEIS. He is also joining Credit Agricole's extended executive committee.

François Marion, previously CEO of CACEIS, has been named deputy CEO of Credit Agricole's corporate and investment banking business in charge of supervising support functions.

The clients division, which encompasses Credit Agricole's corporate and investment banking business, CACEIS and Indosuez Wealth Management, is supervised by Jean-Yves Hocher, deputy CEO of Credit Agricole and CEO of corporate and investment banking.

Abadie has been with the bank since 1999 in a number of regional and global senior leadership positions.

Marion is also well established at Credit Agricole having joined in 1997 as head of financial control, budgeting and strategic planning for Indosuez.

Marion has served as chair of CACEIS's management board since it was formed in 2005, and as CEO since 2009.

Pirum Systems has taken on **Robert Keane** as product manager from BMO Global Asset Management.

Keane will focus on improving Pirum's product offering as well working on projects described by Pirum as "innovative opportunities that are being explored in greater detail".

Based in London, Keane will report to Robert Frost, head of product development.

Keane previously ran the agency lending programme at F&C Investments between 2014 and 2016, maintaining his position when F&C was acquired by BMO Global Asset Management in 2015.

"I am delighted to welcome Robert Keane into our product team which further strengthens our ability to meet the needs of customers as they deal with the diverse demands of managing efficiency, operational risk and capital requirements," said Frost.

"Robert's broad understanding of the securities lending industry, particularly from the beneficial owner side will greatly benefit our team, and our clients."

Keane added: "Pirum has an outstanding reputation in the market for delivering superior technology intertwined with excellent customer service and I am excited to be joining such a dynamic company and working alongside a talented set of individuals." **AST**

AST AssetServicingTimes

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
+44 (0)203 750 6022

Deputy Editor: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Contributors: Becky Butcher and Drew Nicol

Associate Publisher: Joe Farrell
joefarrell@assetservicingtimes.com
+44 (0)203 750 6027

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
+44 (0)203 750 6028

Designer: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)203 750 6021

Recruitment Manager: Chris Lafferty
chris@assetservicingtimes.com
+44 (0)208 663 9624

Office Manager: Chelsea Bowles
accounts@securitieslendingtimes.com
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

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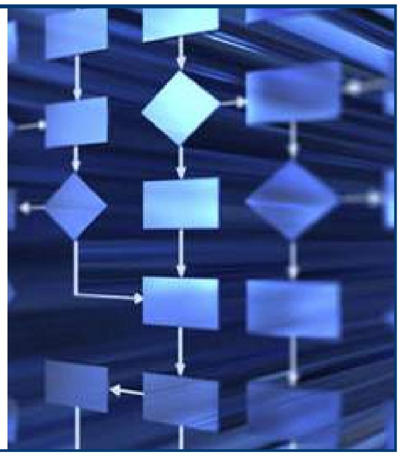

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London +44 20 7551 3000
New York +1 888 237 1900
Hong Kong +852 2869 6393
Singapore +65 6438 1144
Tokyo +81 3 5212 6311
Sydney +61 2 9034 1700

global@broadridge.com | Broadridge.com