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State Street settles foreign exchange fraud allegations for $382.4 million

State Street will stump up at least $382.4 million to settle allegations it deceived custody clients through fraudulent foreign exchange (FX) practices.

As part of its settlement with the US Department of Justice, State Street Bank and Trust Company admitted that its State Street Global Markets (SSGM) division failed to price FX transactions at the standard interbank market rates.

Instead, for certain custody clients SSGM applied a pre-determined and uniform mark-up, in the case of FX purchasers, or mark-down, in the case of sellers.

In a statement, State Street said it considered a settlement to be in the "best interests" of both the bank and its clients.

The Department of Justice also alleged that State Street falsely assured clients that it performed 'best execution' on its FX transactions, and that it 'guaranteed' the most competitive rates available.

SSGM also allegedly claimed to base the cost of FX transactions on a variety of factors when, in fact, costs were based largely on hidden mark-ups designed to maximise profits.

Carmen Ortiz, US attorney for the district of Massachusetts, where State Street is headquartered, said: "State Street's custody clients, many of whom were public pension funds, financial institutions and non-profit organisations, had a right to expect that State Street would execute transactions in an honest and forthright manner."

She added: "Instead, State Street executed FX transactions in a manner that enabled it to reap substantial profits at the expense of its custody clients. Today's settlement reflects a significant and appropriate penalty for State Street's deceptive conduct."

The $382.4 million settlement includes $155 million to be paid to the department of justice as a civil penalty to resolve the allegations.

State Street will pay $75 million to the US Securities and Exchange Commission in 'ill-gotten gains', plus a $75 million civic penalty and $17.4 million in pre-judgement interest to its Registered Investment Company clients.

At least $60 million will be paid to State Street's Employee Retirement Income Security Act customers, who the US Department of Labor found sustained losses through the alleged fraud.

State Street has also agreed to make detailed disclosures about its FX pricing going forward, and to refrain from making representations regarding FX pricing that are not accurate.

Mike Rogers, president and COO of State Street, commented: "Matters of this nature can drain both time and resources; so where possible and appropriate we feel it is in State Street's and our clients' best interests to pursue settlements."

He added: "In 2009, we significantly strengthened our disclosures around indirect foreign exchange, including publishing the spread relative to indicative interbank market rates at the time of pricing, and today believe we provide our clients with the most comprehensive disclosures in the industry."

Taking into account additional private lawsuits, State Street expects to pay approximately $530 million to settle claims, all of which will be covered by a previously established reserve.

FCA advises on cloud-related risk

Financial services firms are responsible for their own regulatory compliance, and should conduct appropriate due diligence when using 'cloud' technology providers, according to guidance from the UK Financial Conduct Authority (FCA).

The guidance also applies to any other third-party IT service providers, and noted that the term 'cloud' itself "encompasses a range of different IT services".

It outlined areas that firms should consider before outsourcing to such companies, including legal and regulatory considerations such as ensuring thorough due diligence and making sure that the mandate does not contribute to operational risk.

The guidance said: "Regulated firms retain full responsibility and accountability for discharging all of their regulatory responsibilities. Firms cannot delegate any part of this responsibility to a third party."

Risk management should include a risk assessment and early identification of industry good practice in data security and management. Firms should also review whether the risks differ for different types of clients.

Other things to consider, according to the FCA, include: the extent to which the service provider adheres to international standards; how they will maintain accountability; and how they will ensure adequate access and oversight.

With regards to a security risk assessment, the FCA advised that firms agree a "data residency policy" at the beginning of the relationship, to be periodically reviewed, setting out the jurisdictions in which data can be stored, processed and managed.

Firms should understand the provider's data loss and breach notification processes,

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ensuring they're aligned with their own risk appetites, and consider the ways in which data is encrypted, transmitted and stored.

They should be allowed access to data, particularly for compliance and audit processes, however the FCA specified that access to premises applies only to head offices and operations centres, not necessarily data centres.

In response to the guidance, Phil Bindley, chief technology officer at The Bunker, an outsourced infrastructure and data storage provider, suggested that there is no reason why financial services firms shouldn't use cloud services, as long as appropriate security assessments are carried out.

He agreed, however, that failure to do so will result in increased data security risks.

Bindley said: "Cloud is here to stay and it is experiencing increasing adoption due to the major benefits it brings. However, the issue of security is one that remains at the forefront of the cloud debate."

"Putting appropriate guidance in place and acknowledging the potential risks are two integral steps when it comes to ensuring that the security risks associated with the cloud are minimised."

He added: "These guidelines should be embraced as they encourage firms to do their due diligence to make sure they understand the ways in which their data is stored, processed and managed."

ESMA issues additional non-EU AIFMD passport advice

The European Securities and Markets Authority (ESMA) has issued additional advice on application of the Alternative Investment Fund Managers Directive (AIFMD) marketing passport for non-EU markets, finding issues outstanding for the US, Bermuda, the Cayman Islands and the Isle of Man.

ESMA found that there was "no significant obstacle" to passport application for Canada, Switzerland, Jersey and Guernsey.

The advice also covered Australia, Hong Kong, Japan, and Singapore.

Currently, non-EU alternative investment fund managers (AIFMs) have to comply with each individual's EU state's national regime in order to market funds there. A passport would allow these managers to market and manage funds throughout the EU.

In the US, ESMA found nothing regarding investor protection and the monitoring of systemic risk that could impede the application of the passport. It also found no issues with competition or market disruption.

However, although there is no obstacle for funds marketed to professional investors that do not involve a public offering, for those that do involve a public offering, extending the passport could cause an unfair advantage to the US funds, ESMA said.

Market access conditions applied to US funds marketed to professional investors that include a public offering could potentially be less onerous than those applicable to comparable EU funds marketed in the US. ESMA advised that EU institutions should consider ways to mitigate this risk.

For Bermuda and the Cayman Islands, ESMA said it cannot offer any definitive advice on investor protection or effectiveness of enforcement, as both markets are in the process of implementing new regulatory regimes.

Similarly, ESMA said that as the Isle of Man does not have any regulatory regime comparable to AIFMD, it could not assess whether the criteria for investor protection was met on the island.

For Hong Kong and Singapore, ESMA found no significant obstacles with regards to alternative investment funds themselves. However, both jurisdictions operate regimes that only allow access for UCITS funds from certain EU member states, for retail investors. This could prove an issue for extending the passport to AIFMs.

In Australia, there are no obstacles with regards to market disruption, providing that the Australian Securities and Investment Committee extends its relief provisions for class orders, which are currently only available for some EU member states.

The ESMA passporting advice is a requirement of AIFMD, and will now be considered by the European Commission, Parliament and Council.

CBRT commits to 'limitless' liquidity to maintain stability

The Central Bank of Turkey has pledged to provide the country's banks with limitless liquidity to ensure financial stability in the wake of recent economic and political turmoil.

The central bank set out several financial measures to minimise market disruption, which has been linked to the failed military coup that took place on 15 July.

In a statement on its revised monetary policy, the central bank acknowledged Turkey's controversial political troubles, stating: "Recently, domestic developments have led to fluctuations in financial markets."

To combat these fluctuations, the Central Bank of Turkey confirmed that the commission rate for intra-day liquidity going forward will be zero.

Banks will also be allowed to place foreign exchange deposits as collateral without limits for required Turkish lira liquidity.

All markets and systems, including the electronic fund transfer and the electronic security transfer and settlement systems, will be left open until final settlement of transactions.

Shortly after these measures were announced, the central bank also adjusted its short-term interest rates to better suit the market environment.

Overnight, interest rates were reduced from 9 percent to 8.75 percent, while the borrowing rate and one-week repo rate were kept at 7.25 percent and 7.5 percent, respectively.

The borrowing rate for the late liquidity window, which is held between 4pm and 5pm, has been kept at 0 percent, while the lending rate was reduced from 10.5 percent to 10.25 percent.

Piotr Matys, a research analyst at Rabobank, suggested that the political fallout caused by the attempted overthrow of Turkish President Recep Erdoğan may make foreign investors more cautious and lead them to reduce their exposure to Turkish assets.

"A wave of capital outflows cannot be excluded, which would exert a selling pressure on the lira. A more volatile and depreciating currency accompanied by concerns about more terrorist attacks may lead to a weaker economic activity as households shift to a saving mode and corporates postpone strategic investment decisions," said Matys.

"The Central Bank of Turkey may have to pause its process of simplifying the monetary policy by narrowing the interest rate corridor at the time when prominent officials expect policy makers to cut rates far more decisively to support investments and consumption."

"Escalating political pressure on the Central Bank of Turkey will undermine already damaged confidence amongst foreign investors following recent dramatic events."

GLEIF launches LEI challenge facility

The Global Legal Entity Identifier Foundation (GLEIF) has launched a new LEI data challenge facility.

The facility offers users an easy means to trigger the verification of legal entity identifier (LEI) records, and to update them quickly.

Once a challenge has been logged, GLEIF passes the information on to the relevant LEI issuing organisation for follow-up.

If the LEI record should be questioned through the challenge facility, it is the responsibility of

the LEI issuer to resolve the matter. If required, the LEI issuer will then update the information related to the LEI record.

Stephan Wolf, CEO of GLEIF, commented: "The new online challenge facility is an essential addition to the GLEIF data quality management programme, which allows the quality of the LEI data pool to be monitored, assessed and further optimised."

He added: "We encourage all users of LEI data to take advantage of this new GLEIF service. We very much look forward to working together with all stakeholders and the LEI issuing organisations towards continuously improving the reliability and usability of the publicly available LEI data pool."

Illinois pension fund agency seeking custodian proposals

The Illinois State Board of Investment (ISBI) is seeking a new provider for master trust and custody services, both on a domestic basis and internationally.

ISBI issued a request for competitive proposals from qualified custodian banks, and gave them until 27 July to respond.

Currently, its custody services are provided by State Street Bank and Trust.

A non-appropriated state agency, ISBI is responsible for managing the pension assets of the Illinois General Assembly Retirement System, the Judges' Retirement System of Illinois, and the State Employees' Retirement System of Illinois. As of 31 March, it has net assets of $15.4 billion.

The pension fund agency's new custodian must be able to provide accounting services for corporate actions, securities lending, equity real estate, private equity, and for future and multi-currency derivatives.

It will have to provide securities settlement for physically held securities and foreign exchange transactions, and all trade data must be electronically accessible by ISBI.

The custodian will be responsible for cash and foreign exchange management, securities lending reporting, and corporate actions and proxy processing services.

It should be able to offer technology and systems support and security, as well as reporting capabilities, performance measurement and analytics, and compliance monitoring.

Euroclear Bank secures ETF mandate

ICBC Credit Suisse Asset Management International (ICBCCS) has selected Euroclear Bank to clear and settle its first internationally listed China equity exchange-traded fund (ETF).

The ETF, known as ICBC CS WisdomTree S&P China 500 UCITS, will be domiciled under Luxembourg law.

It will be listed and traded in USD, GBP and RMB on the London Stock Exchange, and settle directly in international central securities depository Euroclear Bank.

ICBCCS, which had RMB 960 billion (USD $144.6 billion) in assets under management as of March, is the international arm of one of the largest managers in China and the asset management joint venture of ICBC and Credit Suisse.

Richard Tang, CEO of ICBC Credit Suisse Asset Management International, said of the mandate: "We are delighted to work with Euroclear Bank, and look forward to continually building efficient China offerings for investors through different strategies."

Mohamed M'Rabti, deputy head of FundsPlace at Euroclear, added: "We are very proud to have been part of this unique project with ICBCCS. Our international ETF model has been riding a wave of momentum over the past year to distribute China products to our clients."

"It is an honour to be the infrastructure provider of choice to support ICBCCS's ambition to distribute its first China equity ETF, not only in Europe but also globally."

Chapman's eye on the market

Plus ça change…

So, where was I? Much happened while I was away? Writing a topical article is challenging enough in normal times, however, we are in a period of unprecedented change on multiple fronts—political, social and geographic to name but a few—so by the time you read this piece it is highly likely that certain arrangements and structures may have already changed. If so, my apologies.

Let's start by reviewing what we know for definite. The world did not end the day after Brexit. Despite an entirely understandable but mercifully brief period of realisation and adjustment immediately after the result was announced, both the equity and currency markets have bounced back to pre-Brexit levels. It is a paradox that while markets dislike uncertainty, they crave volatility, as this allows positions to be taken and profits to be made. On the political front, the Conservative party at least put their internal differences aside and formed what looks like a strong government to the relief of the markets. Labour, by contrast, appear riven with internal differences that will last through summer. Whatever one's political viewpoints, strong democracy requires strong opposition so let's hope that this gets resolved promptly, too. Any takers on David Miliband riding to the rescue of the party when he feels the time is right?

Now that the initial shock has subsided—and whatever their views on Brexit, I suspect that most folk thought it wouldn't go through—individuals, governments and companies have broadly accepted that Brexit will happen, and their thoughts are now turning to positioning themselves correctly to take best advantage of the coming changes. Possible scenarios and end games will very much depend on how positively, aggressively or laterally thinking the respective governments of the UK and Europe are. Fortune favours the brave, as they say, and if politicians embrace this once-in-a-lifetime opportunity and overcome political dogma, then huge benefits will be available.

For example, if Nicola Sturgeon, Scotland's first minister, accepts the concept of the Laffer Curve, whereby tax revenues increase if tax rates are reduced, then Scotland could well become the 'third leg' of the European funds stool, complementing Dublin and Luxemburg and building upon Scotland's well-deserved reputation for its probity, financial experience and diligent, intelligent workforce built up over many years. Several banks have commented that should Scotland succeed in remaining part of the EU, they would consider moving their European headquarters there, given its proximity, language, and cultural benefits.

We have also seen several firms announce that they are moving staff to Dublin. This decision is unrelated to Brexit, and simply part of an ongoing desire to move production to lower-cost centres. Client-facing staff will continue to remain where client decision makers are, ie, London.

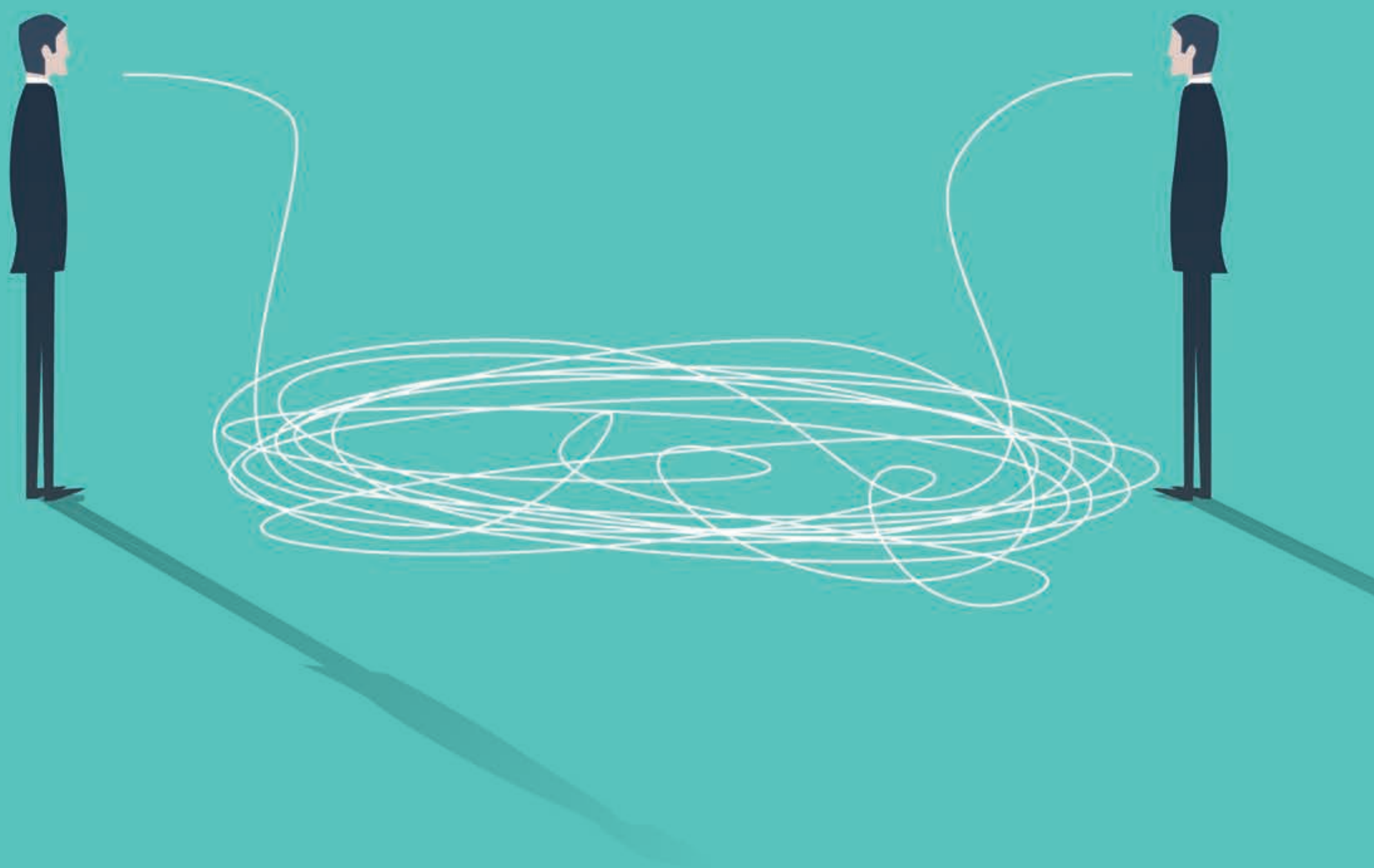
So much else is happening on a granular level in our industry, all of which will be covered at a later date. Until then, enjoy your summer.

Paul Chapman, managing director, HornbyChapman Ltd

Communication breakdown

In a world of cost pressures and increasing efficiency demands, an outsourced reconciliations solution could be the difference between smooth sailing and trades failing, says SmartStream's Christian Schiebl

Stephanie Palmer reports



Financial institutions are under pressure to improve efficiency and reduce their costs—where is this coming from? Is new regulation still a burden, or is demand coming from investors?

The pressure to increase efficiency and reduce costs is not only coming from the additional regulatory requirements, that some might consider a burden, but also from the banks and financial institutions themselves. Developments over the past eight years have shown that, to a certain degree, investors are actually requesting these regulations. They want the additional assurances that their investments are secure. However, the banks still need to earn sufficient margins and, though it would be easy to over-compensate for the costs they incur due to increased regulations, the savings, and ultimately the revenue, must come from efficiencies realised through better and more accurate processes.

The main catalyst for this improvement of efficiency and reduction of costs is globalisation. As the competition within the markets increases it drives innovation, cost-efficiency and enhanced service levels, as well as leading to stricter international rules. Regulation is the key factor forcing the players to balance risk with necessary investments and stable commercial success, all while maintaining competitive margins.

On a technical or infrastructure level, standardisation is perhaps the most elementary driver. However, it is regulation that necessitates the development of this level of standardisation, so solutions such as the SmartStream Corona Suite can play an intricate role in lowering cost through improved automation and reduced operational risk.

To what extent can a product like Corona help asset managers to control things like risk and liquidity?

Managing assets, cash and liquidity is the key task for treasuries and asset managers around the globe. However, globalisation, rapid company growth and market volatility make it increasingly difficult to gain full visibility of an institution's cash positions.

Corona supports firms by effectively managing risk exposure through the rapid identification of position breaks and failed trades, while providing real-time access to information on all securities transactions and positions. It also monitors and controls the full lifecycle of all transaction process workflows, from the initiation of a new workflow through to its final successful settlement.

It is important to identify any unexpected situation early in the process and to correct it. This means exceptions are prevented at the outset rather then solved later on, if a solution is even possible at that point. This enables institutions to focus on exceptions at the earliest opportunity, with the aim of reducing operational risk. In a nutshell, Corona can:

- Monitor all interfaces to external parties such as brokers, clients, corporates, custodians, and central clearers;
- Connect all business units to access critical data to support time sensitive financial decision making;
- Process and control corporate action workflows; and
- Provide important daily portfolio management functions, such as real-time balance control of quantities of financial instruments, their net asset values, and the associated cash positions.

How much can efficient reconciliation speed up the transaction process? What kind of value can be realised?

Often securities or cash reconciliation is relegated to the back of the back office as something banks just simply need to do. This is a very insular view and does not tackle the actual requirements.

SmartStream's Corona is designed to automatically control the complete process lifecycle across different divisions of a large organisation, as well as external parties, delivering better supervision and visibility for all transactions. It has to be more than just a reconciliation solution, although it offers the advanced reconciliation and matching algorithms. Over the last 10 years, SmartStream has developed solutions for full operational control, which deliver greater efficiency, while reducing operational costs and risk through exception prevention and detection and enhanced transaction management.

Identifying and raising exceptions at an earlier stage of the transaction—pre- rather than post-settlement—not only allows for automatic correction of the cause of a potential issue, it also provides a more accurate view of positions, enabling institutions to make more informed funding decisions. Additionally, it also increases customer satisfaction and therefore adds a competitive advantage.

Will new technology, such as blockchain, transform the reconciliations space?

Corona has always been at the forefront of innovation, helping banks to develop or follow the latest industry trends. Blockchain has recently become an industry buzzword, but at the end of the day it is no more than another step on the way to a future in which infinite virtualisation is the norm. Becoming paperless was one of the first steps. Goods such as music and literature no longer need a physical representation, but can now be centrally hosted. The same will not only happen to cash, but also to many other financial instruments.

A central repository that offers the ability to change any financial instrument's ownership within milliseconds naturally sounds very exciting, and the shipping of all required transaction information inside a DNA-like technology even sounds familiar—nature has managed this for millennia. From a technical standpoint, this isn't that big a challenge, even taking into account the extremely stringent security mechanisms.

In reality, many processes would become much easier, but everything would need to be replaced, starting with infrastructure. However, one of the little discussed aspects is the effect it would have on market players and key functions, many of whom would now be rendered obsolete. Clearing agents, settlement providers, payments processors and central authorities would all be made redundant.

In reality, there should be no doubt that this evolution is inevitable, but it will take decades to get there. SmartStream's Corona solution is designed to deliver best practice for automatic process control of workflows. All kinds of industries will benefit from 'block change' in the same way they benefit from any other attempt to harmonise and unify the business-to-business, business-to-consumer, and any other X-to-Y rules.

To put Corona in that context—all of this will be necessary to significantly increase the number of global transactions in the coming decades. This will exponentially increase the necessity of preemptive and automatic monitoring, control, and reporting mechanisms—services Corona already provides. Unexpected cancellations, system failures, human mistakes, and fraud will not disappear, and without a solution for handling all potential exceptions, these issues will become the largest cost barrier on the way to such a future industry.

The post-trade environment is a busy one. What is SmartStream doing to stay competitive?

The most important factor in a post-trade environment is cost efficiency. The biggest cost driver is the correction of problems caused by errors in data, system failures, human mistakes and fraud. The vast majority of those mistakes are already triggered pre-settlement. This means that prevention of such mistakes, or at least early pre-settlement detection, would significantly reduce efforts, and therefore the overall costs—and not only in the post-trade environment.

> ***The most important factor in a post-trade environment is cost efficiency. The biggest cost driver is the correction of problems caused by errors in data,system failures, human mistakes and fraud***

Christian Schiebl, Executive vice president, Corona business unit
SmartStream Technologies

To achieve those cost reductions, Corona, as an operational control solution, expands a virtual control grid across the entire organisation, across all departments and all systems. By doing that, a financial institution not only gains control over its end-to-end processes from the front to back office, it also gets an instrument in place that is able to detect any mistakes early on in the process, and to automatically correct them. This prevents exceptions that would otherwise need manual intervention.

In addition, SmartStream delivers complementary solutions and services designed to further increase the efficiency of financial institutions. Erroneous data is one of the main cost drivers, and delivering correct data would automatically decrease the number of exceptions significantly. The SmartStream Reference Data Utility is setting a new industry standard when it comes to the quality and accuracy of reference data.

Corona seamlessly integrates with other SmartStream solutions for cash and liquidity management, collateral management and corporate actions processing, among others. And, especially in the context of this question, we should not forget SmartStream's fees and invoicing service.

Ultimately, cost reduction can be achieved by outsourcing wherever an institution can profit from economies of scale, whether it's outsourcing only the technical environment or going further, outsourcing operations as well. The Corona solution, along with the other SmartStream solutions and services, is delivering both options to its clients already. **AST**

As EU like it

As Ireland remains firmly in the European Union, its funds industry continues to grow in complexity, diversity and sheer size, says Brian Dillon of Dillon Eustace

In your opinion, what do asset managers most demand, and value, from their service providers?

I think that it is not so much what asset managers demand from their service providers, rather more a question of what they have come to expect from their service providers here in Ireland.

The Irish fund industry has, since its inception over a quarter of a century ago, developed a global reputation for expertise and knowledge in areas such as fund administration, custody, depository services, compliance oversight, tax advisory, audit and legal services. The industry has evolved to a stage where the companies and firms operating here and competing globally across all sectors are recognised as market leaders.

The intense competition serves to improve the quality and efficiencies of services. Industry service providers are well resourced with well-educated and highly experienced fund professionals who are equipped to support their asset manager client requirements in a prompt and cost-efficient manner. Clients expect their advisers to provide industry-focused, innovative, solution-driven and prompt advices from their advisers.

What kind of things do your clients typically outsource, and what do they keep in house?

The majority of our asset management practice clients are based outside of Ireland. Their in-house counsel would engage with our fund lawyers at an early stage on product planning and on structuring, drafting and negotiation of fund documents, and representation with the central bank. In addition, non–EU clients will often seek guidance on the ever-increasing amount of EU regulatory and legislative requirements that impact their Irish fund products.

Has this changed in recent years?

As a result of the increasing volume and complexity of regulations and legislation, clients will seek advice from other areas of our practice, most noticeably from fund governance and regulatory and compliance. In addition, we are being approached by companies seeking advice in circumstances where issues have arisen which might result in administrative or enforcement actions from regulators. Specialist lawyers here at Dillon Eustace can assist these companies. Our tax, foreign registration and Irish Stock Exchange listing departments remain busy assisting fund clients.

What kind of funds are you seeing the most demand for? Are you seeing an increase in ETFs?

The various fund teams at Dillon Eustace are continuously working on new funds for a broad spectrum of clients. We would certainly see an increase in alternative asset funds, hedge funds, funds of hedge funds and private equity structures. Lawyers here have also recently advised on several real estate funds and more complex index-tracking UCITS and exchange-traded funds (ETFs).

Increasingly, clients who are looking to establish ETFs will also seek expert listing advice from firms who have listing departments with relevant ETF experience, and we are fortunate enough to provide that here at Dillon Eustace. While we have always had a large Asian fund client base we are seeing more interest in UCITS from Singapore, India and Hong Kong. Also, long-only UCITS Irish collective asset management vehicles remain common.

Is there concern that if the UK reduces corporation tax that will have a negative effect on the funds industry in Ireland?

As you will know, the Irish corporate tax rate of 12.5 percent has been in place for many years. There has been much discussion from different countries about reducing their own tax rates to similar or even lower rates. There have even been suggestions from other countries that Ireland should increase this competitive tax rate. The Irish government's consistent response, however, is that there will be no increase.

No more than trying to predict the implications should the UK, as expected, exit the EU in the coming years, it is difficult to predict what possible impact a reduction in the UK tax rate might have on the funds industry here in Ireland. While there are tax advantages for fund-related businesses operating here in Ireland, there are many other factors as to why the Irish industry continues to thrive, such as the knowledge and expertise mentioned earlier. In addition, and perhaps of fundamental importance, is the fact that Ireland remains a fully committed member of the EU—and this is expected it to continue. **AST**

While there are tax advantages for fund-related businesses operating here in Ireland, there are many other factors as to why the Irish industry continues to thrive

Brian Dillon, partner, Dillon Eustace

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KDPW Group, including KDPW as the Polish Central Securities Depository and KDPW_CCP as the EU-authorised central counterparty clearing house, offers a competitive, integrated and complementary package of depository, clearing, settlement and added-value services. Using the synergies between KDPW and KDPW_CCP, the KDPW Group provides its clients with services meeting the highest international standards.

Killing UCITS softly

The clock is ticking for securities lending participants to convince ESMA of the dangers of mandatory asset segregation under AIFMD and UCITS, which they argue could devastate market liquidity and turn the industry on its head

A crack team of financial industry representatives were invited to Paris by the European Securities Market Authority (ESMA) on 21 July to lay out the case for why asset segregation as proposed under the Alternative Investment Fund Managers Directive (AIFMD) and UCITS V would undermine collateral management, without bringing any of the investor protection it promised.

The European Central Bank, EU Commision, Association of Global Custodians and Association for Financial Markets in Europe, along with industry stakeholders, were all present to discuss the matter ahead of the 23 September deadline for ESMA's call to evidence following its latest AIFMD/UCITS V consultation paper relating to this issue.

The large delegation in Paris heard from multiple industry representatives that AIFMD should adopt an optional asset segregation clause, similar to existing segregation rules such as the European Markets Infrastructure Regulation (EMIR). For example, Article 39 of EMIR requires central counterparties to offer individual client segregation and omnibus client segregation. Mandatory segregation would also make AIFMD inconsistent with the Markets in Financial Instruments Directive, along with a number of other existing regulatory frameworks.

Beyond the regulatory inconsistency, the industry appears united in its belief that demanding mandatory segregation for UCITS and alternative investment funds (AIFs), which both fall under AIFMD's remit, would take a significant chunk of liquidity out the market by burdening the affected fund types with rules that would make them significantly less attractive to do business with, by eliminating their ability to offer intra-day collateral exchanges.

Ross Whitehill, managing director and head of strategic regulatory office and global collateral solutions at BNY Mellon, who was present at the meeting in Paris, comments: "To date, no one has been able to identify for and within the industry any benefit of segregating assets throughout the custody chain."

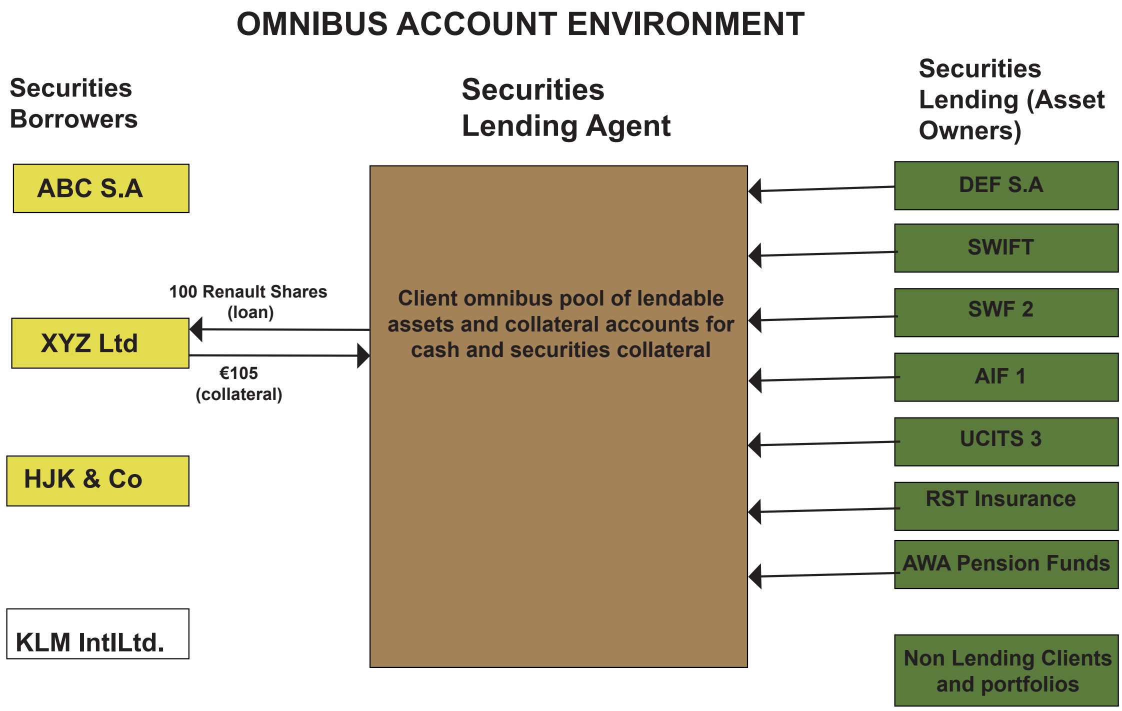
"The regulators, we believe, understand that and have asked the industry delegation to come up with ways of improving investor protection and speedy return of assets."

A problem shared

The negative consequences for day-to-day trading in a segregated environment versus the current system are laid out in Figures 1 and 2 overleaf. As shown in Figure 1, all assets are equal in that multiple fund types are able to contribute to a single asset pool, which can then be lent out collectively. In this example, XYZ Ltd is able to make a single transaction with the securities lending agent lender in exchange for a single portfolio of collateral, regardless of whether the securities it is borrowing came from one or more of the agent's clients. If that collateral needs to be amended throughout the day, that would also only require a book entry transaction in the agent lender's books and records.

Figure 2 shows a segregated environment where that same request for securities could potentially require several transactions to multiple accounts with collateral and securities being exchanged in a piecemeal fashion if the securities come from UCITS funds or AIFs, which creates new operational and settlement risk exposures for all relevant parties and becomes an administrative headache. Additionally, intra-day collateral substitutions would no longer be possible due the new requirement to physically shift assets from specific segregated accounts around the world.

At the same time, other fund types, such as sovereign wealth funds and pension funds, would still able to pool their resources in omnibus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Securities Lending Agent
Securities Lending (Asset Owners)
ABC S.A
XYZ Ltd
HJK & Co
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100 Renault Shares (loan)
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Client omnibus pool of lendable assets and collateral accounts for cash and securities collateral
DEF S.A
SWIFT
SWF 2
AIF 1
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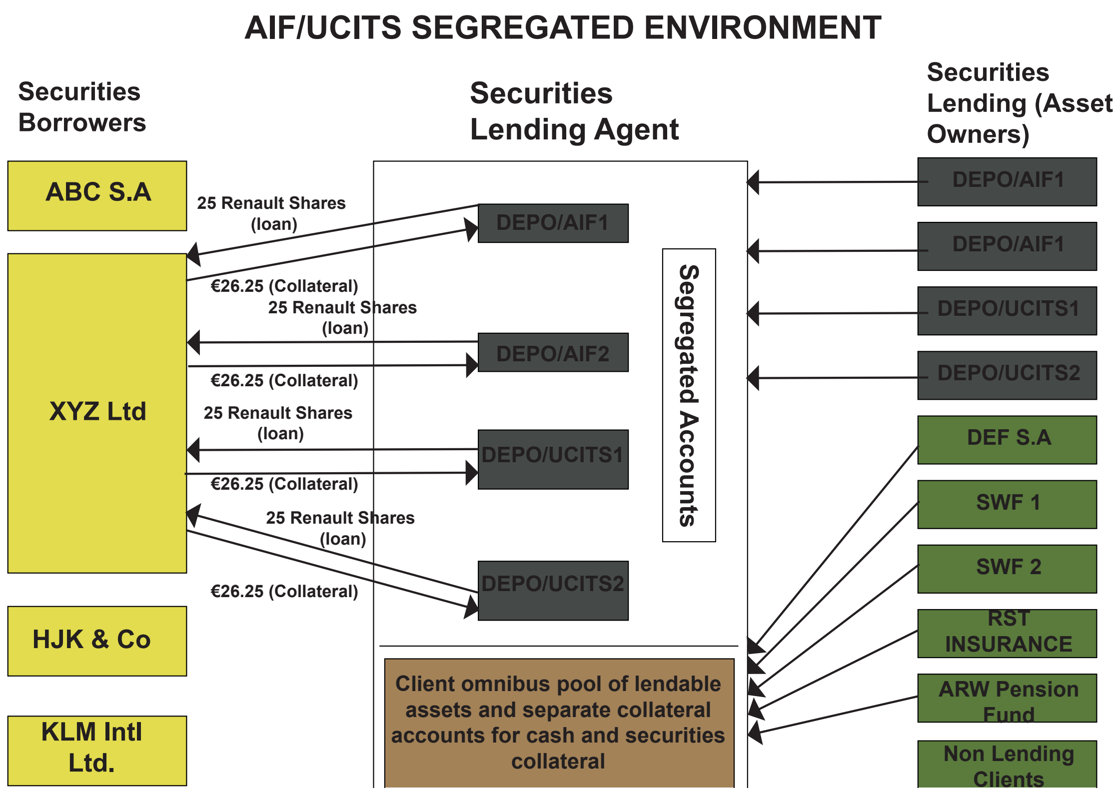
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25 Renault Shares (loan)
€26.25 (Collateral)
25 Renault Shares (loan)
€26.25 (Collateral)
25 Renault Shares (loan)
€26.25 (Collateral)
25 Renault Shares (loan)
€26.25 (Collateral)
DEPO/AIF1
DEPO/AIF2
DEPO/UCITS1
DEPO/UCITS2
Segregated Accounts
Client omnibus pool of lendable assets and separate collateral accounts for cash and securities collateral
DEPO/AIF1
DEPO/AIF1
DEPO/UCITS1
DEPO/UCITS2
DEF S.A
SWF 1
SWF 2
RST INSURANCE
ARW Pension Fund
Non Lending Clients

accounts, making it highly likely a borrower will request to use these securities from a single source in order to cut down on the admin required to complete the trade. The result is that UCITS and AIFs are likely to lose out on potential revenue due to the relative complexity of their custody arrangements. On top of all this, they may be asked by their custodian/agent lenders to pay for the privilege of having a segregated account, while receiving no, as yet identified, additional investor protection in return.

According to Whitehill, funds that aren't AIFs or UCITS have an average portfolio penetration in securities financing of around 12 percent. For AIFs and UCITS, it's around 7.7 percent, and while not solely attributable to the fear of segregation, where possible, borrowers are avoiding borrowing AIF/UCITS assets.

"In all probability these fund types [UCITS and AIFs] will have to adjust their benchmarks downwards in the event of mandatory segregation because they would have the additional expense of segregation and a performance drag through lower lending and repo revenues."

Although this should not be considered the death knell for either UCITS or AIFs in securities lending industry, the inevitable performance drag could dissuade potential future investors that value securities lending as a revenue stream from allocating assets to those fund types.

Side effects assemble

Disincentivising the use of UCITS and AIF assets carries significant consequences for the lending market as a whole, but especially for the buy side, which will become increasingly reliant on what's left of the pooled assets. In a single move, ESMA risks upending the current lending market environment from one where supply far outstrips demand to the reverse being true.

For the regulator, an over-reliance on sovereign wealth funds specifically should be a cause for concern because, for the most part, these entities are wholly outside of the remit of the EU and therefore not guided by its high regulatory standards. The funds that EU buy-side participants will be exposed to will likely be Asian and Middle Eastern in origin, both locations that are much more susceptible to 'wobbles' than their western counterparts. Middle Eastern sovereign wealth funds are intrinsically tied to the value of oil, which, given its current trajectory, mean that their high-quality liquid assets may become not so high-quality in the future, and leave EU borrowers with market exposures they are not equipped to manage.

According to the International Securities Lending Association's (ISLA) latest report on the global securities lending industry, 44 percent of the total global lending pool is made up of assets from mutual funds, which are governed by UCITS in the EU. Despite being far and away the biggest contributor to the lendable pool, mutual funds only make up 18 percent of the on-loan balance.

According to IHS Markit, as of 28 July, UCITS funds accounted for just 4.7 percent of on-loan balances. In its report, which was published in March, ISLA stated that it is "likely that this reflects the restrictive regulatory environment applied to this sector in respect of securities lending".

Meanwhile, sovereign wealth funds, which only account for 8 percent of available securities, make up a disproportionately high 13 percent of the total on-loan volume, according to ISLA. Insisting on mandatory segregation would go a long way to compounding this trend further. "Again, sovereign wealth funds (who only comprise of 8 percent of lendable securities) report a disproportionately high 13 percent of all securities on-loan."

"Furthermore, potentially we could see on-loan balances from UCITS continue to decline as asset segregation rules previously applied under AIFMD are more broadly applied to UCITS."

Once bitten, twice shy

Mandatory segregation of assets was originally conceived as a way of forming a new layer of investor protection and transparency that would allow for faster asset recovery in the case of an intermediary insolvency—but the industry has repeatedly highlighted the ineffectiveness of this approach.

The initial argument offered by regulators cited the collapse of Lehman Brothers and the subsequent seven-year saga that PwC, as the administrator of the failed bank's assets, had to go through to return them to investors. However, BNY Mellon commissioned a letter from PwC, which was presented to ESMA at the Paris meeting, outlining why having segregated accounts wouldn't have sped up the process.

Tony Lomas, a partner at PwC and the letter's author, explained: "Even where there were accounts where there were no reconciliation breaks and both the Lehman Brother International Europe (LBIE) statement and sub-custodian statement were aligned, we could not begin to release those assets until we were certain that all of the other accounts were correct, on the basis that, in common with all business failure environments that I have experience of, we could not be sure of the accuracy of LBIE's management information in the immediate aftermath of the collapse."

"More specifically, whilst an insolvency practitioner must respect third-party rights to assets that are in the practitioners possession or under the practitioner's control, the practitioner must satisfy themselves both that the claimant has undisputed legal title to an asset, that no other claimant has a competing claim against the same asset and that the insolvent entity itself doesn't have a right to it."

A second driver behind the regulator's initial desire for segregation was a lingering fear of a repeat of the events around the 2008/09 Bernie Madoff scandal, where Madoff turned his wealth management firm into the world's largest Ponzi scheme. Again, however, Madoff was the fund manager of Bernard L. Madoff Investment Securities and therefore had the authority to access funds throughout the firm, regardless of whether they were in a segregated or omnibus account, and that is still the case today.

Whitehill offers one explanation for why, given the weight of evidence in favour of optional segregation, ESMA is still entertaining the idea of making it mandatory.

"AIFMD probably started to be drafted before EMIR, and when it was being put together it was shortly after the crash and in response to Madoff," he explains.

"Physical segregation of assets in most respects is old thinking, given that markets are mostly electronic today. When the legislation was being drafted we believe that only the impact on custody was considered. No-one thought about triparty collateral management, financing or securities lending and the impact segregation would have on funding and liquidity."

"The latest meeting was the first time we've had everyone who is relevant to the discussion in the room. Previously we've held such meetings bilaterally. The very positive thing is that all of the national competent authorities and ESMA are listening, are keen to get the rules right, and are willing to do something about it." **AST**

Bring on Brazil

Brazil is hogging the limelight from its South American neighbours. But, although reforms are in full swing, there is still work to be done

The big dog of the Latin American market, Brazil is showing off its cultural, athletic and celebratory prowess as it hosts the 2016 Olympic games in Rio. Although its funds services offering may draw less universal attention, Brazil is also leading the way in administration in the region, attracting more and more attention from the regulators, and prompting service providers to buck up their ideas.

While fairly obvious, it is a truth nonetheless that the sheer size and diversity of Latin America as a region makes it a difficult part of the world to assess as a whole. Andrea Cattaneo, head of Brazil for BNP Paribas Securities Services, suggests that this is even more evident when it comes to analysing financial services trends.

He says: “Latin America is still very fragmented in terms of regulation and market practices. There are some markets which are more open to fund distribution, such as Chile and Colombia, and others that have been more closed in the past.”

According to Cattaneo, macroeconomic challenges including political instability in Latin America and around the world, mean international groups are taking decisions to refocus their strategies into more developed countries. BNP Paribas, for one, he says, is focusing its commercial activity on Brazil. He adds that there is a “globalisation process happening in Brazil, which is creating deeper links with Europe”, and that “the new regulatory framework for funds is creating interesting opportunities for players like us that can offer high quality solutions for local asset managers and funds”.

Similarly, BNY Mellon centres its Latin American business in Brazil, the only Latin American country in which it possesses a banking licence.

Carlos Salamonde, managing director and CEO for asset servicing in Brazil and Latin America at BNY Mellon, explains that, while the bank offers local-to-local business services in Brazil—fund administration, custody, and net asset value calculation—elsewhere, it offers custody services for funds domiciled in the likes of Chile, Colombia, Mexico and the Caribbean that are looking to invest into Brazil, or offshore.

However, the regulatory landscape in Brazil is in flux, with two major changes in legislation coming into effect in early July 2016. Instruction 555, imposed by the Brazilian Securities and Exchange Commission (CVM) not only reduced the number of possible classifications for fund types, leaving just fixed income, equities, multi-strategy and currency exchange funds, but it also increased the limits for offshore investment, and investment into certain types of assets.

Instruction CVM 558 is intended to regulate administration of security portfolios, while stimulating competition in the market. Under CVM 558, administrators and managers must publish periodic information to investors and regulators, thereby improving transparency of the market. However, CVM has also distinguished between portfolio managers, separating the responsibilities of 'fiduciary managers'—those responsible for custody, control of asset and liabilities, and general supervision—and 'asset managers'—responsible for making the actual investment decisions.

He says: "The regulation separates the roles, makes it clearer so that everybody understands, with no blurred areas, the different responsibilities of, for example, the NAV calculation provider and the custodian."

CMV 558 reflects a change in the regulator's attitude toward fund distribution—it also allows asset managers to distribute their own funds, a function that was always previously done by third-party providers, and a change that Salamonde says "asset managers have been requesting for some time".

Equally, this change has added to the existing trend of globalisation, making the market more open to international flows. Cattaneo suggests that the challenging environment globally, and a shift towards more asset classes being denominated in US dollars and Euro, has created a need for asset managers to re-balance their portfolio allocations.

"This trend is creating opportunities for large, global asset managers that are implementing new strategies across the region, especially in terms of fund distribution," he says.

According to Cattaneo, Latin American asset managers are approaching this issue in different ways. He says: "In some markets they are establishing a local presence, with commercial and operational offices, selling locally-domiciled funds, while in other markets, they sell funds domiciled elsewhere. These international funds are attractive to investors looking to allocate money outside Latin America."

In Brazil, however, he says the reforms are "able to support international investment and regulatory changes, allowing domestic funds increasing exposure in international assets".

From BNY Mellon's point of view, this has led to an increased demand for a 'one-stop-shop' of service providers, as Brazilian fund managers look to concentrate their services into one multi-faceted firm—a service Salamonde is happy to provide.

He says: "This is great for us, because we already do this both globally and locally in Brazil. It's a big trend that has been very profitable for our business."

He adds that business has been steadily on the up for fund administration and custody in Brazil, a trend he says is good both for BNY Mellon and the Brazilian market.

However, outside of Brazil, where there is less of drive from the local regulators, Salamonde says this trend towards consolidation is still present, even though it is already generally clearer which providers are responsible for which services. Here, although there is not so much regulatory activity, clients are still demanding the extended services for their global investments.

Salamonde says: "If we can provide an additional service that can help our clients consolidate services and improve efficiency, we see that as a strength."

Indeed, looking outside of the region altogether, the international regulatory environment is creating the need for easier globalisation of Latin American funds. Legislation such as the US Foreign Account Tax Compliance Act (FATCA) and the EU's Solvency II Directive and Alternative Investment Fund Managers Directive (AIFMD) have had an impact around the world, and Latin American markets are no exception.

Cattaneo suggests that, although regulation in Latin America is very fragmented and locally-driven, it still tends to provide high standards of investor protection, and that the harmonised EU regulatory framework is "highly regarded and emulated across the region".

He notes that there has been an increase in cooperation between European regulators and Latin American asset management associations, intended to increase both inbound and outbound fund flows between Europe and Latin America. However, Solvency II, AIFMD and FATCA have still affected the region heavily, as has the US Volker Rule, which prevents US banks from engaging in particular investment activities through their own accounts, due to the strong ties between the two regions.

Cattaneo says: "Those regulations are affecting managers on a day-to-day basis, especially those with internationalisation plans and global distribution ambitions."

"There is a strong need for education and assistance from global providers like us, which are able to give a proper support in understanding these very complicated and dynamic regulatory frameworks."

More specifically, Salamonde highlights FATCA as a particular challenge in Brazil, but one that the market has tackled and come out of the other side of.

Banks had to "raise the bar", Salamonde says, in order to collect and report more information on their clients, which meant they had to review the structure of their file records. However, this ultimately helped with compliance with AIFMD and Solvency II, as well.

While the change was a challenge, he says, banks generally coped with it well, and the change was a positive one.

"Whenever any regulator launches new legislation, obviously it is going to have a big impact. But, this has been incorporated into our business and our clients' business, and we see it as a positive move. We like to have as much clarity and as much information on our clients as possible, so it's a positive thing for everyone."

While Salamonde maintains that Brazil has a "very well regulated market", he warns that the regulatory environment is still not quite where it needs to be.

He specifies: "We need to continue the discussion, especially for structured products in Brazil. Although new Instructions CVM 555 and CVM 558 brought great improvements, there is still room for development." **AST**

Votes are in

With increasing volumes of corporate actions come regional reforms, more responsibility, and new regulatory challenges—and asset managers have it far from easy. Experts discuss the issues

What developments has the corporate actions space seen over the last few years? Is there significance in the timing?

Mark Proffitt: The increasing volume of corporate actions in the last few years, as well as the complexity of individual announcements, provides a significant challenge for both global custodians and investment managers. Standardisation of corporate actions messaging and communication flows has helped data providers and consumers to cope with the volume, but there is still some way to go to deliver an efficient end-to-end process.

Regulators are driving the agenda towards responsible investment, efficiency and transparency. Accurate and timely corporate actions data is part of the solution but an actual decision still needs to be made by the investment manager to ensure maximum returns for investors. Optimising the value embedded within corporate actions through effective decision making has often been overlooked as the industry tries to improve processing, but the incremental value can be significant with very positive impact across the investment value chain.

Maria Krasnova: A series of significant improvements in Russian corporate actions practices have been the latest steps aimed at bringing Russia's financial market infrastructure in line with international standards. The corporate actions reform initiated by the National Settlement Depository (NSD), the Russian central securities depository (CSD), in 2013 came to fruition on 1 July 2016, when the set of laws and regulations establishing the legal basis for a modern approach to corporate actions came into force.

The key elements of the reform are:

- The Russian CSD becomes an official corporate information centre, receiving information electronically in a standardised form directly from issuers and then distributing it via participants and on its website. In case of a discrepancy between information distributed by the CSD and any other information, the CSD's information will prevail.
- Customers of custodians will only be able to participate in corporate actions through their custodians. Custodians will send electronic instructions on behalf of their customers through an intermediated chain up to the issuer. No power of attorneys or any other documents will be needed for custodians to represent their clients.
- Securities holders will be able to participate in general meetings in four different ways. Two of them remain the same: a securities holder physically present at a meeting; or sending a completed paper ballot by post. Two new ones have been added: e-proxy voting—sending an electronic ballot through custodians; and e-voting—direct voting via a dedicated website.
- ISO 20022 has been implemented as a basic format for corporate actions in Russia, although ISO 15022 will be also available for international constituencies.

There is significance in timing. For the last four to five years the Russian securities market infrastructure had incurred a series of important improvements such as the establishment of the CSD and implementation of modern settlement services.

Corporate actions remained the last area where paper-based processes prevailed and therefore risks and costs associated with corporate actions were perceived as unacceptable by international investors. Now, Russian securities market infrastructure meets all efficiency, safety and transparency criteria.

Stephen Quigley: Developments have included the global open ISO standard 20022 that establishes a recipe for creating financial messaging standards. In the US, this includes the Depository Trust & Clearing Corporation's reengineering of its core systems for corporate actions processing to follow ISO 20022 messaging. In Europe, it includes the Target2-Securities initiative to establish a single platform to settle securities, which uses the ISO 20022 format.

Other developments include a higher adoption rate of ISO standards such as 15022, which governs the format of electronic message exchanges used in banking and commerce, as well as the recognition of the need to reduce risk by eliminating the manual process and to mutualise to pare costs and risk.

> ***Corporate actions remained the last area where paper-based processes prevailed. Now, Russian securities market infrastructure meets all efficiency, safety and transparency criteria***

Maria Krasnova
Deputy chairman of the executive board, NSD

In many instances, timing drove these developments. They reflect such factors as increased complexity and the combination of corporate action types, and include the need to decrease operational costs across the board: higher volumes in corporate actions; globalisation, which requires the ability to manage more countries and their rules and processes; and higher customer expectations about service and the timing of decision making to the market.

How big a part has new technology, such as blockchain, played in improving corporate actions and proxy voting processes?

Krasnova: Given the scale and the depth of the Russian reform, it was obvious that it would significantly affect the entire Russian securities market, thus we had to be very careful when designing new corporate actions processing models and when deciding on the technologies to implement. Our aim was to establish modern, standardised processes across the industry, encouraging straight-through processing wherever possible, so that all kinds of market participants could operate safely and efficiently by using reliable and affordable services that the CSD provides.

Meanwhile, we understand that we must not ignore the rapid development of financial technology, so we started researching the opportunities of blockchain technology and how we can use it in our business.

In April 2016, the NSD blockchain-based prototype for e-proxy voting successfully passed the testing related to bondholder meetings. Our next step would be to subject this prototype to all kind of evaluations: business, legal, and cryptographic, which will give us a more definite idea of whether the prototype is suited for real CSDs' processes.

Proffitt: Technology initiatives to standardise corporate actions messaging have helped to improve efficiency in the face of significant volume growth. There are a number of projects underway to look at the potential application of distributed ledger technology in corporate actions with the creation and distribution of a single, trusted record or 'golden copy' of corporate action events.

Participants are aware of the need to continue to add value to clients and invest in areas where there are efficiency gains. Collaboration on an industry-wide scale may come, but in the short term there are benefits of distributed ledger technology deployed bilaterally to improve process efficiency and explore the benefits of the technology as it evolves. If announcements from issuers can be processed more effectively and voluntary corporate actions can reach the decision maker in a timely fashion with a level of surety, that will be a very positive development.

Quigley: Traditionally, technology has focused on maximising and automating existing manual processes. But we foresee a fundamental change in that model as technology does away with many manual processes such as reconciling and cleansing announcements and reconciling entitled ownership positions.

Technology advances, such as computing technology that enables decentralised settlement systems built on distributed ledgers, promise to be key, but only if concerns can be resolved around security, performance, agreement and adoption of standards and liability issues. Through its Blockchain Innovation Lab, Broadridge is exploring ways to transform these types of processes using distributed ledger technologies.

Does improved corporate action participation benefit asset managers from a regulatory point of view?

Quigley: Alternative asset managers may see big benefits from streamlining corporate actions to managed service providers. This will improve quality of reporting to support regulations such as FormPF, the Basel Committee of Banking Supervision regulation 239, the Markets in Financial Infrastructures Regulation, and others.

Krasnova: As I mentioned earlier, on 1 July 2016 the new stipulating key provisions of the corporate actions reform came into effect. One of the main benefits for asset managers connected with these changes is the widespread use of electronic data interchange in accordance with international standards, and the possibility to do most of procedures via their depositories. This is especially important for foreign asset managers. Now they do not need to collect hard copies of documents, translate them and adjust them in accordance with Russian legislation.

Proffitt: Active participation helps investment managers meet investor demands for responsible investment and maximises the potential value available in corporate actions. From a regulatory perspective, there is increasing focus on the fiduciary obligations of investment managers and active participation can help to achieve these objectives while minimising the risks associated with errors or omissions in corporate actions processing and decision making.

Regulating for corporate actions participation is very difficult as what counts as 'participation' is a grey area. In reality, all elections can technically be defined as participation, even where there is a

Traditionally, technology has focused on maximising and automating existing manual processes. But we foresee a fundamental change in that model as technology does away with many manual processes

Stephen Quigley
Vice president product management, Broadridge

standing instruction or default election applied. Underlying investors want to achieve the best economic outcome possible, and making the appropriate decision fulfills the fiduciary duty that the manager owes to their investor.

To achieve this, portfolio managers need to read all the documentation around a corporate action, which can often run into hundreds of pages, but also understand the impact a corporate action will have on their underlying positions. This is not easy and there is limited expertise available to help or advise. There are solutions, however, that deliver the best economic benefits without affecting the manager's election decision, and thus always ensure that they have fulfilled their fiduciary duties to their clients.

Are asset managers outsourcing their corporate actions obligations? Why?

Proffitt: Asset managers are outsourcing some, if not all, of their corporate action processing. However, we need to differentiate between the obligation to process corporate actions and any obligation to make election decisions on corporate actions. It is generally regarded that the real obligation is the decision-making process and it is very unusual for an asset manager to outsource this element. Only the asset manager can understand its own fund, its investment mandate and obligations, and it should therefore maintain full autonomy over the decision-making process. If there are opportunities to gain the best economic outcome irrespective of its election decisions, this will benefit the fund and the end investor. This is not outsourcing the decision-making process, but ensuring that there is a safety net in place to ensure that the fund receives the best economic outcome.

Quigley: Many alternative asset managers use fund administrators to outsource auxiliary services including corporate action processing. The main reason is to improve net asset value, as well as overall client reporting timeliness and quality.

What kind of challenges remain for cross-border corporate actions? How can participation be further improved?

Krasnova: In order for foreign investors to benefit from the Russian corporate actions reform it is important to implement new services across the entire chain of intermediaries, including global custodians and other non-Russian institutions. All procedures related to corporate actions need to be adjusted in accordance with new requirements. We understood the challenges our international constituencies may experience and we were willing to remove all the obstacles that may prevent them from participating in corporate actions. NSD chose to design new processes based on international standards developed by the global securities industry. That is why we expect new services to be easily accessible to all kinds of investors.

ISO formats were chosen to support automatic information processing. Even though ISO 20022 has become the basic standard for corporate actions processing in the Russian market, ISO 15022 is also available and, as we can observe, has been successfully used for foreign investors' instructions processing.

Proffitt: Cross-border corporate actions continue to throw up many challenges for managers, often related to the manager's own mandate within the fund. Existing regulation and specific mandate terms often restrict the ability for managers faced with cross-border corporate actions to elect as desired. In these instances, even though the managers may be aware of the best economic outcome for their funds, their hands are tied, preventing them from participating. Finding a solution to ensure the best economic outcome while meeting regulatory and mandate restrictions can improve investor returns, but it can also positively affect the issuing company. In many instances a corporate action, for example a rights issue, scrip dividend or share buy-back, may be designed to encourage shareholders to participate with economic incentives, to achieve the intended outcome. Finding a way to achieve that will benefit all involved.

Quigley: Several challenges persist as they apply to cross-border corporate actions. But they will dissipate, and participation will improve as global hurdles are addressed and clarity develops about intermediated securities among participants, regulators and others. In general, the obstacles relate to generating operational efficiencies and to identifying the correct legal framework, all in the current fragmented global legal system that makes transparency difficult to attain.

More specifically, the challenges include: regulations and legal issues that vary from country to country; the many local languages and cultural differences that add a layer of complexity; adoption of standards of market practice; and an absence of a central reporting process.

In addition: there is a very limited and inconsistent flow of information to investors from companies; a paper-intensive proxy voting process; the absence of mandated entitlement notification rules; and much higher clearing and settling costs. Such costs can be up to 10 times the cost of domestic securities. Further, foreign exchange fluctuations can be extremely volatile and the lack of consistency in messaging protocol boosts the failure rate of trades and settlement.

Frankly, participation will improve as all parties address these challenges, develop more standardisation and increase trust. **AST**

"Finding a solution to ensure the best economic outcome while meeting regulatory and mandate restrictions can improve investor returns, but it can also positively affect the issuing company"

Mark Proffitt, Head of business development for Europe, the Middle East and Africa
SCORPEO

At ARM's length

As regulatory reporting requirements become more onerous, Poland's central securities depository, KDPW, is stepping up to assist, says CEO Iwona Sroka

Poland has the biggest and most developed financial market in Central and Eastern Europe. The capital market accounts for 60 percent of exchange trades in this part of Europe, boasts a stable investor pool, a diversified range of instruments, and a well-developed post-trade infrastructure. The KDPW Group has implemented a range of development projects and, as a result, offers a comprehensive package of settlement, clearing, corporate actions processing, data maintenance and numbering agency services, which ensure a complete and attractive offering for Polish investment firms and investors, as well as foreign companies active on the Polish financial market.

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, which guarantee the highest quality of service. It has participated in the implementation of the European Market Infrastructure Regulation (EMIR) from the very beginning, and is engaged in active dialogue with regulators, other trade repositories, and 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.

> ***Where an investment firm reports through an ARM, responsibility is attributable to the ARM***

This includes: secure certified access, including an intuitive website interface with reporting functionalities and direct access to maintained data; global communication standards such as XML messages; easy access to support from our highly qualified experts; and procedures applicable in the event of contingencies, high security standards, and continuity in data collection and maintenance, including a back-up site.

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

Our online application supports: reporting and modification of trades; viewing and browsing reported data; filtering and downloading reported data; and tracking the reporting process. It is authorised to accept reports for commodity derivatives, credit derivatives, currency derivatives, equity derivatives and interest rate derivatives.

KDPW_TR offers two communication interfaces for users. The first is application to application (A2A), an interface supporting automatic data exchange between the KDPW Trade Repository application and participant applications. A2A is implemented on the basis of exchange of defined XML messages via IBM WebSphere MQ.

The second is user-to-application (U2A), a graphical user interface supporting manual exchange of data with the trade repository application. Users can report trades in the graphic application by entering trade details in a template or importing XML files.

User authentication in the application based on the electronic certificates issued by the main guarantor, a KDPW employee, in accordance with the main guarantor regulations. Access to functionalities is authorised and controlled based on access rights defined in the roles and access rights module.

Data maintained in KDPW_TR is available online for all active derivatives trades. Trade data is retained for 10 years after termination, and remains online for 30 months after termination. Data of archived derivatives trades is available on written request of an authorised entity within five business days, and data maintained by KDPW_TR is processed only for the purposes of operating the trade repository and providing access to authorised entities.

KDPW_TR publishes on its website generally accessible public information about maintained data in the form of weekly aggregate reports. It also supports data reconciliation between counterparties to derivatives trades by pairing and comparing the details of trades reported separately by the counterparties. Data reconciliation has been agreed by trade repositories and approved by ESMA.

KDPW has also taken steps to launch its Approved Reporting Mechanism (ARM) service, becoming an entity to provide reporting details of transactions to competent authorities, or to ESMA, on behalf of investment firms, under the Markets in Financial Infrastructure Regulation (MiFIR) and Directive (MiFID) II. The initiative stems from the extended scope of information subject to reporting obligations defined in MiFID II. The concept has been developed in co-ordination with the Warsaw Stock Exchange, which currently reports under MiFID I, and approved by the Polish Financial Supervision Authority.

Under MiFIR, investment firms are responsibie for the completeness, accuracy and timely submission of reports to the competent authority. Where an investment firm reports through an ARM, that responsibility is attributable to the ARM. KDPW, which has operated a trade repository for more than two years under EMIR, has the experience and a range of technological and procedural solutions necessary to accept, maintain, and validate trade reports. KDPW's ARM service will be developed on the basis of a rational business model, which relies on the existing collaboration with domestic and foreign supervision authorities, in particular KNF, the Polish financial standards authority, in the processing, disclosure, quality assurance of reported data.

With automated, secured communication interfaces and KDPW's existing model of relations with supervision authorities and participants, the selection of KDPW as the ARM will help entities subject to the reporting obligation to properly comply without interruption. The solution will be particularly advantageous to KDPW trade repository participants because all trade reports sent to the repository containing details of transactions required under MiFIR will be provided to the competent authority, ensuring compliance with the obligation of the reporting entity under MiFIR.

KDPW is currently working to develop the target business model and the relations with participants in the ARM service. **AST**

Masters of the data-verse

Data volumes are perpetually on the increase, and asset managers will need to learn to master and control them if they want to remain competitive

It's existed for as long as asset managers themselves, but, whether as a result of the digital revolution, or as a side effect of the regulatory environment, data is suddenly on the agenda at every conference and industry event. It has also become more and more cited as a factor for asset management success.

The buy-side space is ever more focused on regulatory compliance, efficiency and, ultimately, cost savings. According to Bill Blythe, global business development director at Gresham, new regulations mean there is now more responsibility for buy-side firms to provide data to regulators on their underlying firms. With the advent of the Markets in Financial Infrastructures Directive (MiFID) II, the number of fields for transactions reporting has increased from 23 (under MiFID I) to 65.

He suggests that the rise of the 'chief data officer' proves these data reporting issues are no longer merely in the realm of the IT teams. "The knowledge is now much more closely tied to the people that understand it and work with it, rather than just process it," he says.

However, with the swathes of data coming from exchanges, public news feeds, vendors, counterparties and clients, asset managers have to first figure out how to make it useful, and then how to make it work in a competitive capacity.

Mohit Dwivedi, recently appointed principle data architect at technology consultancy GFT, suggests that asset managers tend to focus on collecting market data, macro-economic data, and other data points that help them to identify trends and "enable them to make investment decisions".

Similarly, Yousaf Hafeez, head of business development for BT's financial services segment Radianz Services, agrees that this data should indeed be used for making portfolio and investment decisions, as well as for reconciliations reporting and post-trade analysis. Proper use of data, Hafeez says, can be used to "find the elusive source of alpha".

Data, and more importantly, a thorough understanding of it, can help firms to improve transparency and make portfolio processes more easily auditable, bringing an advantage in regulatory compliance, but also reducing trade risk. Equally, improved data analysis can lead to customer insight and, therefore, better performance.

Data lakes

Despite the many advantages to be gleaned, for asset managers, actually gaining any meaningful information and insight from the data available to them is a different issue altogether.

According to Peter Hill, managing director for the UK, Ireland and the Middle East at SimCorp, trading systems feature price discovery, risk monitoring, position keeping, trading, settlement, accounting and recordkeeping, while data requirements span the whole lifecycle of a trade, so the "core data streams are extensive".

He adds that some firms will store huge amounts of data—everything they ever create of acquire—in 'data lakes'. "But the cost of managing that data, measured against the benefits, tends to not add up. Asset managers need to look closely at their data and be more strategic and specific in what they store, and consider what benefits they can gain from it."

SimCorp's head of technology and product management Anders Kirkeby builds on this, suggesting that such firms often struggle to identify exactly what data they are in possession of, let alone how they are using it, and how they intend to.

To manage this, and to differentiate themselves from the competition, Kirkeby suggests that asset managers should vary the ways in which data is stored, created and used. While some firms use unique models to gain competitive advantage, "others seem more like leftovers from previous systems and processes", he says.

"Variation is a requirement in a competitive space but it is not always obvious that the cost of the extra variation is reflected in the performance of the fund."

"Given the meagre fee performance ratios we often see, I believe a number of asset managers could do well to rationalise their data handling and usage. More data may bring more insight, but if you cannot turn the added insight into profit you are simply wasting resources."

Kirkeby adds, however, that large asset managers are likely to have a larger wealth of data, which, when properly managed, could help them stand out from a data perspective.

"A data lake with sufficiently rich metadata or consolidation of systems will make it easier to leverage existing data assets."

Model behaviour

Of course, it's not just the amount of data within an institution that's the problem. According to Hafeez, when increasing numbers of asset managers are using market data feeds, the bandwidth required to access these has grown as well—this is particularly noticeable in the US, he says, where volumes are highest.

Hafeez says: "This means that firms are experiencing increased connectivity costs to access the data, rising costs in processing data feeds and growing costs of handling changes to data feeds."

He suggests that the use of a shared infrastructure, or managed service model could help firms to reduce the cost of data ownership, "as they do not have to build, manage and maintain their own networks, leaving them to focus on their core business".

A shared infrastructure model could remove the competitive nature of data collection. Hafeez himself notes that asset managers tend to focus on the data feed that help them generate the best returns for both themselves and their clients.

He says: "Asset managers are looking to market data as a source of competitive differentiation that allows them to demonstrate they have met or exceeded the customer objectives. In addition, they are conscious of meeting their compliance, risk and regulatory objectives."

Consequently, they're increasingly looking to new 'raw' data feeds, or other non-traditional data collaction methods. He also notes: "What is useless info to one person may be critical to another person."

Blythe also points out that spreadsheets and other manual processes, often still used in the back office, are no longer coping with the increasing volumes and volatility of data.

He suggests, however, that asset managers are being forced to review their own processes and their approach to data integrity, both in order to comply with regulation and to encourage further product innovation in-house.

Blythe says: "As asset managers onboard more business, and trades become less 'vanilla', and more structured and sophisticated, many firms are realising that the existing legacy platforms are no longer sufficient."

"These more traditional systems were brought in to manage cash and equity data, and were never intended to deal with the myriad new asset classes and products we see today, requiring the processing of much wider data sets that do not fit well into fixed schema systems, are often batch-based, taking forever to modify and implement new data controls."

Bridging the gaps

The point remains, however, that none of this matters unless the data is meaningful in the first place.

Blythe explains: "It is often overlooked or taken for granted that meaningful information can only be obtained from data if it is clean, accurate, and can be properly validated and checked against other sources of information."

Without this integrity, data becomes just a string of meaningless figures, which "provides minimal insight, or zero potential to run advanced analytics".

No matter how many automated processes, systems and technologies are in place, there is no remedy, at the moment, for data that is bad in the first place, and this is the area in which firms are starting to struggle.

Dwivedi suggests that because of bad data and gaps in data streams, "bad decisions are made"—not necessarily because of poor decision making, rather because the information the decision is based on is poor.

He says: "Data management is now becoming a burden on companies. Lack of standards or governance for managing data is creating business challenges."

"Volume and variety of data is also a problem and firms are facing challenges on how to process huge volumes of data from different sources," Dwivedi adds.

On one hand, it can be difficult to manage these errors, because when even a small portion of data is handled manually, it is inevitable that errors will creep in.

However, Hafeez notes that, while raw data feeds have to be cleaned and reviewed in order to remove erroneous data and close data gaps, manual intervention remains, in fact, somewhat of a requirement.

Hafeez says: "Much of this can be automated today but a layer of manual checking may be still required."

Firms appear to be mistrusting of both manual efforts and machines, so, while bad data remains a problem, the key will be to put a data strategy in place in order to gain a clearer view of what is available, and what is trustworthy.

Hill suggests that institutions should take a more strategic and data-centric approach to their asset management operations as a whole, noting that creating an investment book of record is a good start.

He says: "By removing point-to-point integration and providing a single hub of timely, reliable and accurate data, firms will remove the need for departments to source and amend critical data and instead invest their time in more business-critical activities."

Front-office applications must be able to "speak to each other in the same language", as well as 'speaking' to other supporting systems, Hill says.

"More importantly, these front-office applications need to contain a 'golden copy' of every piece of information that passes through the back, middle and front office without lengthy system reconciliations that can delay the investment process."

"Inconsistencies and discrepancies that arise in an order management system or risk analytics package can have multiple—all negative—consequences." **AST**

Do you want PRIIPs with that?

Seamless processes are necessary to ensure accuracy, reliability and consumer confidence when it comes to the the Packaged Retail and Insurance Investment Products Directive, says Paolo Brignardello of Fundsquare

Many investment funds will need to adapt to the Packaged Retail and Insurance Investment Products (PRIIPs) Directive soon. While others may have until 2020 to adapt, unit-linked insurance and pension wrappers will require their underlying funds to provide a host of synthetic or raw data, and as of 1 January 2017, all retail financial products with an investment element will need to be accompanied by a key information document (KID).

Life insurance and pensions companies don't have much time to produce the standardised three-page document that must be provided to potential clients before any proposal or sale. This is especially evident considering that the European Commission only released the final technical rules on 30 June, including details of what data must be included—risk-reward profile, market and credit risk, all types of fees, and potential performance scenarios—and the required presentation format.

Unit-linked products

UCITS management companies with funds being sold directly to retail clients are in fact exempt from PRIIPs until at least 2020. The key investor information document (KIID) introduced with UCITS IV in 2012 is deemed to be sufficient for the rest of this decade.

However, UCITS and alternative investment funds (AIFs) used by pension funds and life insurance products to provide investment exposure will have to act quickly to communicate a range of data. The insurance and pension industries have worked to establish industry-wide standards and data templates, but company-specific requirements are inevitable. Some will need fund managers to provide synthesised information similar to that used in the UCITS KIID, while others may require raw data. Moreover, there will be different schedules with requirements for information to be promptly provided. A KID will be submitted prior to the retail client subscription, and then on a monthly, quarterly, half yearly or annual basis.

A strategic tool

PRIIPs is seen by the EU as a pillar of its consumer protection agenda and as a driver to create a single European market in investment products. And many practitioners agree that the documents are key to helping explain packaged investment products to European savers. However, they could also have wider strategic implications, enhancing competition across products, sectors and countries.

For this to happen, the industry must ensure that data is accurate, explained clearly, up-to-date, and provided at an acceptable cost. KIDs will contain synthetic measures and estimated performance indicators, which will work best if data is as fresh and accurate as possible. The regulator will impose penalties if there are mistakes, which will be compounded by reputational damage.

The operational choice

At first glance, asset managers might think providing data case-by-case, point-to-point will require the least investment. This can work pragmatically when providing calculated data, and most probably will be supported by a common standard template, but if they provide raw data to enable insurers and pension funds to build their own reports at different levels of detail, this may become complex.

Superficially, 'point-to-point' might appear to be the most attractive approach, however, operators of unit-linked products may not appreciate being passed responsibly and costs in this way. The insurer and pension fund manager will often be left with the unpleasant and costly challenge of integrating multiple data feeds presented in a range of formats, requiring the creation of ad hoc, hybrid operating models. This will have a negative impact on the attractiveness of unit-linked products.

Streamlined approach

An industrialised process using a centralised hub cuts costs and boosts accuracy. Practitioners may wish to build their KIDs in-house or they may outsource, but a hub will enable them to avoid constructing a confusing network of information provision. Standardised data could be taken from a mutualised utility that hosts harmonised data. A utility receives and organises information from a variety of different sources around several markets.

This enables business partners to establish an efficient hub-and-spoke model, rather than a tangled web of point-to-point connections. This model also facilitates frequent KID updates, as well as boosting accuracy and efficiency.

Fundsquare already plays a key role in the production of 1.1 million UCITS KIIDs per year and is extending that functionality for other packaged financial products, with separate, specially-designed data collection and data dissemination services.

Deadline pressures

Questions remain around whether the implementation deadline of 1 January 2017 will be maintained. The European Fund and Asset Management Association has asked for a 12-month delay, pointing to how the introduction of the UCITS KIID benefitted from a postponement, enabling the industry and regulators to work through many highly technical considerations.

The size of the task is illustrated by the complexity of the market. Even in 2009, the European Commission estimated the total PRIIPs market in the EU to be €9 trillion, of which non-UCITS products accounted for 42 percent.

Also, there are questions about how PRIIPs interacts with the Markets in Financial Infrastructures Directive (MiFID) II regarding contractual, disclosure and reporting documents.

Parts of the industry are encouraged that MiFID II implementation was delayed by a calendar year. However, the Commission is keen that this flagship consumer protection measure should not be delayed, and the recent technical guidelines point in this direction.

Fund managers will also need to keep an eye on this question in the long term, as PRIIPs is already due for review and potential revision, come 2019. **AST**

Keeping up with the SEC

Regulatory change is causing new patterns to emerge among alternatives, including increased automation, risk mitigation and reporting. Jay Nusblatt of RR Donnelley and Sean McKee of KPMG take a look

Jay Nusblatt: Regulations are changing quickly, and there's been a lot of hard work around building and developing an infrastructure to support mutual funds through these changes. On the flip side, the unregistered, alternative funds are not as well positioned to cope. Would you agree?

Sean McKee: Absolutely. A maturation happened in the mutual fund space between the late 80s and the early 90s, to what we have today. We're seeing a similar evolution, albeit slower, in the hedge fund space, but the pace is spurred on by the increasing regulation of investment advisors, coupled with increasing investor demands.

For a long time, especially in the hedge fund space, you had a supply and demand dynamic where there was a great deal of demand for alternative investment strategies with far less supply. That dynamic allowed hedge fund companies to basically dictate the terms for investors, which slowed what otherwise would have been an organic development and maturation in terms of administration and financial reporting. That equation has subsequently changed for a number of reasons. As alternative investments are becoming commonly accepted and more mainstream, the regulators have increased their scrutiny of investment managers, including managers of alternative investments.

As the number of investors interested in such strategies has increased, we're seeing people pick up the pace in terms of developing their back- and mid-office functions, improving controls and processes, and using state-of-the-art technology to facilitate delivery to the multitude of stakeholders, whether that's regulators in different jurisdictions or investors in different distribution channels.

> ***Hedge funds require an automated financial reporting system, and so spreadsheets and other homegrown in-house solutions are no longer an option***
>
> **Jay Nusblatt,** Managing director for global investment markets, RR Donnelley

Regulatory scrutiny has a couple of different aspects. One is an expansion in terms of what people need to report. Another is a clear articulation to the community of what is expected of investment managers—and what their roles and responsibilities should be with respect to financial and performance reporting to investors. As that becomes abundantly clear, there is greater scrutiny and greater penalties for those that don't conform to the expectations. The investor community has picked up on those roles and responsibilities, and is becoming more demanding.

Nusblatt: In the fund space, and I assume in the alternative space, the investment manager is, in effect, the fiduciary over client assets. That fiduciary perspective has allowed the registered fund sponsors to accept and embrace their responsibilities for a multitude of matters, including financial reporting. Has this dynamic been evolving for alternative investments?

McKee: Historically, the efforts of the US Securities and Exchange Commission (SEC) have been highly correlated to where the assets have been, as well as to the type of investors involved. Mutual funds had larger assets with a significant retail base, and thus the SEC dedicated most of its efforts there. The SEC also dedicated more effort to registered products, because it receives far more data on them, and you naturally look at what you can see, feel, and touch every day.

Now, alternative investments have increased in popularity, and the regulators are beginning to realise that even institutional investors, such as the large pension funds and endowments, ultimately have retail investors as their base. So, the SEC has increased inspections of alternative investment managers, and that gives a depth of information that wasn't previously available. That information has been shared to the alternative investment community by word of mouth through the attorney networks, through the accountant networks, through the administrator networks, and through all the other service provider networks.

Something that's fascinating is the SEC's role regarding gatekeepers. The SEC recently settled charges with a private fund administrator as a gatekeeper. The gatekeeper doesn't have a fiduciary duty so much, but if you read the cease and desist orders, a key takeaway is that yes, they have a contract, but they can't facilitate securities law violations and then claim that that wasn't their responsibility under the contract.

Nusblatt: The SEC chair has been using the word 'gatekeeper' in various speeches over the past 24 months, referring to board members. The SEC has also taken that term and applied it to other participants in the fund industry. As a fund administrator, that is a somewhat controversial request because the administrator is generally not acting in a fiduciary role and does not have the power of the board or of the fund sponsor. This plays into the statement on why the hedge fund industry is beginning to embrace financial reporting, and taking on these new roles.

RR Donnelley's ArcReporting solution is designed to fit into the evolving requirements of financial reporting and regulatory demands for alternative funds.

How has the SEC come to increase oversight of all investment managers, including managers of hedge funds?

McKee: At the end of the day, what the SEC is realising is that even large institutional investors have expectations around the degree of oversight by the SEC. And if there's not appropriate oversight, there are criticisms. When you're working with pension investors who have individuals at the end of the chain, they can make very sound criticisms that they need to be protected, as well. Hedge fund investors are knowledgeable investors, and yes, they are held to a different standard, but by the same token investors still expect oversight, and this isn't lost on the SEC staff.

Looking at the actions and the breadth of oversight that has occurred, the SEC was focusing on the explosion of the mutual fund industry. In the early days, it wasn't that investment advisors and fund service providers didn't try to do a good job, but you didn't have the rigor and the processes and controls and systems. Now we're seeing similar expectations and oversight coming from the SEC in the alternative funds space in terms of technology becoming prominent. Quite frankly, operating with low-quality processes, controls, and systems is not a sustainable proposition in the alternative investment space, whereas it was possible to operate in this manner in the past.

Nusblatt: We're seeing exactly that. Hedge funds require an automated financial reporting system, and so spreadsheets and other homegrown in-house solutions are no longer an option. Furthermore, and more broadly speaking, our intelligence has told us that any servicer solution provided to the alternative investment fund space must have full automation, risk mitigation, audit trail, transparency, and compliance.

McKee: I agree. We've been involved with clients who have received routine inspections and where there isn't a robust system that facilitates the books and records and all the compliance requirements. We've seen clients where the systems have been built in pieces and parts, and regulators are really questioning the advisors hard on how they fulfill their responsibilities with those types of processes and enabling tools.

I would add that the institutional investor community has got much better with respect to operational due diligence. It used to be that due diligence was focused around the investment process, but if you tell people that you're using spreadsheets and databases to do your reporting, and not integrated systems solutions, it raises a red flag. As a result, firms are finding that if they do not have quality systems, it's harder to raise capital. It's not only a regulatory issue, it's a core business issue.

Nusblatt: When we say that any service or solution must have full automation, risk mitigation, audit trail and compliance, it really requires sitting down and thinking through every aspect of your operational plan and how you provide service.

McKee: Absolutely. I've noticed that when people have processes and tools that were built in a modular fashion around particular problems and were never integrated, it takes them a long time to pull book and record requests. The ability to pull that data in a timely fashion, and to be able to explain it, provides that inspection staff with a degree of comfort. Inability to do that creates concerns as to whether you really can fulfill your roles and responsibilities in a way the SEC, and your investors, expect. The SEC is comparing statements you've made to your investor base to see whether they're consistent or not. That audit trail is a real issue.

Also, as regulators expand on the data they want people to report, the ability to do regulatory reporting with manual solutions has changed. We've almost reached the point where, other than for the smallest shop, regulatory reporting with manual solutions isn't possible.

Nusblatt: One reason investors have become more savvy, requiring a standard operating procedure for hedge funds, is probably because many investors are getting these items in other regulated investments. In order to attract capital, given the supply and demand issue, better financial reporting is now table stakes for the hedge fund to operate.

If you look in your crystal ball, where do you think we're going to be in five years?

McKee: As I look to the next five years and think about systems, processes and controls, do I think the hedge fund industry will be at the same level as the mutual fund industry? No. Do I think they will be pretty darn close? I do.

Systems solutions are going to become important and I think you'll see a continued evolution. The reality is that investment managers of all types are going to need to be able to mine their data for numerous purposes. For regulatory reporting purposes, the only way to do that well is through systems solutions.

These changes actually come at a very good time because systems solutions are far more prevalent. You can either use service providers or do things in house, and some funds are doing both, but there are far less infrastructure costs than in the past. The days of banks and in-house servers are diminishing. Some will have them, but it's not requisite. If you want to have world-class systems, you can get cloud computing or software-as-a-service solutions.

The administrators and the service providers have upped their game around their technology offerings, and we're going to see people move in this manner, starting to focus their internal operations around monitoring service providers. **AST**

Firms are finding that if they do not have quality systems, it's harder to raise capital. It's not only a regulatory issue, it's a core business issue

Sean McKee, National leader for public investment management, KPMG

Industry Events

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.

10th Annual Collateral Management Forum

Date: 21 October
Location: Amsterdam

The 10th edition of the Annual Collateral Management Forum in Amsterdam is looking to offer an overview of the most crucial topics in the field today. In a shifting regulatory enivornment, with the margin requirements soon to come into play, the call for advanced tools for collateral management is as loud as ever.

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Leadership shake-ups at Julius Baer, CurveGlobal, Apex and more

The Julius Baer Group has re-shuffled its regional structure, a move that ultimately led to the resignation of the bank's head of global custody.

Barend Fruithof, who was also regional head of Switzerland, has left the group because of "differing views of the functional changes", according to Julius Baer.

According to the bank, the changes are intended to increase efficiency and focus more on client orientation.

The intermediaries business will be largely merged into the Swiss operations, which will now be led by Gian Rossi, current head of Northern, Central and Eastern Europe.

The bank's new Europe region will be run by Yves Robert-Charrue, who is currently responsible for the intermediaries business.

Another new regional team, focusing on emerging markets, will be led by Rémy Bersier, current head of Southern Europe, the Middle East and Africa.

The investment solutions group is being re-branded as 'advisory solutions' and will be run under the leadership of Philipp Rickenbacher.

Rickenbacher, who is currently head of structured products, will also become a member of the executive board.

Nic Dreckmann is the new COO of Julius Baer. He replaces Gregory Gatesman, who will leave the bank by the end of the year to return to the US.

Dreckmann will also take Gatesman's place as a member of the executive board.

Finally, Giovanni Flury, a member of the executive board, is retiring at the end of 2016 after 10 years at Julius Baer and 30 years in the financial industry.

Standard Chartered has created a new global securities services business line within its transaction banking segment, and has appointed Margaret Harwood-Jones to lead it as global head of securities services.

Harwood-Jones has been with Standard Chartered since 2013, in the position of head of investors and intermediaries in transaction banking, a role she will retain responsibility for.

Alex Manson, global head of transaction banking at Standard Chartered, said: "Clients look to us not only to deliver our capabilities but to provide local knowledge and insight in and across our footprint. We are pleased to have Margaret Harwood-Jones, with her extensive knowledge of the industry and deep client relationships, lead this business as we continue to look to improve the way we serve our clients."

Apex Fund Services has appointed three new senior staff members from KPMG, State Street and J.P. Morgan.

Nitin Khanapurkar will be the new head of risk and compliance oversight. He joins from KPMG where he was a senior partner, and will relocate to London from the UAE.

Sonja-Maria Hilkhuijsen and Gareth Williams join the company's Luxembourg office as head of European compliance, and data protection and managing director, respectively.

Hilkhuijsen joins from State Street in Luxembourg, where she was chief compliance officer, money laundering reporting officer, and data privacy officer.

Williams previously spent seven years as senior vice president at J.P. Morgan, and has also previously worked at State Street.

Peter Hughes, founder and CEO of Apex Fund Services, said: "We recognise that global regulatory and financial environments are both dynamic and complex, and to further strengthen our internal controls across the group we are investing in ensuring that we have the most knowledgeable and sought after team in place."

Mohit Dwivedi has joined technology consultant GFT as principle architect for data consultancy.

Previously, Dwivedi was global head of front-office risk technology for the credit markets business at Citibank. He has over 15 years of experience in investment banking and consulting.

Nick Weisfeld, head of the data practice at GFT, said: "[Dwivedi] brings invaluable commercial, technical and leadership skills to our data strategy team and has proven capability to architect and deliver the big data solutions that our clients need."

CurveGlobal, the new interest rates derivatives venture between LSEG, seven dealer banks and the Chicago Board Options Exchange, has appointed Richard Walker as head of business development.

Catherine Lyall, COO of CurveGlobal, has left the project to pursue new opportunities, and Steven Hamilton, previously a consultant, has been appointed interim COO.

Walker will join CurveGlobal on 22 August. In his newly-created role he will support the venture's market engagement programme ahead of the 26 September launch date. He joins from LCH, where he was head of client sales and marketing in Europe, the Middle East and Africa.

The California Public Employees' Retirement System (CalPERS) board of administration has unanimously voted Marcie Frost as CEO, effective 3 October.

Frost will replace Anne Stausboll, who retired at the end of June.

Doug Hoffner, previously CalPERS deputy executive officer for operations and technology, will serve as interim CEO.

Frost has 16 years of experience in the pensions industry, having most recently served as the director of the Washington State Department of Retirement Systems. Frost also serves as an ex officio member of the Washington State Investment Board.

Rob Feckner, president of the CalPERS board, said: "Marcie Frost is a seasoned public pension fund administrator and we couldn't be happier that she will lead the fund and be part of our CalPERS family."

Hani Kablawi has moved up a rung at BNY Mellon, becoming head of investment services for Europe, the Middle East and Africa (EMEA).

Kablawi, previously head of asset servicing for EMEA, will now lead the business strategy for investment services in the region.

He will continue to be based in London and reports to Brian Shea, CEO of investment services, and Michael Cole-Fontayn, chair of EMEA.

Shea said: "Hani Kablawi's leadership during a period of unprecedented economic and regulatory change, and his unwavering focus on our clients' success, make him exceptionally positioned to lead our investment services business in EMEA."

Daron Pearce will take on Kablawi's previous role. He has a 16-year track record at BNY Mellon, most recently as CEO of global financial institutions for asset servicing.

The Jersey Funds Association has appointed Mike Byrne as its new chairman.

Byrne, a partner at PwC Channel Islands, replaces Ben Robins, who has held the chair position for three years. Tim Morgan, partner at Mourant Ozannes, will stay on to serve a second term as vice chair. The appointments were made on 1 July.

Byrne has worked for PwC for over 15 years, and brings experience in private equity and hedge funds.

He also spent two years in Singapore, leading development of PwC's alternative fund services.

He said: "Against the backdrop of some significant political and economic shifts in Europe and the US, I feel Jersey is in a strong position given its relative regulatory and political stability and certainty."

Citi's Jervis Smith is moving to the newly created position of head of investor services for Luxembourg.

Smith has been with Citi since 1994, and will be moving on from his current role as head of the Securities Services business in the Asia Pacific (APAC) region.

He will report to Chris Cox, Citi's head of securities services for Europe, the Middle East and Africa, and Alberta Brusi, COO for Luxembourg.

In a statement, Citi said: "We thank Jervis Smith for his leadership of the APAC sales team over the past three years and wish him continued success in this new role." **AST**

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Published by Black Knight Media Ltd


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