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EU authority consults on whether blockchain requires a regulatory touch

The European Securities and Markets Authority (ESMA) has issued a distribution paper and public consultation on the potential usefulness of distributed ledger, or blockchain, technology in securities markets.

The paper assessed the potential benefits and risks that broader use of blockchain could have on the industry, and highlighted regulations that could be applicable to uses of the technology, including the European Market Infrastructure Regulation, the Securities Finality Directive and the Central Securities Depository Regulation.

According to ESMA, the consultation is partly intended to help the authority assess challenges and benefits of the technology from a regulatory perspective, allowing them to consider whether a regulatory response is required.

In the report, ESMA stressed that firms starting to create distributed ledger technologies should remain mindful of the existing regulatory framework.

Highlighted benefits include the potential for improving security compared to existing systems, although this has not yet been properly tested.

Distributed ledger technology could also improve recordkeeping, reporting and oversight, and could potentially lead to reduced counterparty risk, ESMA said.

The report also noted legal and technical challenges, including the possibility that the perceived benefits of the technology may not be replicable on a larger scale—another point that has yet to be tested.

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OCC commends QCCP extension

Equity derivatives clearinghouse the Options Clearing Corporation (OCC) has praised the European Commission's decision to delay the deadline for US CCPs to become fully fledged qualifying central counterparties (QCCPs) in the EU.

The endorsement from the OCC comes after the European Commission formally acknowledged US CCP regulation as equivalent to the EU's in March.

CCPs wishing to be recognised by the European Securities and Markets Authority were initially given until 15 June to complete the transition. Acknowledging that the changes are unlikely to be completed by June, the European Commission extended the deadline to 15 December.

In order to avoid disrupting international financial markets during the transitional period, all CCPs that institutions in the EU clear with are temporarily considered as qualifying CCPs.

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Apex Fund Services faces $350,000 fraud settlement

The US Securities and Exchange Commission (SEC) has charged Apex Fund Services for failing to "heed red flags" and address fraudulent accounting on the part of two of its clients.

Private fund administrator Apex Fund Services has agreed to pay a total of $352,449 to settle the charges.

Apex Fund Services did not admit or deny the SEC's findings.

The SEC's charges relate to ClearPath Wealth Management and EquityStar Capital Management, which have both also been charged with fraud.

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ESMA consults on whether blockchain requires a regulatory touch

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The report identified the potential risks of cyber crime, fraud and money laundering, as well as operational risks and the threat of market volatility.

Finally, ESMA asked for feedback on potential problems around governance and privacy within blockchain technology, and questioned the capacity of the technology to fit in to the existing regulatory framework.

The authority acknowledged that the technology is still in its early days, and that no operating system in securities markets is currently using the technology on any significant scale. This means that currently, it is difficult to properly assess the effect that widespread use of blockchain would have on securities markets, market participants or infrastructures.

Responses to the discussion paper must be submitted by 2 September.

OCC commends QCCP extension

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Certain CCPs are also required to report the total amount of initial margin received from their clearing members.

According to OCC, the transition also means its EU-affiliate clearing members' risk-weighted asset exposures to the OCC would increase from about $924 million to reach more than $75 billion, requiring them to maintain additional capital of about $5.25 billion.

OCC executive chairman Craig Donohue commented: "We commend the European Commission for its decision to extend the transitional period deadline for CCPs such as OCC to be recognised as QCCPs."

"This announcement provides some important breathing room for the listed options industry. We look forward to continuing to work with the European Commission, the European Securities and Markets Authority, and the US Securities and Exchange Commission (SEC) as they work to come to an agreement on a common approach for the regulation of cross-border QCCPs."

Donohue continued: "Recognition of US CCPs subject to the SEC's jurisdiction is important to OCC and market participants for several reasons, foremost among them that it would allow EU banks' and EU bank affiliates' exposure to those CCPs to be subject to a lower risk weight in calculating their regulatory capital."

Apex Fund Services faces $350,000 fraud settlement

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A statement from the SEC said Apex "failed to heed red flags and correct faulty accounting by two clients".

It went on: "Apex Fund Services missed or ignored clear indications of fraud while contracted to keep records and prepare financial statements and investor account statements for funds managed by ClearPath Wealth and EquityStar Capital."

With regards to ClearPath and its owner Patrick Churchville, the SEC found that Apex failed to act appropriately after it detected undisclosed brokerage and bank accounts. It also turned a blind eye to loan agreements and transfers that violated fund offering documents, according to the SEC.

Apex also did not correct previously issued accounting reports and capital statements, providing these to ClearPath and its funds' independent auditor.

The SEC alleged that ClearPath used these misleading reports and statements to communicate performance and positions to investors.

With regards to EquityStar and its owner Steven Zoernack, the SEC found that Apex accounted for undisclosed withdrawals totalling more than $1 million, despite a lack of evidence that Zoernack would be able to repay the withdrawals.

Although, according to the SEC, Apex did question these withdrawals and concluded that repayment would be unlikely, it did not properly account for them. This allowed the withdrawals to amount to more than a quarter of the net asset value of one fund, and more than half of another.

Apex also sent monthly account notices to investors that overstated the investors' holdings in EquityStar funds. The SEC found that Apex either knew about these overstatements, or should have done.

Andrew Ceresney, director of the SEC's division of enforcement, said: "Fund administrators are responsible for ensuring that fund records provide accurate information about the value and existence of fund assets."

He added: "Apex failed to live up to its gatekeeper responsibility and essentially enabled the schemes to persist at each of these advisory firms until the SEC stepped in."

Churchville and ClearPath were charged with fraud in May last year. Zoernack and

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EquityStar were charged with fraud, and for deliberately misleading investors by actively covering up Zoernack's criminal history and questionable financial record, in March.

Apex's total settlement of $352,449 comprises a voluntary $75,000 penalty for each firm, plus disgorgement of $96,800 plus interest of $8,813 for ClearPath and disgorgement of $89,050 and interest of $7,786 for EquityStar.

Apex said in a statement: "Apex does not admit or deny the SEC's historical findings from 2012 but respect their decision and have made every effort possible to accommodate any requests for information."

"We are satisfied with the resolution of the investigation, with a voluntary settlement amount of $150,000, and remain committed to full compliance with all legal and regulatory requirements globally."

"We will continue to fully cooperate with regulators on any matter brought to our attention in any jurisdiction."

Capital moving to alternative strategies, according to BNY Mellon

Institutional investors are seeking to allocate more of their capital to alternative strategies, including real estate, in a quest for strong returns in the low interest rate environment, according to a new study from BNY Mellon.

The report, Split Decisions: Institutional Investment in Alternative Assets, produced by BNY Mellon in association with FT Remark, found that among the various alternative asset classes, private equity is most favoured by institutional clients, accounting for 37 percent of their exposure, followed by infrastructure, real estate and hedge funds.

According to the study, nearly two thirds of investor respondents said that alternatives had delivered returns of at least 12 percent last year.

More than a quarter said the strategies had earned 15 percent or more.

Frank La Salla, CEO of alternative investment services and structured products at BNY Mellon, said: "Alternatives continue to gain share in portfolios, but institutional investors are becoming more selective about where and how they deploy their capital. As a result, they are demanding greater transparency from their alternative fund managers. This survey reinforces the notion that investors and fund managers alike will need growing levels of support, insight and data to make informed decisions."

HSBC facilitates first CIBM access

HSBC has become the first bank to facilitate access to the Chinese Inter-bank Bond Market for an overseas investor.

Through HSBC, UK asset manager Investment Insight was able to register with the Chinese regulator to invest in the CIBM. This makes HSBC the first bank to facilitate access since the announcement in February that the CIBM would open up to foreign investors, through a registration process.

HSBC will now act as the settlement agent bank and custodian for Investment Insight.

Cian Burke, global head of securities services at HSBC, said: "China's continuous opening up of its domestic bond market to foreign investors underpins the country's determination to push forward its financial reform. The broader access and simplified process make it easier for overseas investors to tap into growth opportunities of the CIBM, which is already the world's third-largest fixed income market."

Sophia Chung, HSBC's head of securities services for China, added: "HSBC is pleased to facilitate the first registration under the relaxed rules, which further demonstrates our leadership and expertise in servicing overseas institutional clients."

Insight Investment has assets under management of £440 billion, as of 31 March, including fixed-income, liability-driven investment and real estate assets.

KDPW_CCP welcomes first foreign clearing member

ABN AMRO Clearing Bank has become the first foreign general clearing member to join the Polish clearinghouse KDPW_CCP.

The bank has already started clearing transactions on the cash and derivatives market of the Warsaw Stock Exchange (GPW).

This means that the bank's investors in post-trade services will gain access to the Polish capital market.

It is thought that the move will increase the number of active investors on the Polish capital market and will increase liquidity and trading volumes on GPW. According to KDPW_CCP, there was a demand from international investors for non-domestic clearing entity to access the clearing house and exchange, a move which will bring them more in line with international clearing practices.

Małgorzata Zaleska, president of the management board of GPW, said: “The clearing of transactions on GPW by ABN AMRO Clearing will expand the pool of clients interested in trading instruments listed on GPW.”

“We expect that the new clients will help to improve liquidity on the market to the advantage of all investors. ABN AMRO Clearing is a leader in the domain of post-trade services. The presence of GPW’s partners of its class on the Polish capital market proves the growing importance of our market to investors world-wide.”

Jan Bart de Boer, global chief commercial officer and member of the board at ABN AMRO Clearing, added: “Becoming a general clearing member in KDPW_CCP is the result of strong client demand.”

“The clearing of Polish securities and derivatives adds to our global offer of post-trade services. Investing to bring new trading opportunities to our clients underpins our commitment to make our clients globally competitive,” he added.

This is the latest in a string of developments in the post-trade space of the Polish market. KDPW_CCP has reached capital of PLN 228 million (€52.3 million) and introduced financial instrument netting and a clearing guarantee system.

It has also collaborated with GPW to launch its Risk Management Access (RMA) application for clearing transactions.

Iwona Sroka, president of the management board of KDPW_CCP, said these changes have been made “with a view to the growth of the capital market and all its members”.

She said: “The goal of the change was to stimulate investor activity, enhance market liquidity and the volume of trade, including in particular the development of domestic investment firms.”

Pershing addresses new conflict of interest regulation

BNY Mellon’s Pershing is addressing the US Department of Labor’s new Conflict of Interest Rule, developing a range of new solutions to help financial services firms with compliance.

The new regulation is designed to protect individual retirement account holders by preventing financial advisors from giving advice that would ultimately benefit the advisor.

According to the Department of Labor’s regulatory impact analysis, conflicting investment advice can cause individual retirement account investments to underperform by an average of 1 to 1.5 percentage points per year. In the mutual funds segment alone, conflicting investment advice could cost investors up to $189 billion over the next ten years, according to the research.

The new rules require retirement investment advisors to put clients’ best interests first and to expand the types of retirement advice that are subject to fiduciary protections. They will also distinguish between activities that are classed as advice and those that are not.

According to Pershing, the changes are likely to drive a further shift towards fee-based advisory relationships, rather than a commission-based model. In response, Pershing is developing mutual fund and exchange-traded fund (ETF) wrap solutions that will offer advisors access to more managed account options.

This should help advisors to serve a wider range of investors, and to provide a more diversified risk-based portfolio with lower account minimums.

Pershing is also working on practice management materials to help clients manage the change, and planning tools for transitioning client accounts.

Part of the new regulation entails a best interest contract (BIC) exemption, which allows certain individual advisors to use compensation arrangements that are otherwise disallowed, as long as they commit to putting clients’ best interests first, adopt anti-conflict policies and disclose any conflict of interest that emerges.

To help advisors cope with this, Pershing is developing services to help firms comply with the BIC exemption through managing contracts, disclosure and controls for supporting compliance.

Finally, in anticipation of a greater need for surveillance, supervision and documentation to achieve compliance with BIC exemptions, Pershing is working on reporting packages

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and workflows, and looking at ways to allow firms to supervise assets on their platforms.

Rob Cirrotti, managing director and head of retirement and investment solutions at Pershing, said: "While some aspects of the final version of the Department of Labor's Conflict of Interest Rule will be easier to implement than the initial proposal, the essence of the rule is the same and it could profoundly change financial services firms' operating models, compensation arrangements and supervisory structures."

He added: "We've identified various needs that have emerged as a result of the new rule and have been working to develop solutions to help our clients achieve success in this regulatory environment. The combination of our new and existing tools helps our clients operate as fiduciaries."

The new conflict of interest rules are due to come in on 8 April 2017, one year after the final rule was announced on the Federal Register. The BIC exemption rules will come in to effect on 1 January 2018.

LSEG and Deutsche Börse publish shareholder docs

The London Stock Exchange Group (LSEG) and Deutsche Börse have published several shareholder documents for review ahead of the exchanges' respective shareholder meetings on 4 July.

The exchanges released the scheme and exchange offer documents, as well as the prospectus for HoldCo to both exchanges' shareholders.

In a joint statement, the exchanges said the merger will benefit all of their clients and shareholders and will "enhance the global footprint and create a platform for future growth in Asia and North America".

The merger will be implemented through a new holding company, UK TopCo, that has been incorporated in the UK. It will be resident solely in the UK for tax purposes, with a board of directors constituted in accordance with the UK corporate governance code.

The statement clarified that the outcome of the UK's referendum on its membership of the EU, set for 23 June, is not a condition for the merger.

Under the terms of the merger, LSEG shareholders will be entitled to receive 0.4421 HoldCo shares in exchange for each LSEG share. Deutsche Börse shareholders will be entitled to receive one HoldCo share in exchange for each Deutsche Börse share.

Deutsche Börse shareholders are now able to tender their shares until 12 July.

The documents outline several opportunities for growth and revenue synergies, along with cost saving possibilities.

BNP Paribas releases new ESG investment planning tool

BNP Paribas Securities Services has developed a platform to help clients better manage environmental, social and governance (ESG) factors in their planning.

The ESG Risk Analytics solution is part of BNP Paribas Securities Services's Data Navigation Analysis solutions suite and allows clients to integrate environmental, social and corporate governance factors in to decision-making processes.

According to BNP Paribas, the product provides a detailed breakdown of how well clients' investments and benchmarks rate against an extensive range of ESG factors.

These include environmental factors, such as carbon emissions and energy usage, social factors, such as human rights and community relations, and corporate governance factors, such as board diversity and shareholder rights.

The service uses independently-sourced data and evaluates up to 750 ESG data points for each company in its database. This data is then used to analyse clients' portfolios, providing an overall ESG score, which can be compared to other portfolios and benchmarks.

ESG Risk Analytics also provides much deeper analysis, breaking down a client's portfolio to country, sector and individual security level.

Patrick Colle, general manager of BNP Paribas Securities Services, said: "ESG is becoming an essential part of the investment decision-making process."

"However, putting an ESG-aware investment strategy into practice can prove difficult, with data gathering and analysis presenting some of the most testing challenges. Managing this data, analysing it and presenting it in a clear, concise and easily digestible way is the core of what the ESG Risk Analytics solution provides for clients."

"With this new solution, we aim to help institutional investors overcome obstacles

and incorporate ESG into their everyday investment decisions."

AxiomSL and SAP partner for data compliance and reporting

Regulatory reporting and risk management solution provider AxiomSL is partnering with SAP, an application software provider, to launch a solution for improving data management infrastructures for regulatory reporting.

The new service will pair AxiomSL's data integration platform and analytics solutions with SAP's HANA platform for advanced data processing and analytics, in a bid to help financial institutions comply with global regulatory and risk reporting requirements.

It will provide transparent and granular data processing capabilities, allowing for better standardisation of internal data before it is submitted to the various regulators. It will simplify, automate and optimise complex data aggregation and reporting processes, making for easier decision-making on large data sets.

The new infrastructure will also act as a depository for shared data, helping to break down silos of risk, finance and accounting. This will help institutions to comply with principles of data traceability and transparency established by the Basel Committee on Banking Supervision.

It will also allow for integrated management of the whole data lifecycle, and will provide a flexible data model allowing for additional regulatory change, sharing and scalability.

Patrice Vatin, director of digital transformation and industry value engineering at SAP Financial Services in France, said: "We are pleased to be partnering with AxiomSL on this offering. As additional reporting requirements around the world come into force, it is essential that the overall operational cost burden to financial institutions is minimised."

Ed Royan, AxiomSL's COO for Europe. the Middle East and Africa, added: "We are reducing the risk and regulatory burden on our clients by providing a single platform that can be used to comply with multiple regulations globally. In partnership with SAP, our combined platforms have been designed to meet the needs of all financial institutions and guarantee high performance, scalability, efficiency and transparency."

Custody processes improving at BNP Paribas SS

BNP Paribas Securities Services is launching a new 'Augmented Custody' programme to improve custody and corporate actions processes.

Using data management tools and digital technology, along with the bank's presence in various local markets, the programme is intended to give clients better access to international markets and to help them manage their investments more efficiently.

Improvements include faster corporate actions and income notifications, with notifications released within six hours of market announcement for direct market access, and within 12 hours for global access.

Instruction deadlines for voluntary events will also be extended, allowing clients to send instructions up to five hours before market deadline for direct market access, and between eight and 12 hours before market deadline for global access.

Harmonised corporate actions, income and tax reports across all markets should improve the bank's data management platform, and data access will be improved through the BNP Paribas Data Navigation Analysis platform.

Patrick Colle, general manager of BNP Paribas Securities Services, commented: "Custodians have a huge role to play in helping their clients maximise the efficiency of their operations and keep their competitive edge. This is why we are making our custody processes better, faster and simpler. Our ambition is to enhance our core services thanks to the power of digital."

The developments will be rolled out in phases, with some already in effect and others coming in by the middle of 2017.

Torstone wins Myanmar mandate

A Myanmar-based broker has gone live with Torstone Technology's Inferno platform for post-trade securities and derivatives processing.

The new mandate will see Inferno process the post-trade broker's equities execution business, covering the whole trade lifecycle from trade captures to settlement, accounting and reconciliation.

The development in Myanmar is part of Torstone's wider plans to expand in Asia. It also comes after Myanmar's Yangon Stock Exchange started trading in March. Two companies have since listed on the stock exchange, and more are expected to announce their initial public offerings later in the year.

The Inferno platform aims to provide a flexible and cost-effective platform for running operations as efficiently a possible.

It is also designed to be scalable so it can react to changes in the market and adapt as more companies come on to the new stock exchange.

Brian Collings, CEO of Torstone Technology, commented: "Asia is a key market for Torstone Technology, where we have built strong partnerships with a number of leading financial institutions since first announcing our plans to launch Inferno in Myanmar in 2013."

"We look forward to helping build support for the country's capital markets as we provide the essential operational infrastructure for firms who want to invest in Myanmar equities," Collings added.

CloudMargin and the CME Group team up for collateral management

CloudMargin and the CME Group are collaborating to offer clearing participants access to cloud-based software for automated and integrated collateral management.

CME Clearing and CME Clearing Europe customers will be able to access a consolidated view of their complete collateral inventory, including cleared and non-cleared derivatives transactions across all asset types and instruments.

The software includes a tool for handling complex collateral requirements involving multiple counterparties, and also offers automated connectivity for global custodians, banks, clearing brokers and clearinghouses.

Sunil Cutinho, president of CME Clearing, commented: "The cloud-based collateral management service will be of particular relevance for market participants who want to fulfil all of their operational and regulatory requirements efficiently."

He added: "Our collaboration with CloudMargin will ensure that collateral management becomes even more accessible and robust."

CloudMargin CEO Steve Husk commented: "Our relationship with CME Group will immediately benefit all current and future members of the CloudMargin community."

He explained: "Where, through regulation, activity is migrating away from non-cleared transactions to central clearing, our expanded functionality in both areas ensures we remain able to support all our clients' end-to-end collateral management requirements in our fully automated, light touch, cloud-based model."

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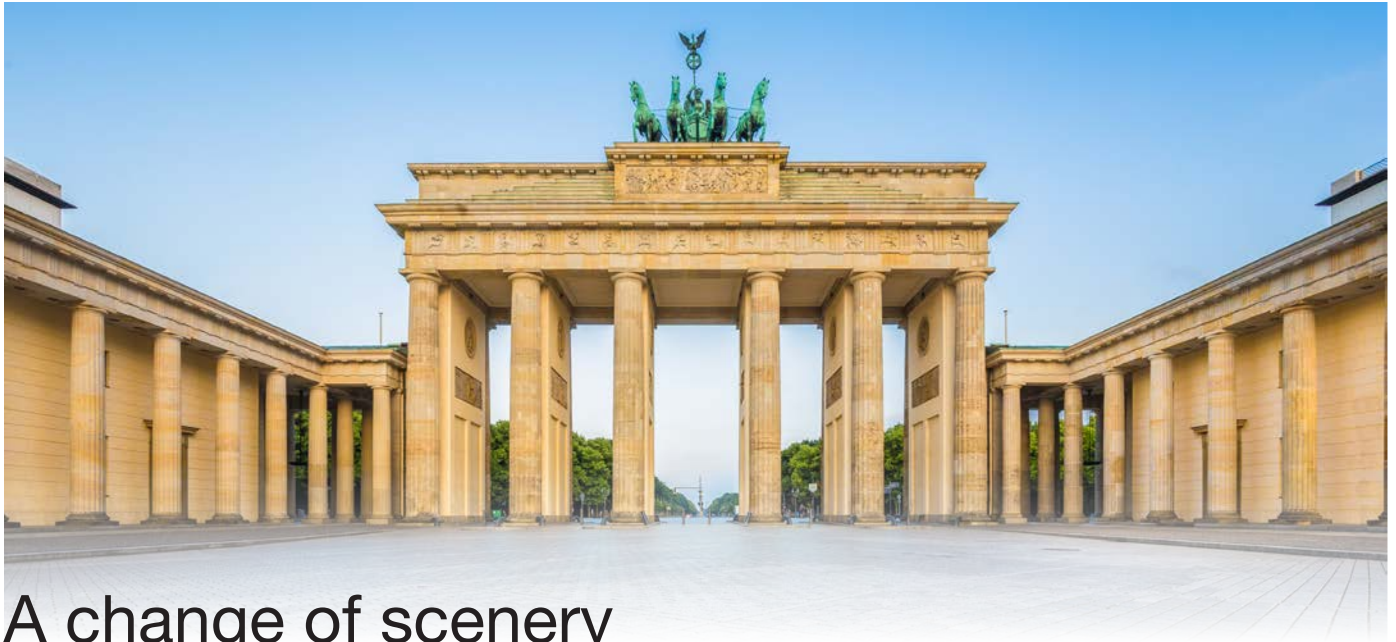

A change of scenery

After an apt relocation to Berlin, Fund Forum was focused on the many changes, and new pressures, facing the financial services industry

Despite a new location, Fund Forum International 2016 was still dominated by talk of technology, regulation and disruption.

The conference's opening speaker, Tom Brown, global head of investment management at KPMG, suggested that these are still the forces that determine success in the asset management industry, adding that those firms that can adapt to change will ultimately come out on top.

Drawing attention to low interest rates, political instability, the upcoming EU referendum in the UK and elections in the US, Brown said: "We are living in a rapidly changing and unpredictable world."

"All of this uncertainty is making investors nervous and making it harder than ever to manage money and harder than ever to run asset management businesses."

Brown segmented the issue of technology and digital disruption into three main areas: customer experience, operational efficiency and the way in which technology affects the actual management of money.

Many customers are using robo-advisory as "it's user-friendly, accessible 24/7 and delivered at a much lower cost", he said. However, the majority of asset managers are at a "relatively early stage" of development in this area, and are not necessarily focusing on becoming leaders in this space.

With regards to operational efficiency, Brown said: "The industry is under huge margin pressure. Anything to transform the cost model will make a dramatic difference."

He also noted that blockchain technology has the potential to transform the business in "all aspects of back-office functions".

Brown went on to discuss use of data analytics, machine learning and artificial intelligence in money management. Citing a KPMG survey, he suggested that 30 percent of hedge funds globally are already using advanced and predictive data analytics, while 60 percent say machine learning and artificial intelligence will become significant in the way they approach management.

The second major transformative force will be that of regulatory change, Brown said. The "political backlash" following the global financial crisis is easing and "regulators and policymakers are becoming more constructive". However, the industry is still in the spotlight and undergoing significant regulatory change. Specifically, 'closet trackers' and cost models are under investigation in several jurisdictions.

Brown said: "Unless the industry really gets on top of product governance, I think the industry will suffer some damage to reputation."

The pressures of technological and regulatory change in the industry are still very much present, and the industry is likely to see "a tremendous amount of change over the next few years".

Brown concluded: "In this rapidly changing world, perhaps it is agility that will become the critical success factor for businesses in our sector."

A later panel discussion also addressed the difficult market environment and the challenges that it raises for fund managers, particularly with regards to cross-border distribution and new 'next-generation' technologies.

One panellist, Thomas Albert of Oppenheim Asset Management, argued that while robo-advisors can improve efficiencies in theory, and could be helpful in the business-to-business space, helping investment managers and portfolio managers, in the business-to-consumer (B2C) space any advisor has to be able to take responsibility for its advice.

He said: "There are some good initiatives and good ideas, but it will be a long time [before] this changes in the B2C space."

SWIFT's Valérie Letellier laid out three main reasons for fund managers to strive towards more efficiency, noting that there are already initiatives paving the way and saying: "Even if it's not yet there, those organisations, practices and cost reduction initiatives are geared towards that direction."

First, efficiency is required for meeting regulatory requirements, she said. Second, it allows fund managers to concentrate on areas that create value for their clients.

Finally, Letellier noted that fund managers are operating in a changing environment where there are new entrants and potential game-changers emerging.

She told attendees: "You need to adapt to that simply for the reason that if you do not do so, somebody else will."

Letellier stressed that through cost control and risk control, managers will have to adapt to the revolution, finding new ways to improve efficiency and returns.

Optimisation is: "Finding an alternative way [with] the best cost-effectiveness, or with the highest achievable performance, under the current constraint," she said.

Another panel looked in detail at the potential efficiencies that blockchain could bring to the asset management industry.

Although the particular use cases of distributed ledgers are still up for discussion, speakers agreed that widespread use of the technology is likely to come about through industry collaboration.

Philippe Denis, chief digital officer at BNP Paribas Securities Services, suggested that the distributed ledger technology could have a place in the post-trade environment, however he pointed out that blockchain itself is "not a financial product".

Currently, Denis said, it is being used in niche markets where it will have a limited impact, and scalability is still a potential issue.

Stephen Bayly of HSBC Securities Services argued that, in the asset management space specifically, the main use case of blockchain will be about creating a common data source which will close the gaps between custodians and service providers.

Another speaker, State Street's Akbar Sheriff, suggested that the focus should be around collateral management and liquidity management, a point that he said has become more and more important.

The panellists also highlighted security and clarity around identity as a potentially strong use case of blockchain technology, especially regarding regulatory reporting and know-your-client (KYC) and anti-money laundering (AML) rules.

Lawrence Wintermeyer, CEO of Innovate Finance and moderator of the panel, said that if the industry can find a more efficient way of handling KYC and AMLdata, it could "free up trillions of capital".

However, the group agreed that adoption of blockchain technology would be driven mainly by collaboration and consortia in the industry.

Michael Mainelli, chair of commercial think-tank Z/Yen, suggested that take-up of the technology will emerge in highly regulated areas such as banking and insurance, which will have to work together or risk a third party coming into the space and taking control.

He said: "I think it's going to emerge from large groups of people who have hitherto found it difficult to work together without people trying to take advantage of them."

Bayly agreed that the ecosystem will have to adapt, pointing out that consortia are already developing in the asset management industry, saying: "Today we are more in the collaborative space."

Ann Doherty, managing director at J.P. Morgan, added to this, arguing that although collaboration is important, both asset managers and service providers have historically had a large "propensity for customisation", and they are not likely to move to a completely standard platform, retaining instead their own private blockchain systems.

In addition, this will be on top of legacy systems, she said—banks are not starting with a "clean sheet … and neither are many people in the industry".

She said: "Unless there is significant, wholesale cultural change within big parts of the industry there is always going to be the need for consolidators because people will want to have their own set-up. The private side of things will, I think, continue for a very long time."

Another much-discussed topic was data management, with the out-of-industry keynote speaker urging fund managers to embrace data management as one of their core competencies.

Andreas Weigend, former chief science officer at Amazon, a lecturer at the University of Berkeley and director of Social Data Lab, focused on data and client decision-making, pointing out that with the huge amount of information that smartphones provide, fund managers can assume the majority of client data they're interested in is already available, somewhere.

Using the example of Uber, which may not consider itself to be a data-centric company, Weigend argued that it is in fact just that. Uber changed the way that data is used in the taxi industry. Instead of consumers using data to find a cab, the data is used for bringing cabs to them. The same can be true of the fund industry, he said.

Weigend also noted that social data is important, and that many people still base their decisions on recommendations from friends and family, even regarding something such as finance that should, in theory, be objective.

"We move from a data set to a tool set to a skill set … but the most important one is a mind set," he said, adding that this mindset "is what needs to be brought into organisations".

With this in mind, Weigend outlined a 'digital bill of rights' that should be available to investors.

First, investors should have a "right to access data", without institutions charging for access to historic data. They should also have the right to inspect the data refineries, and particularly to access their security audits. Clients should know how rigorously their data is protected, and what they get in return for providing data.

The other rights are based around "increasing user agency, because just getting insights isn't enough", Weigend said.

Investors should have the right to: amend any data, and to view data on the fund manager that has been amended; the right to 'blur', or choose how specific particular data is; the right to play, or experiment with different scenarios to discover their own risk tolerance; and the right to port, or move, data from one place to another.

Finally, Weigend questioned whether clients are aware of the value that they can get from providing their data in the first place, noting that "the balance of power is shifting from companies to individuals".

In fund management, he said, this is the direction that consumers should be moving in. He said: "Your core competency should be data, and those applications go towards sources for alpha." **AST**

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Research and rescue

New unbundling rules for research fees are rolling in with MiFID II, and if asset managers aren't wary of them, they could meet unexpected danger

Of the many challenges thrown up by MiFID II, tackling unbundling rules for research pricing may not have been top of everyone's to-do list.

However, come the much-debated January 2018 implementation of MiFID II, the way asset managers consume research materials will get more difficult, and they will have to be prepared—or at the very least, aware.

According to Jeremy Davies, co-founder of institutional research marketplace RSRCHXchange, the new rules in this area are centred around "giving visibility to the end investor as to what is being spent on research and what is being spent on executing trades".

Traditionally, the cost of research will have been bundled in with the cost of execution, emerging in one cover-all fee for the investors. If the cost of a trade is typically 10 to 15 basis points (bps), Davies says, only about 5 bps goes towards actually executing the transaction. The other 10 bps would go on other services provided by the asset manager, including research, although there is no way for investors to know exactly what is spent where.

With regards to this, there are three major changes coming in to effect under MiFID II. Firstly, asset managers are required to set an advance budget for their research spend, to stick to it, and to assess it at regular intervals.

Secondly, research must be financed from a separate, imaginatively named 'research payment account'. This can be funded either out of the asset manager's own pocket (and while some have already opted for this, it's not likely to be the most popular choice); paid for by the asset owner through an additional, research-specific fee; or paid through a modified commission-sharing agreement, similar to the current model. The difference for this latter option is that the asset manager will have to be specific about how much of the investor's fees are being diverted to the research payment account.

The final major issue poised to arise is that asset managers will be obliged to provide an audit trail to the end investor, showing exactly what their money has been spent on, and what has gone on research.

Davies says: “That’s not revolutionary, but at the moment that money is just spent without much record-keeping around it.”

“The audit trail requirement will mean the asset manager has to look at it and appraise what they’re getting in the way of research, what they actually used and why, and what they paid for it, and why.”

This final point seems to be the crux of the new rules—and it is echoed throughout the whole of MiFID II—investors should know where their cash is, and more specifically, where their fees are going.

Neil Scarth, principal at Frost Consulting, says: “Historically, the institutional investment research market has been very opaque, as traditionally research charges have been deducted from asset owner returns. Regulators clearly believe that the efficiency of research spending can be significantly improved.”

And this improvement is by no means inconsequential. According to Davies, the global research market for equities alone is worth about $20 billion.

He estimates that for large asset managers bringing the costs in-house, it could end up as their second-biggest expenditure, after wages, in some cases amounting to tens of millions, even hundreds of millions, every year. Clearly, it’s an important thing to gain some clarity around.

For the smaller asset managers, however, pricing up their research spend, as it stands, can be a little more complex, and set to change imminently. The current pricing model is, as Davies puts it, “an oddly socialist mechanism within a capitalist industry”.

Research providers send the same written research reports to all asset managers, regardless of size, and the cost is based on trading volumes, not the amount of data consumed.

So, a large firm, trading billions of dollars, will pay considerably more that a boutique manager that trades relatively little.

Under the new rules, small firms will struggle to receive the same levels of research that they have previously.

Davies says: “If you try to level that playing field then you can see that the little guys would need to pay a lot more for their research than they were paying before.”

However, while those larger firms might make use of all the research at their disposal, looking in some detail at every country, asset class and sector, smaller managers are more likely to siphon out quite specific pieces of information.

A Belgian asset manager, for example, running a particular type of regional tracking fund, would only realistically consume research on the Belgian market. It would still have access to a lot of data, but would rarely, if ever, make use of it. Whether to their detriment or not, smaller asset managers may end up paying the same amount for their research as they always have, but receiving considerably less information.

Scarth says: “The changes will not be detrimental to smaller asset managers, per se. If many large asset managers were to decide to pay for research from their own profit and loss statements, rather than charging the client (as is predominantly the case now), the lack of scale for smaller asset managers could diminish their access to research, if they had to pay for it directly.”

If it eventually becomes a regulatory mandate for asset managers to pay for research out of their own pocket, smaller firms would undoubtedly be at a disadvantage. However, according to Scarth, this is fairly unlikely.

Davies suggests that the real challenge for asset managers will be the transition period, not in the actual new way of doing things. The RSRCHXchange platform is designed to allow asset managers to pick and choose the research they require, and to only pay for what they consume.

“It’s difficult because the transition is from a world where asset managers were drinking from a fire hydrant of research to a world where they need to be far more selective,” says Davies.

“It could be a bit of a shock to the system, but I think it is critical that people start to adapt rather than going through the process of having no research at all for a time.”

While it may be a challenge and something of a culture shock, with the regulatory drive for transparency and investor protection since the financial crisis, it’s hardly a surprise that such significant figures will no longer be allowed to be spent in such an opaquely bundled manner. In fact, according to Scarth, this drive toward unbundling of execution and research payments has been around since the Myners Report of 2001.

He says: “As the drive towards transparency over trading and execution costs has taken hold, scrutinising access to, and costs of, investment research was a natural progression. Undoubtedly, MiFID II is forcing this change, more so than any previous attempts towards unbundling.”

Davies agrees that MiFID II has acted as a catalyst for this change. However, he maintains that, even for firms outside the reach of the directive, having no documentation, no audit trails and no transparency around what could be its second-biggest cost item is at best ill advised.

“Before now, I don’t think the market had changed in decades,” he says.

“Now they’ve looked at it, this clarity is something that firms will want. And so, even in geographies outside of MiFID II we feel confident that the genie is out of the bottle.”

While service providers are clued up and ready to tackle the issue, asset managers themselves have been a bit quieter, the suggestion being that they’re still working on this section of the new regulation. Perhaps understandably, given the many, many challenges involved in the run-up to implementation.

A spokesperson from BNP Paribas confirmed that the institution is still looking at the research costing situation.

“The asset management industry faces a number of issues with regard to the implications and implementation of MiFID II,” the BNP Paribas spokesperson explained.

“These include valuing and paying for research. In line with many of our peers, we currently have commission sharing agreements in place. In light of the changing regulatory environment, we are continuing to review our approach.”

The new procedures will mean looking into the nitty gritty, granular detail of their research, not only to understand it themselves but to report this detail to regulators and asset managers in the most transparent manner possible.

Scarth calls MiFID II “the most significant global change in research funding since the US Securities and Exchange Act of 1934”. He adds: “Most managers will have to significantly change their research procurement process.” **AST**

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 providing 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

Broker/Commission Manager, Asset Management

Recruiter: Alexander Ash
Location: London

My client, a leading buy-side firm, is looking for a broker/commission manager to join on a permanent basis. This role sits within the front office and the successful candidate will be responsible for the production of the broker review and for managing the commission process.

Senior Business Process Improvement Analyst, APAC

Recruiter: HornbyChapman Ltd

We are looking for a solutions analyst to act as a consultant and partner with the business community, technology project teams and business partners elicit, clarify and translate business requirements into documentation and conceptual design from which applications and solutions are developed.

Fund Administration, Custody

Recruiter: Alexander Ash
Location: London

For this global financial services organisation we are looking for a business analyst with excellent fund accounting and custody experience. The role will involve working on a variety of projects within fund accounting and custody and similar business functions.

C++ Developer, Brokerage

Recruiter: Selby Jennings
Location: Hong Kong

Hong Kong brokerage looking for a top C++ developer in their exchange connectivity division. If you're interested please apply online.

Hiring and retiring at SIX Group, HSBC, BNP Paribas and more

SIX Group CFO Stefan Mäder has decided to leave the financial services provider after six years in the role.

His successor will be named by February 2017 at the latest, according to SIX, and he will stay in the role until then to ensure a seamless transition.

Mäder is also division CEO of finance and services, and chose to leave SIX to take on extra professional challenges, in addition to his board mandates.

Urs Rüegsegger, CEO of SIX Group, commented: “Under Stefan Mäder’s leadership, finance and risk functions were further developed and given a strong international orientation. His work created an important foundation for the profitable growth of SIX.”

SIX has also seen an addition to its board of directors with the announcement that Corinne Riguzzi has been named new head of SIX Exchange Regulation, effective 1 January 2017.

She succeeds Rodolfo Straub, who ran the department since its inception in 2009, but is now retiring.

Straub will continue to work with SIX with a reduced workload, providing assistance with various projects.

Riguzzi has been head of surveillance and enforcement since August 2012 and deputy head of SIX Exchange Regulation since mid-2013.

In a statement, SIX said: “Corinne Riguzzi is not only familiar with the duties and processes associated with surveillance, but also with the various duties associated with the entire spectrum of self-regulation and the related bodies.”

Alexandre Zeller, chairman of the board of directors of SIX, commented: “In Corinne Riguzzi, we are gaining a management expert with an extraordinary amount of experience in the area of exchange regulation and a very strong international network.”

“I am also pleased that an internal candidate was able to successfully prove herself during the recruitment process for this central role.”

“At the same time, I would like to sincerely thank Rodolfo Straub for his enormous commitment. He has made a substantial contribution to professionalism and to the credible entrenchment of self-regulation in securities exchange law.”

HSBC’s Kapil Seth has moved up a rung to take on the position of regional head of securities services for the Middle East and North Africa, succeeding Arindam Das, who has taken up a new role within HSBC.

Seth, who was previously HSBC’s head of securities services in India, will now be responsible for leading the business across its extensive and long-established network in the region.

Based in Dubai, he will report to Cian Burke, HSBC’s global head of securities services, and Georges Elhedery, the bank’s head of global banking and markets for the Middle East and North Africa.

BNP Paribas Securities Services has appointed Patrick Hayes as head of the UK, the Middle East and South Africa, taking over from James McAleenan, who is retiring.

Hayes will take up his new role, based in London, at the end of June.

He joins from State Street, where he was managing director of international fund services for Europe. He spent almost 25 years at State Street in various positions including head of global markets operations, and leading accounting and operations teams.

From 2005 to 2007, however, he worked at Northern Trust as head of global relationship management for global fund services.

In his new position, Hayes will report to José Placido, global head of client development at BNP Paribas Securities Services.

Placido said: "I am delighted to welcome Patrick Hayes to BNP Paribas. [He] is a securities services industry specialist with a long and distinguished track record. He joins us at an exciting time as we continue to grow our market share and capitalise on a strong momentum, in the UK in particular."

"I would like to thank James McAleenan for his contribution to the growth of BNP Paribas Securities Services and for helping us build our institutional client base."

Schroders has appointed Shigesuke Kashiwagi as president and country head of Japan, effective 1 July.

Kashiwagi will replace Guy Henriques who has been in the role since 2012, and who will be returning to the UK later in the year.

With 34 years of experience, Kashiwagi joins from Nomura Holdings, where he was executive managing director and CFO, a position he held for just over three years. At Nomura, he also held other senior management positions based in Tokyo, New York and London.

In his new role he will be based in Tokyo and will report to Lieven Debruyne, CEO of Schroders in the Asia Pacific region.

Debruyne said: "Shigesuke Kashiwagi's distinguished and varied career at Nomura reflects his global leadership skills and deep understanding of the country's client needs."

"His unparalleled experience will help drive the next stage of growth of our successful Japanese business, not just in delivering investment solutions for major clients but also in the vital areas of governance and stewardship."

Peter Harrison, group CEO of Schroders, said: "The appointment of an executive with Shigesuke Kashiwagi's unrivalled experience and financial industry knowledge highlights our continued commitment to growth in Japan, Asia's largest investment market, and a strategically important part of Schroders."

Kashiwagi added: "Schroders is an industry leader with a long history, a first class reputation and outstanding business performance. I am delighted to be joining the firm as the new country head of Japan." **AST**

Have an appointment that we should shout about? Let us know via: stephaniepalmer@blackknightmedialtd.com

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