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China says yes to Stock Connect

China has approved the Shenzhen-Hong Kong Stock Connect programme, paving the way for a better-regulated stock market.

Premier Li Keqiang made the announcement during a State Council executive meeting on 16 August. "The preparation for the launch of Shenzhen-Hong Kong Stock Connect has been basically completed, and the State Council has approved its implementation plan," he said.

Greater China chief executive for HSBC, Helen Wong, welcomed the decision, saying: "China's decision to launch Shenzhen-Hong Kong Stock Connect demonstrates the country's continuing commitment to liberalising its financial sector and opening up its capital markets to global investors."

"This link should provide investors around the world with a convenient way to access China's new generation of private sector companies listed in Shenzhen, including an array of innovative internet and technology players based in the Pearl River Delta."

China's approval of the link between Shenzhen and Hong Kong follows the success of the Shanghai-Hong Kong Stock Connect. Since its pilot at the end of 2014, the Shanghai-Hong Kong Stock Connect has withstood its market test, with steady and orderly overall performance, according to Chinese state media.

The programme has achieved its expected targets, earning positive feedback from all related parties, Premier Li added.

It's unclear when the Shenzhen-Hong Kong Stock Connect programme will launch, with Premier Li previously saying it would do so at an "appropriate time".

BNY Mellon analyses new collateral management tools

Market participants need to become more efficient when financing their transactions, according to BNY Mellon in a new report outlining the key strategies to adopt in collateral management.

The report, Collateral Solutions for a Changing Market, pinpointed peer-to-peer relationships as one avenue for institutional investors to pursue, given that prime brokers are becoming more selective in who they work with in financing.

Michelle Neal, president of BNY Mellon Markets, summarised: "Market participants need to be more efficient when financing transactions, which means they need to allocate the least expensive collateral to each trade, possess a full view of which collateral is available and which is being used, and applying efficient collateral management techniques to a variety of transactions."

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Blockchain could boost trade finance, says R3

Using blockchain technology for trade financing could help to increase revenue up to 15 percent, according to tests by financial innovator R3 and a handful of its consortium banks.

R3 and the participating banks designed and tested two prototypes to demonstrate how distributed ledger technology could help address challenges in the global trade finance industry, which is valued at around $45 billion.

The group designed and tested self-executing transaction agreements, or smart contracts, using R3's Corda distributed ledger platform to process letter-of-credit transactions and invoice financing, or accounts receivable, transactions.

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BNY Mellon analyses new collateral management tools

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Neal said: "Simply put, optimising collateral management means having the right assets, in the right place, at the right time."

As well as peer-to-peer-relationships, the triparty model continues to be a suitable means of collateral management, according to the report. Although it has traditionally been used in repo and securities lending, BNY Mellon has noted the model being used to cover a range of exposures and obligations.

Market participants should consider using a range of tools, including collateral pledge structures, structured notes and the cross-border allocation of Japanese government bonds as part of an overall strategy to optimise collateral and find efficiencies.

Many participants are also new to collateral management, with initial margin and variation margin requirements driving them to post collateral to their businesses for the first time.

They are struggling with data, cash and inventory management, making it easier to deal in cash collateral, according to BNY Mellon.

Jim Malgieri, head of collateral management and segregation at BNY Mellon Markets, commented: "The collateral management and segregation space today is quite dynamic. These changes are putting operational pressures on firms and requiring them to take on new activities."

He said: "There is a learning curve with the changing requirements as all market participants adapt and retool their operations to enhance their processes and create efficiencies."

Blockchain could boost trade finance

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R3's estimates suggest that, as well as adding to revenue, blockchain could reduce operational and compliance costs by 10 to 15 percent.

The prototypes were intended to provide a digital alternative to paper-based trade financing processes, making them faster, more reliable and more cost effective. R3 also noted the value of the single record of trade blockchain can provide, which could help reduce the risk of fraud, remove time-consuming reconciliation processes, and help improve credit and regulatory reporting.

David Rutter, CEO of R3, commented: "Trade financing is a crucial income stream for banks and provides an integral role in enabling businesses in different countries to trade with each other with certainty and peace of mind. However, the processes used to facilitate trade financing have become antiquated and unfit for purpose in today's increasingly digital world."

"These trials have proved that the blockchain-inspired technology used on our Corda platform holds the key to transforming trade financing for modern financial markets."

R3 consortium members that took part in the trials included the likes of BNP Paribas, the Commonwealth Bank of Australia, ING Bank and Wells Fargo.

Bank of England finally drops interest rates to 0.25 percent

The Bank of England has dropped interest rates by 25 basis points to 0.25 percent, with the outlook for growth in the short to medium term weakening "markedly".

The decision follows the UK's vote to leave the EU in June, and comes as a response to the drop in the value of the pound. In a statement, the Bank of England said: "Recent surveys of business activity, confidence and optimism suggest that the UK is likely to see little growth in GDP in the second half of this year."

The Bank of England Monetary Policy Committee (MPC) voted unanimously for the drop in interest rates. The committee also passed a package of measures designed to provide additional support to growth, including the purchase of £10 billion in UK corporate bonds and expansion of the asset purchase facility for UK government bonds to the tune of £60 billion.

This measure brings the bank's total stock of asset purchases to £435 billion, all of which is financed by the issuance of central bank reserves.

According to the central bank, the asset purchase programme for government bonds should lower the yields on securities used to determine the cost of borrowing. It could also encourage current holders of government bonds to rebalance their portfolios into riskier assets, therefore improving the supply of credit to the broader economy.

Similarly, as corporate bonds are higher-yielding instruments, the central bank's purchasing of them means selling investors will be more likely to then invest in other corporate assets.

By increasing demand in secondary markets, the corporate bond purchases should ultimately stimulate issuance in sterling bond markets.

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The Bank of England's statement continued: "The MPC has examined closely the interaction between monetary policy and the financial sector, both with regard to ensuring the effective transmission of monetary policy to households and businesses, and with consideration for the financial stability consequences of its policy actions."

Commenting on the announcement, Graham Vidler, director of external affairs at the Pensions and Lifetime Savings Association, said the cut in interest rates will give pension funds "cause for concern", and that the quantitative easing measures will put additional pressure on them.

"While we recognise the need to protect the UK economy, strong consideration needs to be given to the negative impact this will have on the 6,000 private defined benefit pension schemes," he said.

"As these bonds are higher-yielding instruments they could provide more stimulus than the same amount of gilt purchases, but nonetheless the impact this will have on gilt yields will be an additional burden for many schemes already struggling."

Commenting on the decision to cut interest rates, Darren Bustin, head of derivatives at Royal London Asset Management, sugested: "Monetary policy is running out of steam."

He said: "The actions of the Bank of England today may not be the most effective tool in driving the UK economy going forward, and a fiscal response may be required to revive the economy if things get worse."

LSEG launches MiFIR reporting tests

UnaVista, the London Stock Exchange Group's approved reporting mechanism (ARM) for the Market in Financial Instruments Directive (MiFID) regime, has launched its new testing environment for transaction reporting under MiFIR.

User acceptance testing is now available for the MiFIR transaction reports, which will replace the current MiFID reporting regime and is expected to come into effect in January 2018.

The new reporting regime will expand the scope and field list of reports, with firms reporting up to 65 fields to the National Competent Authority (NCA) in their home state.

The UnaVista ARM will be connected to the various European NCAs, meaning firms won't have to build and manage connections themselves. The system can also receive and manage data from multiple sources and in varying formats, determining which transactions are relevant and which authorities they should be sent to.

Finally, a delegated and assisted reporting model will allow firms to connect to the ARM through a broker or technology partner.

Mark Husler, CEO of UnaVista, said: "This is a big step in the process for helping clients get ready in time for MiFIR reporting go-live."

He added: "There are large-scale changes and a vast amount of data that will need to be sourced and configured, so it is important that reporting firms start testing sooner rather than later. We believe we have built an ARM that not only helps firms be completely compliant, but one where they can also use the information reported to improve their business processes."

In conjunction with the testing environment, UnaVista is running a MiFIR Accelerator project tool to help firms get data ready for reporting.

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The accelerator helps firms import data and compare it against the latest technical standards, allowing them to identify gaps in content, format and validity of data.

UnaVista is also helping clients with some of the more complex aspects of MiFIR reporting such as the masking of personal data, acquiring legal entity identifiers and spotting gaps in these identifiers.

NSD sees corporate actions success under new rules

Russian issuers have successfully held their first shareholder meetings since new processing technology, mandated by law, came into effect on 1 July.

According to the National Settlement Depository (NSD), Russia's central securities depository, 10 shareholder meetings and five bondholder meetings have gone ahead without any missed deadlines or technical failures reported throughout the whole corporate actions lifecycle.

All corporate actions were processed electronically using the ISO 20022 international messaging standards.

According to NSD, the success of these first meetings using the new technology reflects the readiness of market participants for new legal and technological innovations.

The new procedures are designed to standardise the corporate actions process, reducing costs for market participants and improving quality and transparency of corporate governance on the Russian market.

Implementation of the new rules follows significant testing with market participants including work on interactions and helping market participants to fine-tune their internal procedures and systems.

Now, all meetings of securities holders on the Russian market will be centralised through record-keeping institutions such as NSD.

Issuers are obligated to submit all information related to exercising corporate actions rights to the depository in the correct electronic format, and must also offer market participants the option of using e-proxy voting technology.

WSBA welcomes Calypso

Calypso Technology, a technology solutions provider for global financial markets, has become a corporate member of the Wall Street Blockchain Alliance (WSBA).

The WSBA is a non-profit trade association encouraging adoption of distributed ledger technology across financial markets, and addressing the need for blockchain knowledge and expertise across various disciplines of the financial industry.

For Calypso Technology, joining the WSBA will improve its presence in the blockchain sector.

Jean Safar, chief architect at Calypso said: "Blockchain has the potential to substantially improve both the efficiency and the transparency of the financial services industry, and the WSBA is dedicated to facilitating that transition."

"We are excited about the opportunity to work with both their leadership and member firms as we explore the various applications of the distributed ledger. Our participation in the WSBA will enhance our existing blockchain research and development, allowing us to bring innovative solutions to market faster."

Ron Quaranta, chair of the WSBA, commented: "We are very pleased to have Calypso join the WSBA as one of our premier corporate members."

"Given the depth and breadth of their expertise in financial markets, as well as their innovative approach to blockchain and other disrupting technologies, we are confident that collaborating with Calypso on behalf of their customers and WSBA members will provide deep and lasting benefit for all parties."

Mixed Q2 for State Street

State Street's assets under custody and administration remained fairly steady in Q2 2016, compared to Q1, however the business has seen slight declines year-over-year.

At the end of Q2 2016, assets under custody and administration totalled $27.79 trillion, 3.1 percent more than Q1 2016, which saw a total of $26.94 trillion.

This represents a 3 percent dip compared to Q2 2015, however, when State Street recorded assets under custody and administration of $28.65 trillion.

In Q2 2016, State Street saw new asset servicing mandates totalling $750 billion, although some of these are yet to begin.

Servicing fees reached a total of $1.24 billion, remaining steady with Q1's figure. This was a 6.1 percent decrease compared to Q2 last year, which saw servicing fees reach $1.32 billion.

This decrease was attributed to lower global equity markets in general, offset by net new business and higher global equity markets.

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State Street's assets under management totalled $2.3 trillion in Q2 2016, which, again, remains steady with the figure for Q1.

This is a 3.1 percent decrease compared to Q2 2015, however, which recorded assets under management of $2.37 trillion.

According to State Street, its asset management business saw net outflows of $35 billion. However, it also noted that, again, some new asset management business is not reflected in the Q2 results.

Assets under management include about $40 billion in the SPDR Gold ETF, for which State Street Global Markets serves as distribution agent.

Euroclear Bank bags ICBC mandate

CBC Credit Suisse Asset Management International (ICBCCS) has selected Euroclear Bank to provide clearing and settlement for 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 the US dollar, British pound and renminbi on the London Stock Exchange, and will 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."

MUFG adds '40 Act fund servicing

MUFG Investor Services, the global asset servicing arm of Mitsubishi UFJ Financial Group, is set to acquire Guggenheim Investements's 1940 Act mutual fund administration business, Rydex Fund Services, for an undisclosed fee.

The transaction is expected to close in the final quarter of 2016.

According to MUFG Investor Services, the deal will fulfil its desire to provide a "full service offering for investment managers", by adding regulated 1940 Act mutual fund and exchange traded fund services to its existing stable of single manager, fund of hedge fund, private equity and real estate fund, pension fund and traditional asset managers services.

The acquisition adds $52 billion to MUFG Investor Services' assets under administration, bringing its total to $422 billion.

MUFG confirmed that the assets serviced by Rydex Fund Services primarily consist of Guggenheim and Rydex branded mutual funds, exchange-traded products and closed-end funds, for which Guggenheim Investments will continue to serve as investment advisor.

John Sergides, global head of business development and marketing at MUFG Investor Services, said: "Demand for liquid alternative strategies has risen significantly in recent years as retail investors recognise the return potential and diversification benefits relative to traditional asset classes."

"Alternative fund managers are increasingly establishing '40 Act fund structures to access this growing market. We recognise the challenging environment our clients face and continue to enhance our offering to support the strategies that managers must deliver, both now and in the future."

"Our complete offering will allow us to become the partner of choice for alternative fund managers of all sizes, strategies and structures."

ENSO partners with EBS Treasury

ENSO Financial Analytics has partnered with ICAP's money market fund (MMF) platform EBS Treasury for cash and collateral movement workflows.

Using EBS Treasury, ENSO's hedge fund clients will be able to make money market sweeps and cash movements through the platform and further optimise counterparty relationships, according to ICAP.

Integration of the two platforms has already commenced and initial access will soon be available for all clients.

Matthew Bernard, CEO of ENSO, said: "Our focus at ENSO has been to develop an end-to-end solution that connects customers with their data, opportunities, and workflow."

"We are excited to partner with EBS Treasury and take the natural next step in providing this new functionality for our customers, enabling them to seamlessly move both cash and collateral across counterparties through the ENSO platform."

Jenny Knott, CEO of the ICAP post trade risk and information business, added: "By adding ENSO's ability to identify market opportunities to EBS Treasury's cash and collateral movement capabilities, we believe this partnership is a powerful collaboration in the path to create a suite of wide-ranging solutions for managers, and will benefit the balance sheet constrained prime broker community."

Saxo Bank enlists GFT for growth

Technology consultant GFT is collaborating with Saxo Bank to improve operational efficiency and client services, and to support the bank's next stage of growth.

According to GFT, it will offer operational best practices and support the bank's "transformation initiative", with a team of business and technical experts located at the bank in Copenhagen, where they will analyse and review its operations and help implement the strategic changes. As part of its growth strategy, Saxo Bank intends to create a scalable and efficient, low-cost operations function that can support its entire product and client base, globally.

Marika Lulay, COO of GFT Group, said: "GFT works across the investment, retail and wealth management areas of many of the leading global banks and this latest appointment by Saxo Bank is a testament to their faith in our well-coordinated international team of specialists being able to deliver a strategic project with challenging timelines."

Gerry Lelliott, global head of operations at Saxo Bank, said: "GFT's expertise and experience in this area will help to make sure that our world class operations initiative will deliver a range of advantages for Saxo Bank's clients, including greater efficiencies across a number of business functions."

Dubai bank chooses Nasdaq for GRC

Dubai Islamic Bank has chose Nasdaq's Bwise enterprise governance, risk management and compliance (eGRC) solution.

The BWise platform includes software solutions for risk management, information security, internal auditing and sustainability performance management. It is intended to help firms understand, track and measure their organisational risk, allowing them to better balance performance with financial and reputational risk.

Dubai Islamic Bank will use the platform to support its compliance and internal control processes, and to get a better view into its overarching control frameworks.

The service can also compile and present risk reports to the board and senior management, as well as to regulators.

Mohamed Abdulla Al Nahdi, deputy CEO at Dubai Islamic Bank, said: "We were searching for an eGRC solution that enables us to enhance and strengthen our risk management practices throughout the organisation."

"Nasdaq BWise was selected because of its user friendliness in one integrated GRC platform. In this way the compliance, risk and internal control departments will all have access to the right information from one single source."

Rob van Straten, global head of sales and professional services at Nasdaq BWise, added: "[Dubai Islamic Bank's] approach to risk management is mature and sophisticated and requires a robust but flexible eGRC software platform to comply with regulations and industry standards."

US KCG expands in Europe with acquisition of Neonet

KCG Holdings, the US securities trading firm, is expanding its presence in Europe

with the acquisition of Neonet Securities, an independent execution service provider based in Stockholm.

The two firms have entered into a definitive agreement that will see Neonet purchased from its current shareholders, Hay Tor Capital, KAS BANK and Cidron Delfi Intressenter Holding. Financial terms of the deal have not been disclosed.

Neonet offers a suite of algorithmic trading strategies, smart order routing and sales trading, as well as post-trade clearing and settlement services. Working primarily with European equities, Neonet is intended to improve KCG's reach in continental Europe.

The acquisition will also give Neonet clients access to a wider range of execution services on an international scale.

Neonet will continue to be led by CEO Tim Wildenberg from its Stockholm headquarters

Wildenberg said: "For the last 20 years, Neonet has focused on putting clients first and providing them with transparent execution services, as well as deep knowledge of international financial markets."

"We look forward to leveraging KCG's significant expertise across asset classes in the US and Europe for the benefit of our clients worldwide for years to come."

Philip Allison, CEO of KCG Europe, said: "We are pleased to announce an agreement to acquire Neonet, a Nordic pioneer in trading and execution services, as we broaden our European reach and continue to bolster our ability to provide clients with global execution solutions."

"Neonet's sophisticated technology, experienced trading desks, and deep team of execution specialists are complementary to our existing execution services and will help accelerate the growth of our agency client business."

The transaction is subject to customary regulatory approvals, and is expected to close later in the year.

SS&C wins advisory mandate

Alpima, a London-based advisory firm, has selected SS&C's Advent Portfolio Exchange (APX) and Moxy solutions to support its digital advisory programme.

APX provides a portfolio and client management solution, and Moxy is a trade order system providing a centralised platform for trade management.

According to SS&C, the mandate was based on its reputation in the marketplace, levels of interconnectivity, and industry engagement.

APX and Moxy, specifically, were selected because of their ability to support various asset investment strategies, and for their audit and accountability functions.

Pierre Mendelsohn, founder and CEO of Alpima, said: "The digital transformation of money management is real. More and more investors care about performance, costs, transparency, and risks—and they want personalised service."

"SS&C's APX and Moxy enable us to deliver on our vision of combining the customisation our clients want with the low cost and transparency that today's technology allows."

Mats Berggren, SS&C Advent's vice president for Europe, the Middle East and Africa, said: "We are delighted to be partnering with such a high-calibre, innovative player in Europe, the Middle East and Africa. Our scalable, robust platform offers the flexibility and foresight to support Alpima's new-generation advisory services."

Equities boost Canadian pensions

Recoveries in global equities in Q2 2016 have brought Canadian pension plans into positive territory, according to $650 billion RBC Investor & Treasury Services All Plan Universe.

Returns in Q2 hit 2.9 percent compared to negative returns of 0.03 percent in Q1 2016.

Global equities also saw a gain of 1.6 percent in Q2 2016, compared to a loss of 6.2 percent in Q1.

Despite this recovery, market volatility continued over the course of Q2, amid uncertainty from the period surrounding the UK's vote to leave the EU in June.

Canadian equities also remained in positive territory, with a gain of 4 percent for the median Canadian pension plan. This was down slightly, however, on Q1, which saw gains of 4.6 percent.

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Back to basics

Some institutions are finding themselves tangled up in legacy systems of duplicated functionalities. If they want to run smoothly, it's time to strip back their infrastructure, says Tim Brazier of GFT

How is technological complexity affecting financial institutions?

Financial institutions have amounted huge technical debt—a bulk of legacy technology that is very complex. This affects ability to innovate and to implement change, it has cost implications and risk implications, and it could ultimately affect the experience of the end user. It is a problem that extends beyond the financial industry, but it seems to be felt more acutely here.

There are two main drivers for this. The first is the effect of historical acquisitions where the acquired organisation has never been entirely integrated, leaving duplicate technologies. The second is that, over the last 10 to 20 years, financial services firms have grown very quickly, and their primary drivers have been to develop new products, new markets and new customers.

This means institutions haven't placed enough emphasis on their architecture or on maintaining their technology estate.

Now, as we move into a world of capital restraint, these banks are under huge cost pressures and they have to meet very stringent regulatory agendas, so the problem of technical debt and legacy technology can become quite acute.

Has the issue worsened in recent years? Why?

This is a problem that has been building up as technology keeps evolving and moving. It is natural that technology becomes legacy anyway if it is not updated and renewed, but this has been exasperated by acquisitions and goals for growth.

Firms have been trying to address this for some years, with varying degrees of success. Increasingly, as cost pressures and capital constraints continue, along with continued pressure to innovate and to keep up with the regulatory agenda, there comes a point that an institution cannot build a future on something that is not a solid foundation.

programmes have been measured on functionality and capability, perhaps they should be measured on whether they have made the foundation of the technology estate any better.

Will this require a long-term culture change?

There is no silver bullet here. It's a very difficult problem to tackle, and it will always compete with other initiatives. A simplification programme would typically be multi-year, but people tend to lose confidence in these long-term projects, and IT departments don't have a good reputation for delivering them very successfully. But, there are opportunities for quick wins to be had, which can help prime the pump and prove that this can be done.

> ***Knowing the cost drivers within the technology estate is important, but still a lot of financial institutions don't have a clear idea of what the impact of the technology on costs can be***

Tim Brazier, Head of application simplification, GFT

It's not an easy problem to address. It's not an easy problem to address. There is a tendency to deal with the most immediate set of problems, and that is the regulatory compliance, the fire fighting and the cost-cutting measures. But, now I think many organisations are running out of things they can do in that respect. They have outsourced, they have offshored, and they have pushed their suppliers and contractors to reduce costs, but none of that actually helps with making a change within this kind of legacy environment.

What can institutions do to simplify?

Every organisation is different in terms of maturity, so the approach will be different. However, there are some simple components that can make a big difference.

Having a good understanding of the technical estate, and the state of applications, is an absolute must, but actually many organisations don't have a complete grasp of that. That is the starting point: understanding what the estate does, where the duplication is, and what is really driving the cost.

We believe firms have the opportunity to reduce their applications by up to 50 percent, simply because of the level of duplication throughout the enterprise. It seems ridiculous, but banks have thousands and thousands of applications, and a lot of those functionalities are doubled up. There is a general understanding that knowing the cost drivers within the technology estate is important, but still a lot of financial institutions don't have a clear idea of what the impact of the technology on costs can be, both directly and indirectly.

Effective governance is also important—someone has to make sure the firm isn't adding to the problem, make sure that new solutions being built aren't creating more duplicates or more inefficiencies. Ideally, they would start to build that process into programmes, actively reducing the technical debt as they go. While, historically,

Removing duplicate functionality and creating some savings that way can help as justification for a longer programme, and so then they can start to tackle the medium-level complexity. Longer-term, transformational programmes need to be focused on both addressing the legacy problems and delivering new functionality, and that requires a subtle change in terms of governance and culture.

Both business sponsors and IT people like new things. They want to see new technology, new features and new products, and so there is a natural tendency to focus on the exciting things—it takes discipline to focus on the underlying architectures.

So, to make these changes effectively, it's important to have fairly senior sponsorship within the organisation. They're going to need board-level support to make the changes on an enterprise level.

Banks are under pressure to innovate, but should they tidy up their underlying infrastructure first?

I don't think it's an either/or situation. Banks will always feel that if they don't innovate they will lose a competitive advantage, however there is an obvious correlation between complexity of existing infrastructure and ability to innovate. They need to do both.

The simpler an institution's underlying estate, and the more solid the architecture, the more likely it is to successfully innovate and to meet new regulatory and cost requirements. If you try to build a blockchain application, for example, on an infrastructure that is not well architected, then you're clearly going to have a suboptimal outcome.

Evolution of applications should be tied very closely to innovation in infrastructure—such as vistulisation and cloud technologies—but often we see that those two activities are not completely aligned. If they are more harmonised and more coordinated, firms can actually optimise both of those programmes much more successfully. **AST**

Winds of change

The world of financial services is in flux, but between Brexit, regulatory change, and ever-changing consumer expectations, there could be opportunities for asset managers, says Henry Hilska of VirtusaPolaris

Asset Management is no exception to the dramatic changes currently facing the financial services industry. This transformation is happening on a global level, including the introduction of regulations that impact firms' operating models in a variety of ways. Technological innovation is a driver of the changes affecting how firms interact with their clients, impacting asset managers and others within the financial services space.

Regulation forces transformation

Through mandates such as the Dodd-Frank Act, regulators have been instrumental in moving fixed-income trading onto exchanges and other established venues like swap execution facilities (SEF) and away from the bilateral or principal trading model. This effort is ongoing across various instruments, including fixed income derivatives. To date, the transition has not been smooth, with the fluctuating derivatives markets serving as just one example. A large volume of more standardised swaps is now centrally cleared through these newly established venues.

However, there is fragmentation and reduced liquidity as sell-side dealers are forced to limit balance sheet exposure due to stricter capital requirements brought on by Basel III. Bilateral swaps will continue to exist as they serve the specific requirements of corporate treasurers, but are not typically as liquid, and thus not good candidates for central clearing. The cost of these structures will increase as regulators have proposed additional margin rules for non-centrally cleared transactions.

Post-Brexit compliance

Apart from the desire to move the market to a central counterparty model, along with increasing capital and margin requirements, regulators in the EU are also implementing the Markets in Financial Instruments Directive (MiFID) II. Though it is an EU directive, the rule is expected to affect more than half of US-based asset management firms as well. It is also expected to remain an important regulation even in the post-Brexit world for any asset manager wishing to do business in the EU. Among the requirements of this regulation is the need to provide and verify 'best execution'. This rule, as it is being discussed, is expected to require the consideration of the following points:

- Liquidity is a major factor that can vary between trading instruments, as well as between asset classes;
- Best execution requires quantitative analysis of orders and transactions, as it is correlated to the profitability of a trade or strategy;
- Data is required to be provided by sell-side firms to their clients;
- Best execution goes beyond individual transactions and requires the most appropriate trading strategy; and
- It also incorporates the entire trade lifecycle, and requires consideration of efficient post-trade processing.

The chief obstacle for buy-side firms related to the implementation of these rules is access to the data needed to perform the necessary analysis. These obstacles are exacerbated by the reality of having different execution platforms. There is now a need for buy-side firms to review both their operating models and technology stacks to ensure that they are best positioned for these new requirements. Firms will need both data and systems that can process the information, as well as the quantitative skills to perform the necessary transaction cost analysis across various asset classes and strategies. Firms have been increasing this knowledge base by reaching out to the sell-side firms and even other industries for this talent.

Another paradigm shift affecting asset management is the aforementioned increasing role of an agency-trading model. As much as sell-side firms are now more reluctant to house derivative exposure, they are also being influenced to limit balance sheet usage for assets, such as fixed income bonds, by the very same capital issues. Thus, the migration from a principal trading model to an agency model is underway. Ultimately, this should aid in the ability for buy-side firms, which have the regulatory and fiduciary duty to provide best execution to obtain the necessary data, since the agency model should provide participants a benefit from economies of scale.

Changing expectations

From a customer perspective, there are also major changes to engagement and distribution models that come from a combination of technology, customer expectations and increased competition. The digital transformation that is disrupting the nature of the business-to-consumer model is changing the expectations customers have for their business relationships in other industries as well. This evolution requires asset management organisations to create efficient channels to distribute information beyond the traditional paper statements delivered in the mail.

This change creates additional challenges for buy-side firms as the information distributed through digital channels can be delivered immediately and provides for two-way communication with the client. There is a need to ensure that the most appropriate business model is implemented so both the traditional and digital models work most effectively and accurately in tandem. Additionally, asset managers have historically been conservative and have not been leaders in this transformation. This may actually provide some benefit, as there are a number of lessons learned that can be brought to the table from the experiences of other industries.

> ***Buy-side firms need to review their operating models and technology stacks to ensure they are best positioned for these new requirements***
>
> **Henry Hilska,** Senior director for governance, risk and compliance, VirtusaPolaris

The changes that are affecting asset management are far-reaching and present a number of challenges. However, these trials present opportunities to improve both the efficiency of trading operations and the overall customer experience. Ultimately, the firms that succeed in making the transition to a more automated, digital approach will stand to benefit the most. **AST**

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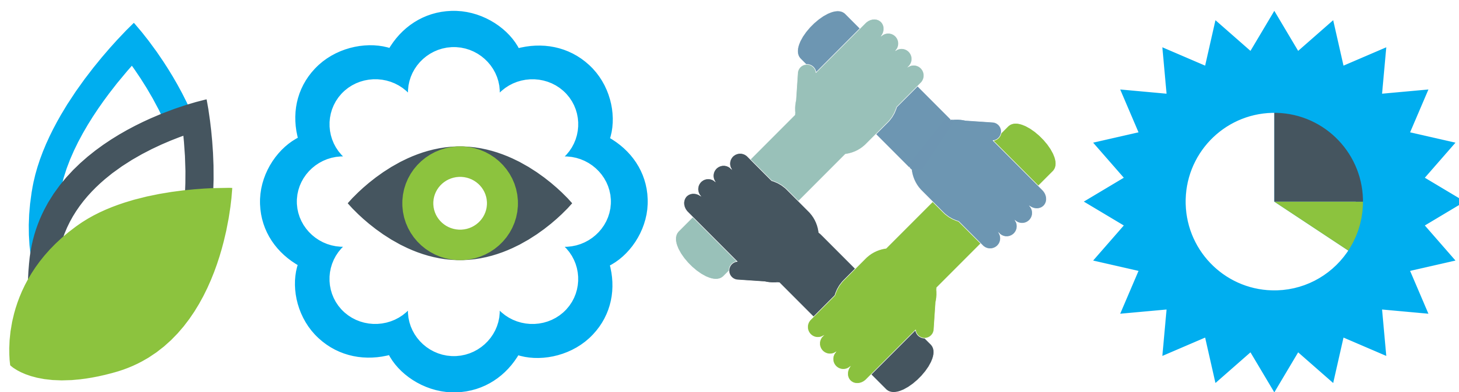

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Date: 21 October
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Leadership shake-ups at Digital Asset, Societe Generale, NSD and more

Distributed ledger technology developer Digital Asset has made a string of new appointments, including RBS's Carol Mathis as CFO.

Mathis joins from RBS Corporate and Institutional Bank, where she was COO and managing director, and where, previous to this, she held the position of CFO for 12 years.

Digital Asset has also appointed Gavin Wells as head of Europe. Wells previously worked at LCH.Clearnet, where he was involved in delivering the first clearing service for foreign exchange.

Digital Asset's previous head of Europe, Justin Amos, has relocated to Sydney to take up the role of head of the Asia Pacific region. Here, Amos will help expand Digital Asset's Australia office, following the firm's mandate from the Australian Stock Exchange to build a national post-trade solution using distributed ledger technology.

Kelly Mathieson, Andrew Pisano and Emnet Rios also join Digital Asset.

Mathieson joins as a product manager. Previously, she spent 26 years at J.P. Morgan Chase and she has also worked with the Federal Bank of New York in implementing post-crisis tri-party repo reforms.

Pisano joins as business development director. Previously, he worked within the CME Group's Digitization Group, where he helped to define the group's blockchain strategy and to commercialise proof-of-concept.

Rios joins from RBS, where she spent 11 years in roles including director of financial planning and analysis. At Digital Asset, she takes on the position of director of finance and operations.

Finally, Digital Asset has enlisted Martin Korbmacher as a strategic advisor to help scale its accelerated growth.

Korbmacher is founder and managing director of independent advisory and investment boutique Event Horizon Capital & Advisory.

According to Digital Asset, the new appointments reflect the development of its senior team, and the firm's commitment to improving client services.

CEO Blythe Masters said: "We are privileged to tap into the expertise of these world-class leaders with deep expertise and proven track records in the specific areas that will be critical to accelerating our efforts to the benefit of our customers."

David Linds has joined RBC Investor & Treasury Services as managing director and head of asset servicing for Canada.

Linds joins from CIBC Mellon, where he worked for 19 years, most recently holding the position of senior vice president for business development and relationship management.

In his new role, he will be responsible for sales and client coverage activities across Canadian sub-custody and other asset servicing segments. Based in Toronto, he will report to James Rausch, head of Canadian client coverage.

Rausch said: "David Linds's extensive experience in asset services and custody deepens the bench strength of our coverage team and his appointment underscores our commitment to advancing our specialist provider strategy in the Canadian market."

Emily Portney has been appointed as the new CFO of the Barclays corporate and international business, effective 19 September, the bank has confirmed.

Previously, Portney spent 22 years at J.P. Morgan in roles including head of agency clearing, collateral management and execution, and CFO of equities and prime services.

Portney is the latest in a string of executives joining Barclays from J.P. Morgan, following the appointment of Jes Staley as CEO in December 2015.

Societe Generale has named Ramir Cimafranca as head of prime services for Japan, effective immediately.

Based in Tokyo, Cimafranca will report on a local basis to Koji Shimamoto, director and executive vice president of Societe Generale Securities Japan.

Regionally, he will report to James Shekerdemian, head of prime services for the Asia Pacific region, and global head of prime brokerage sales.

Investment fund manager FundRock has appointed Hakim Bendriss as director for business development.

Bendriss joins from DMS Offshore Investment Services, where he was an executive director. Previously, he spent seven years at MAN Investments, working in Luxembourg and Switzerland, and becoming a board member for the Luxembourg business.

Greg Robinson-Kok, executive director at FundRock, commented: "At FundRock we are focused on continuously improving the strength of our team, infrastructure and service offering."

"Hakim Bendriss is a commercially successful and vastly experienced fund professional."

Northern Trust has appointed Ian Hamilton as a sales manager to drive asset servicing in the pensions and sovereign entity sectors in the UK, Europe and Africa.

In his new role, Hamilton will focus on offering asset servicing and capital market solutions to institutional investors.

Based in London, he will report to Douglas Gee, head of sales for Northern Trust's asset servicing business in Europe, the Middle East and Africa (EMEA).

Hamilton joins from State Street, where he was head of asset owners, and European head of consultant relations.

Penelope Biggs, head of Northern Trust's institutional investor group for EMEA, commented: "At Northern Trust we recognise asset owners increasingly require sophisticated asset servicing solutions to enhance their investment operations and oversight. In response to this trend, Ian Hamilton and his focused team will tailor solutions to help clients make more informed investment decisions, supported by greater transparency, governance and oversight of their investments."

The National Settlement Depository (NSD), Russia's central securities depository, has made three internal appointments to its senior management team.

Artyom Duvanov has been named director for innovations, Denis Buryakov takes on the role of managing director for depository operations, and Tatiana Trostyanitskaya is the new director of the securities department.

Duvanov joined NSD last year as chief IT architect. In his new role, he will be responsible for researching and implementing innovation projects, working closely with the CSD's IT and business divisions.

According to NSD, the appointment is intended to address the increasing importance of new technologies and innovation in the financial markets.

Buryakov will work on developing NSD's depository services promoting them on both the Russian and international markets. He started working in the depository as a specialist, and has worked on implemented several significant infrastructure and market projects.

Trostyanitskaya joined NSD in 1999, and most recently led the securities market participants relationship division. She has also worked in the CSD's legal department.

In her new role, Trostyanitskaya will deal with the receipt and servicing of Russian and foreign securities, as well as corporate actions and interaction with registrars and issuers.

Former vice chair of RBC Capital Markets Lisa Pollina has joined the board of directors of the Depository Trust and Clearing Corporation (DTCC).

Pollina has joined the board's audit committee, finance and capital committee, and the risk committee.

Before joining RBC, Pollina was global financial institutions executive at the Bank of America.

She is also an appointee to the US Federal Reserve working group on global markets, and sits on the Washington DC Financial Services Roundtable as vice chair of the US Lending and Leasing Policy Committee.

Robert Druskin, chairman of DTCC's board of directors, said: "[Pollina] will be an important voice in working with us to shape the strategic direction of the firm as we continue to help the industry navigate through a challenging economic and regulatory environment." **AST**

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