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ESMA bows to pressure on SFTR

The European Securities Markets Authority (ESMA) has avoided creating a “major liquidity issue” by revising the Securities Financing Transaction Regulation (SFTR) collateral reporting rules.

The SFTR level two consultation, published on 30 October, revealed regulators listened to market participants’ concerns relating to the requirement to report on collateral used as part of a securities finance transaction (SFT) on a T+1 basis.

In the second consultation paper from ESMA, the deadline for reporting has now been pushed back to the day after value date.

“Clearly you don’t know what you’re going to use as collateral until the value date of the collateral requirement,” explained Ben Challice, COO at Pirum Systems.

“ESMA seems to have listened to the market and now acknowledges that to lock up collateral before moving it would create major liquidity issues in the market,” he explained.

“They have now proposed that it can be reported on value date plus one for non-cash trades (pending further consultation).”

ESMA acknowledged that it had learned much since it first began drafting the reporting standards for the European Market Infrastructure Regulation (EMIR), on which SFTR’s own requirements are largely based, and now saw the need for improvements as a result.

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SEC agrees next step towards T+2

The US Securities and Exchange Commission (SEC) has voted in favour of shortening the standard settlement cycle for broker-dealer securities transactions from T+3 to T+2.

The proposed amendment aims to tackle credit, market and liquidity risks related to the value and number of unsettled securities transactions prior to the completion of settlement.

The current timeline will see the amendement take effect on 5 September 2017.

SEC chair Mary Jo White said: “Today’s proposal to shorten the standard settlement cycle is an important step in the SEC’s ongoing efforts to enhance the resilience and efficiency of the US clearance and settlement system.”

She added: “The benefits of a shortened settlement cycle should extend to all investors, not just those directly involved in the trading, clearing and settling of securities transactions.”

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Leadership key to data strategies

Asset managers require governance and flexibility in their data strategies, according to a survey by the Economist Intelligence Unit and sponsored by Northern Trust.

The survey report noted that while most managers are looking for tools to help them gain benefit from new data, “the results show wild variance—with some institutions benefiting substantially while others are failing to gain any advantage”.

It suggested that the quality of an organisation’s data strategy, along with strong leadership on this strategy, can make a big difference in its ability to navigate the large volumes of data available to them.

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ESMA bows to pressure on SFTR

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"[The authority] understands that with the exception of trades against a collateral basket both counterparties will have agreed the collateral for an SFT at the time the SFT is concluded or at the latest at the end of the day on which the SFT is concluded."

"For repo trades against a collateral basket, the counterparties would report the collateral allocation as soon as it is known, but at the latest at the end of the value date + 1."

The first phase of SFTR came into force in January but the final technical standards on reporting are not expected until early 2018.

US will feel it too

ESMA also used the second level consultation to reiterate its aims to "ensure a level playing field" for market participants' access rules and "align reporting standards to the maximum extent possible" across the various EU reporting regimes.

According to the authority, this required two amendments to EMIR's technical standards on reporting and detailing the operational standards for data access, comparison and aggregation.

Although SFTR and EMIR are primarily EU-focused, the nature of the reporting requirements will affect global entities that interact with the EU market for securities lending activities.

Fran Garritt, director of securities lending and market risk for the Risk Management Association (RMA), said: "The RMA Securities Lending Committee is monitoring SFTR as many US agent lenders and beneficial owners will be impacted by SFTR reporting rules due to the global nature of the business."

"Most US agent lenders service European clients, and both US agent lenders and beneficial owners lend both to European counterparties and European securities."

ESMA has now opened itself up for feedback on this paper until 30 November.

The feedback from this second stage will be used to finalise the draft technical standards, which will be submitted to the European Commission by the end of Q1 2017. The final version of SFTR will then come into force from 2018.

Steven Maijoor, chair of ESMA, reiterated the need for more transparency in securities finance, saying: "Regulating securities financing is important as it will reduce financial stability risks from financial market activities, which so far only faced little to no regulation."

"The SFTR will provide transparency to regulators and investors on the use of SFTs, and will better allow to identify risks associated with collateral and its reuse."

SEC agrees next step towards T+2

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The vote in favour of the amendment was swiftly commended by the Options Clearing Corporation (OCC) and the Securities Industry and Financial Markets Association (SIFMA).

OCC executive chair and CEO Craig Donohue commented: "We are pleased the SEC has approved the clearing agency rules, as this was an important priority for OCC and the US listed options industry."

"It also is a critical step toward an equivalency agreement between the SEC and the European Commission that will allow central counterparties such as OCC who are subject to SEC regulation to be eligible for recognition by the European Securities and Markets Association and for attaining qualified CCP status for purposes of European capital regulation."

SIFMA president and CEO Kenneth Bentsen added: "Shortening the time it takes to settle a trade will bring numerous benefits to investors and the US financial system, including reducing operational risk, enhancing the overall efficiency of US securities markets and aligning the US with other international markets. This is truly a win for investors, the industry and all market participants."

"We also commend the self-regulatory organisations overseen by the SEC, including the Financial Industry Regulatory Authority, the New York Stock Exchange, Nasdaq and the Municipal Securities Rulemaking Board, for their ongoing efforts to update their rulebooks to support a shortened settlement cycle."

Following the vote on Rule 15c6-1(a) of the Exchange Act of 1934, a 60-day comment period will occur once it has been logged in the Federal Register.

Leadership and flexibility are key to data strategies

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Of the respondents, only 27 percent said that their company's data strategy has entirely prepared it to meet the current challenges and opportunities in the market.

However, 72 percent said that their data strategy has prepared the company either 'somewhat' or 'adequately' well, and only 2 percent said they are not well prepared at all.

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The majority, 80 percent, said they have a central leader for their data strategy.

Of those, the majority said that the responsibility for setting the data lies at c-level, however it is split between technology leaders, investment strategy leaders, and the c-level group as a whole. This, the report said, is because application of data analytics is spread across the whole organisation.

The survey suggested that those respondents in organisations that have their data strategy decided at c-level generally have access to all the data they need.

Some 69 percent also said their strategy is at least 'adequately' able to meet the current challenges and opportunities, compared to 57 percent that do not have c-level leadership for their data strategy.

With regards to flexibility, the survey found that companies that have a 'mostly' or 'entirely' flexible data strategy generally capture more value from their data.

Of those that said their data strategy is flexible, 67 percent said they capture data 'fairly or entirely well'. On the other hand, of those that said their data strategy is 'somewhat or not at all' flexible, only 41 percent said they capture data fairly or entirely well.

That said, in total, more than 80 percent said that they are not able to extract full value from the data at their disposal.

The survey report said: "Participants believe they have been broadly successful in using the deluge of data to meet regulatory requirements, improve their investment strategies and meet new business objectives. Moreover, many expect to achieve higher return on data investment over the next three years."

"Yet a surprising number—more than four out of five—say they are not yet able to extract full value from the data they acquire. Existing data strategies, on average, do not adequately prepare firms to tackle the challenges they face, and many strategies lack the flexibility to respond effectively to the unexpected."

The report concluded that dealing with data challenges requires strong leadership and processes for managing data on an enterprise-wide basis, with more focus on extracting insights to improve business decisions within asset managers.

"They must remain both flexible and adaptable, continuously evaluating performance as methods change to ensure that they are capturing full value from data," the report said.

"The insights these firms gain from data analytics will be critical to optimising business strategy in an extremely dynamic and heavily-regulated market."

The survey was conducted in September 2015, and included 201 asset and insurance management executives, approximately half of whom deal with assets exceeding $5 billion. Respondents were split between the US and Europe, and about 15 percent were based in the UK.

Custody and investment: never the twain shall meet

The blurring of custody and investment business lines among global systemically important banks (G-SIBs) can create a "high level of risk with regard to asset safety", according to respondents of an independent survey commissioned by SIX Securities Services.

Almost two thirds (64 percent) of financial institutions surveyed admitted to harbouring

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concerns around the fact their agent banks have both custody and investment business lines.

This fear was particularly acute for G-SIBs, with 80 percent of respondents acknowledging it as an issue for market stability.

Collateral shortfall also emerged as a concern, with half of those questioned suggesting that the transparency requirements around assets, imposed by regulations such as the Dodd-Frank Act and the European Markets Infrastructure Regulation, are actually contributing to a collateral shortfall.

The survey revealed that 32 percent of respondents said they believe that the pressure to ensure and prove asset safety comes primarily from 'own balance sheet liability', followed by 26 percent who pointed to the regulators and another 26 percent who pointed to institutional investors.

The remaining 16 percent said they see pressure coming from the clients of these investors, such as pension funds and insurance companies.

Thomas Zeeb, division CEO of SIX Securities Services, commented: "These results are a clear representation of how seriously our industry is taking asset safety—clients are conflicted by the need to reduce costs, possibly through outsourcing services, with questions being raised around the prudence of being so reliant on service providers."

"As a financial market infrastructure, it is our role to address these issues and provide safe, secure and robust solutions to our clients."

FINCAD: Derivatives boom encouraging tech investment

Financial institutions are increasing use of derivatives as an investment strategy and investing in technology in order to manage this change, according to a survey by FINCAD.

The survey found that, despite concerns around increased regulatory requirements, some 87 percent of respondents are already using derivatives in their investment strategies, including futures, options, swaptions and hybrid or structured products.

However, 92 percent said they plan to either increase their derivatives usage, or keep it the same, in 2017.

According to FINCAD, the majority of firms are using complex derivatives strategies across multiple asset classes, and seeking out new currencies and investment types. However, the survey report suggested that some firms are being held back by legacy systems, which could prevent them from implementing these strategies.

Calastone reinforces China-HK market connection

Calastone has strengthened its position in the China-Hong Kong market by enabling direct connectivity with Shenzhen Securities Communications Company (SSCC).

The new link provides direct SSCC connectivity to financial institutions in Hong Kong participating in the China-Hong Kong Mutual Recognition of Funds (MRF) programme, such as fund managers, distributors, custodians and fund administrators.

Sebastien Chaker, head of Asia for Calastone, said: "The new, direct connectivity means that financial institutions in Hong Kong participating in the MRF programme now have a wider set of order processing channel options, with the potential to lower costs."

"Clients will be able to use their existing network connection to Calastone to submit and receive fund orders to and from China under the MRF programme."

YuanQun, CEO for the SSCC, added: "As interest in international fund investment continues to increase, we see the availability of electronic trade channel options will only help to support the rise of trade volume between China and Hong Kong."

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Of those considering more sophisticated strategies, 57 percent said they are either certain that their current systems would struggle with the changes, or unsure as to how they would cope. About two thirds, 67 percent, said they plan to increase investment in technology over the next year.

Matthew Streeter, capital markets strategist at FINCAD, commented, in a blog post on the survey: "The current reality is that small-scale tools are too basic, and in-house developed legacy systems are too rigid to support the complexity, nuances and demands of derivatives trading today."

He went on to say: "What financial institutions need is a comprehensive valuation and risk solution that enables them to move quickly on market opportunities."

"They also need an advanced modelling framework that affords utmost freedom and control for developing complex trading strategies that boost their return-generating potential. This is the only way firms can gain an edge in a fiercely competitive market."

The survey included more than 230 institutions from both the buy and sell sides.

LCH signs up first Australian PPS

The Commonwealth Bank of Australia (CBA) has become LCH's first Australian Protected Payments System (PPS) bank.

An Australian PPS Bank enables LCH to make and receive Australian dollar payments in the local time zone.

LCH uses the Bank of England-overseen PPS system to call and pay cash margin to its clearing members. Members of the clearinghouse must have a PPS bank account.

The clearinghouse opened an account with the Reserve Bank of Australia in 2015.

Gerard Smith, director of collateral services at LCH, said: "Signing Commonwealth Bank of Australia as our first Australian PPS bank generates more flexibility in making and receiving cash payments in the local timezone."

"The Asia Pacific is a region of strategic importance for LCH and we understand the importance of engaging with local partners to offer the best possible service to our members and their clients."

Raiffeisen Bank approaches Basel III with SmartStream

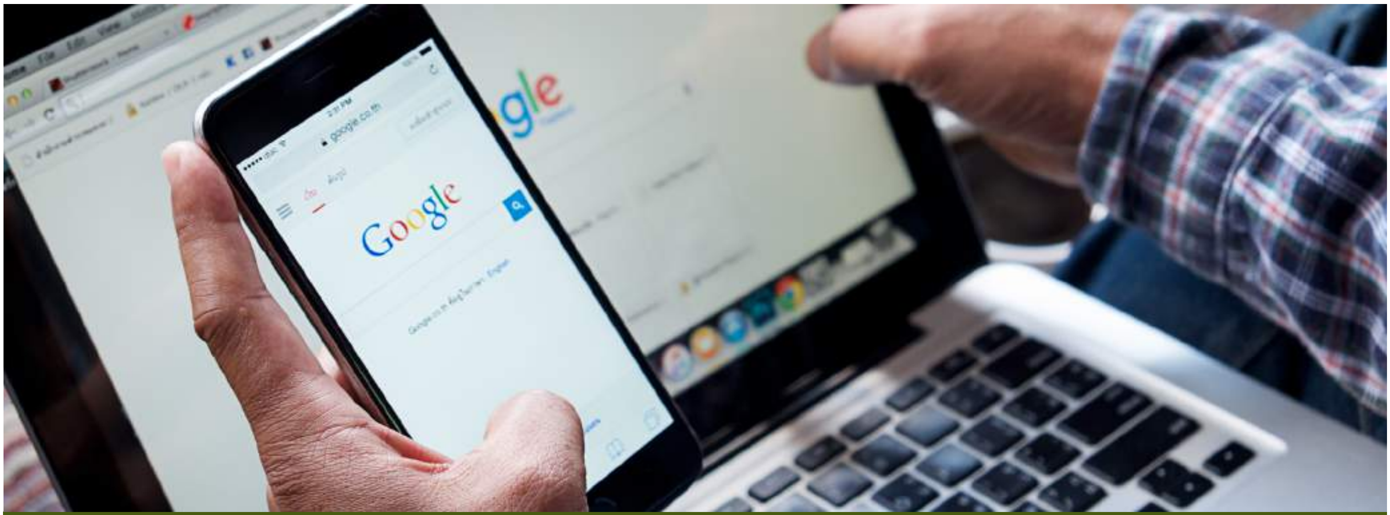
Raiffeisen Bank has gone live with the SmartStream cash and liquidity reporting solution to manage Basel III requirements.

The new solution is designed to approach the Basel Committee on Banking Supervision's 'Principles for Sound Liquidity Risk Management and Supervision' for intra-day liquidity management, due to be implemented in January 2017.

In 2014, Raiffeisen Bank International decided to tackle Basel III by implementing the Corona cash and liquidity reporting solution in the bank's Austria offices.

Christian Schiebl, executive vice president of the Corona business unit at SmartStream, said: "Basel III highlights how data has to be 'trusted data'—with Corona, we have a unique advantage in supplying exactly what the regulators expect."

"Raiffeisen Bank International is the first bank in the region to take such a proactive approach in protecting themselves, as well as their customers, we are proud they have taken such steps."



Google and GFT partner up on DLT

GFT is utilising the Google Cloud Platform to rapidly deploy the code developed by its client development teams into GFT's blockchain incubator to simulate real-world scenarios.

In a statement on the partnership, GFT explained: "It is possible to simulate additional banks coming online to a distributed ledger, then rapidly gather and interpret the data using Google BigQuery. Disruptive business models, underpinned by distributed ledger technologies, typically enable banks that have an 'untrusted' relationship, to communicate with trust, but without a 'middleman' who traditionally provides the 'trusted' confirmation."

"This brings great potential to overhaul many of the core issues that have hindered the financial industry, such as costly and complex legacy infrastructure."

GFT recently created a test environment for a distributed ledger domestic and international payments solution on the Ethereum platform, working with a large European bank.

Nick Weisfeld, head of GFT's blockchain and data practices, said: "Working with Google has enabled us to create a test environment for a new Royal Bank of Scotland application using real-world volumes, providing them with valuable information on how their solution operates detailed in a new technical paper."

"This ability to test at scale has enabled our client to bring their distributed ledger initiative out of the lab and into the real-world in record time, creating an industry-leading solution."

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CSDs forge DLT partnership

The central securities depositories (CSDs) of South Africa and Russia have signed a letter of intent to develop a distributed ledger technology (DLT), initially focusing on proxy voting.

South Africa's Strate and Russia's National Settlement Depository (NSD) instigated the partnership in September, at this year's Sibos conference in Geneva.

According to NSD, one of the first financial organisations to explore the use of DLT for proxy voting, CSDs will benefit from industry-wide collaboration to better face the changes presented by DLT technology.

NSD also highlighted that other CSDs have "expressed interest" in joining the partnership, which Strate and NSD have welcomed.

In a statement on the partnership, NSD noted: "Given that there is the potential for financial markets to create a distributed ledger that settles securities transactions, financial market infrastructures need to embrace the technology and identify opportunities that will add value to their current clients."

Monica Singer, CEO of Strate, said: "It is an important time for CSDs to be working together to define the future landscape in the DLT environment. Strate looks forward to developing this long-standing and valuable relationship with NSD to develop solutions for emerging market CSDs."

Eddie Astanin, chair of the executive board of NSD, commented: "We believe that the securities settlement and custody industry is one of the promising sectors where we can use new technologies."

"I think that post trading may become the starting point of transition of the distributed ledger technology and blockchain from theory to practice. In 2015, we began research and initiated new developments; since that time we have developed valuable expertise in this sphere, and now we are eager to share it with our colleagues."

EU Commission orders sale of LCH SA

The London Stock Exchange Group (LSEG) has been ordered by the European Commission to sell its stake in the French arm of LCH Group before its merger with Deutsche Börse can continue.

The commission ruled that LCH SA, the French subsidiary of LCH Group, of which LSEG is the majority shareholder, must be sold to proactively address anti-trust concerns, before phase two of the merger can begin.

Both LESG and Deutsche Börse have confirmed the commission's decision.

The merger of the UK and German stock exchanges was first announced on 16 March and has since received the backing of both exchanges' shareholders.

Back-office automation and reporting still considered a priority

Asset management professionals continue to prioritise back-office automation and managing increased regulatory reporting, according to a new Confluence survey.

According to the 2016 Asset Management Industry Trends Survey, 61 percent of asset management industry respondents consider automating back-office processes as an important goal over the next two years.

The survey also revealed that back-office automation has remained the top priority in Confluence's annual survey since 2008.

In addition, 47 percent of respondents put the challenge of simultaneously managing increased regulatory reporting requirements as a priority and 44 percent noted centralising fund data as important.

Almost all respondents, 91 percent, reported concern about manual processes and spreadsheets affecting the ability to control errors, while 81 percent were concerned about the ability to control costs.

However, the survey revealed that manual processes persist across the back office.

Respondents noted that at least a portion of back-office regulatory functions was being managed manually.

This year's survey found that the industry is increasingly focused on centralising fund data, with 71 percent of respondents suggesting it is important to consolidate fund data into a common database, up from 50 percent in 2008.

Over two thirds of 2016 respondents said their firm has begun to centralise fund data into one database, again up from 50 percent in 2008.

Todd Moyer, executive vice president of global business development at Confluence, said: "Relying on multiple single-point solutions is especially problematic when it comes to regulatory reporting."

He added: "It is inefficient, introduces the risk of error and makes process automation more challenging. As regulatory reporting pressures increase, data consolidation and process automation will become more important. It is imperative that the industry collectively begins to take more significant steps in realising their goal of automation now."

R3 members trial Intel's distributed ledger prototype

Financial innovation company R3 and eight of its largest consortium member banks, including HSBC, Societe Generale and State Street, have successfully tested Intel's distributed ledger prototype for bond transactions.

The trial used US treasury bonds to demonstrate how distributed ledger, or blockchain, technology can support trading in real-world financial markets, delivering the necessary scalability and supporting over 100,000 transactions per day.

Intel will be donating the bond-related transaction families (software code written to simulate the behaviour of bonds on an exchange) to the Hyperledger Project, and will be running live demos of the platform at the Hyperledger booth (C90) at Sibos this week.

R3 and Intel are premier members of the Hyperledger effort, and State Street is a general member. CIBC, ING Bank, Scotiabank, UBS and UniCredit were also involved in the trial.

R3 and its consortium members built and used an implementation of Sawtooth Lake, Intel's proprietary distributed ledger platform, along with Intel's Software Guard Extensions (SGX), a technology that allows developers to protect code and data from disclosure or modification.

The trial involved physical, non-cloud-based nodes hosted globally across the US, Canada, Asia, Australia and Europe to interact and simulate US treasury trading on the ledger.

Jerry Bautista, vice president of the new business group at Intel, commented: "We believe collaborative exploration of blockchain usages is key to the development of this emerging technology. "

"We are excited to show how Intel technologies such as SGX can improve the security and scalability of blockchain deployments."

Tim Grant, CEO of R3's lab and research centre, added: "Our goal at R3 is to bring our members together with the strongest technology players and work collaboratively to evaluate and accelerate this groundbreaking technology to production using real-world use cases."

"We are delighted to build on our strong relationship with Intel to demonstrate how distributed and shared ledgers can deliver material efficiencies throughout the full trading lifecycle of an asset."

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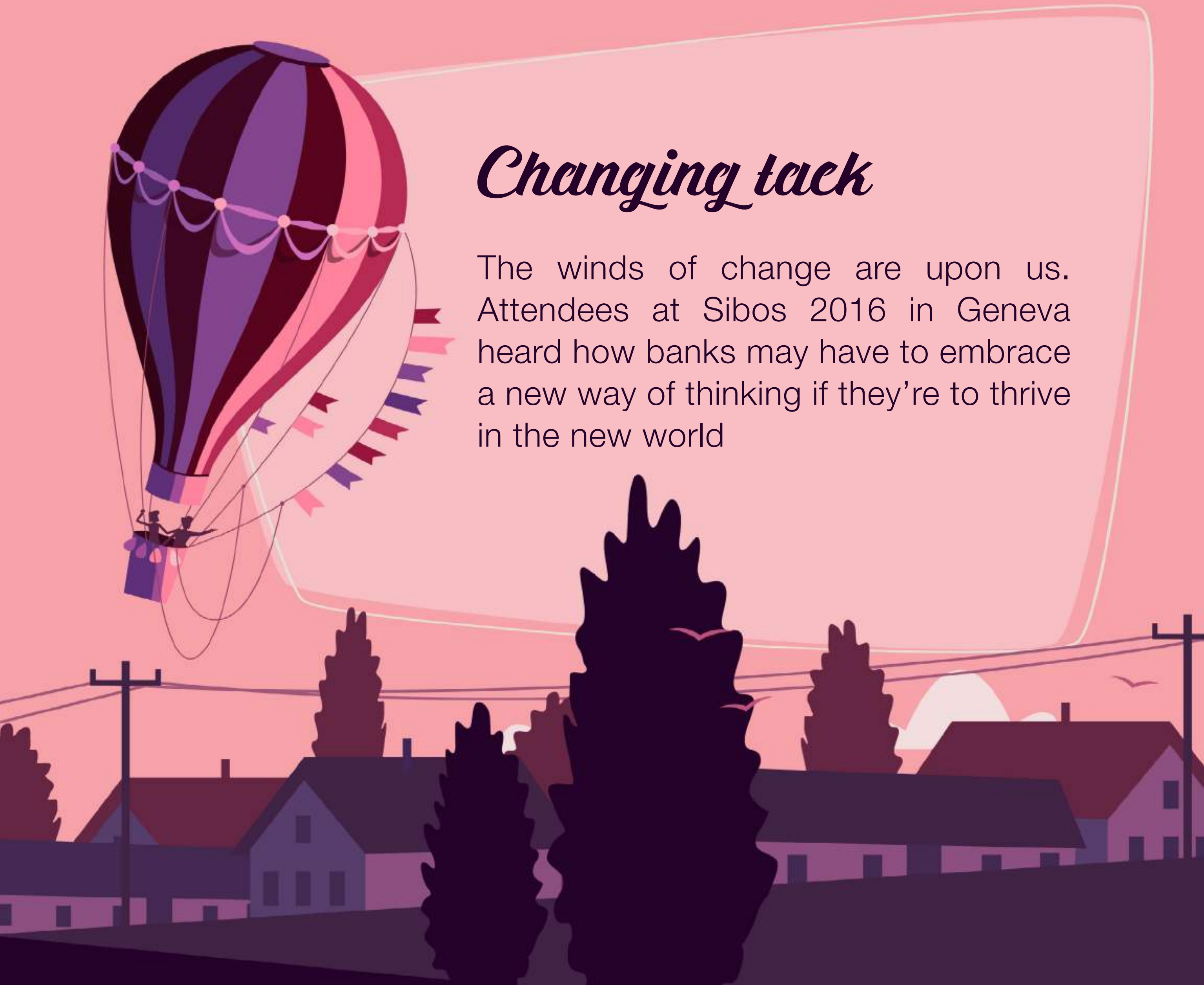


Changing tack

The winds of change are upon us. Attendees at Sibos 2016 in Geneva heard how banks may have to embrace a new way of thinking if they're to thrive in the new world

Sibos 2016 focused firmly on the future of financial services and the risks, opportunities and vast unknowns that lie ahead. The week's closing plenary may have struck an unlikely chord with the post-conference crowd, as Bertrand Piccard, the Swiss adventurer who circumnavigated the earth once in a hot air balloon and again in a solar-powered plane, spoke of the challenges of innovation and the importance of 'changing altitude' to move in a different direction.

Any innovator requires criticism in order to find the best solution or strategy, Piccard said. "If you want innovation you have to go outside of the system."

Speakers at the conference were generally in agreement that change in the industry is imminent, from one angle or another. In his opening speech, SWIFT CEO Gottfried Leibbrandt named the key topics of the event as security, financial crime compliance and global payments.

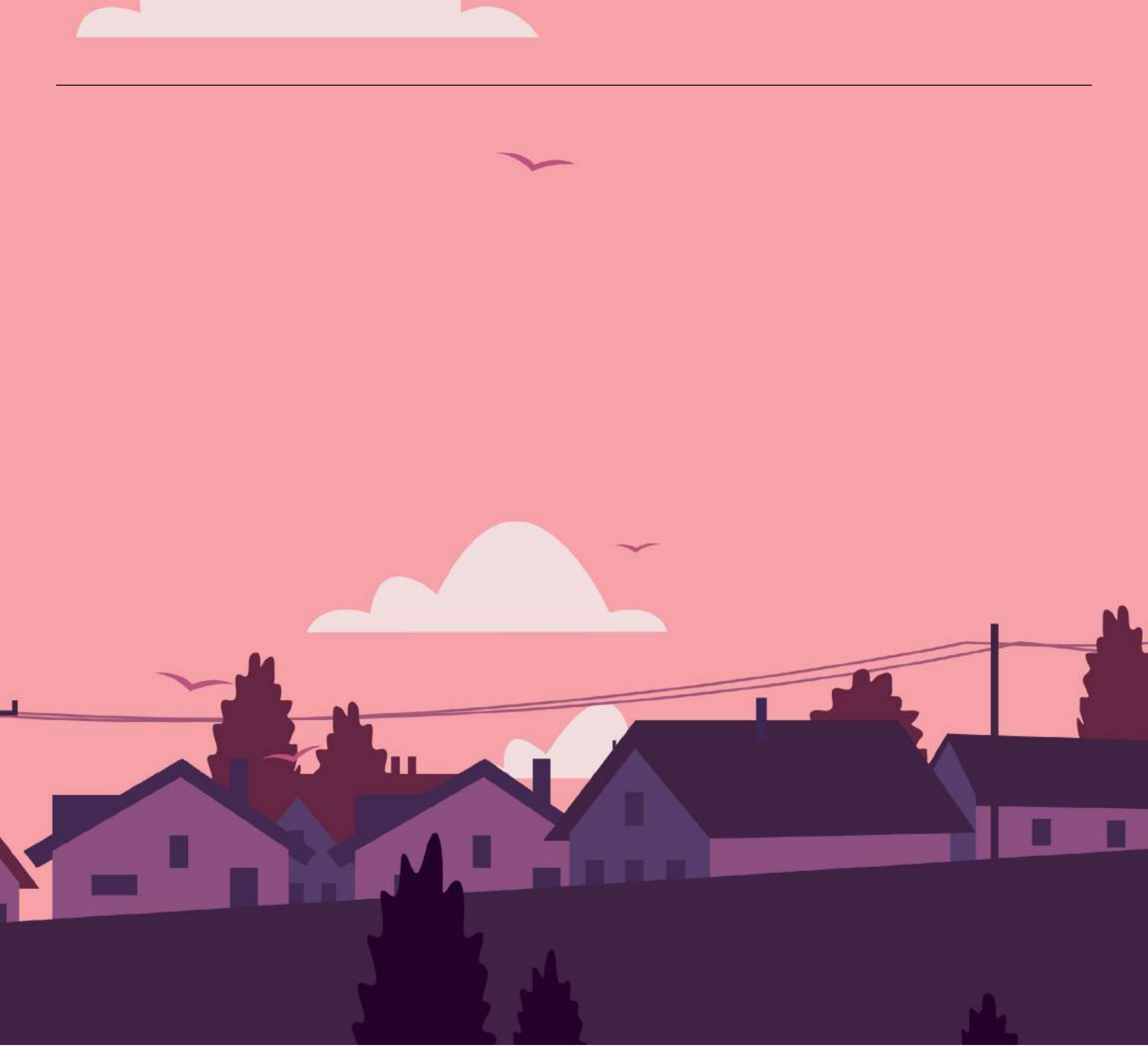
Focusing on the former, he argued that banks should not see cybercrime as a reason to shy away from innovation, but as an incentive to develop financial technology further.

Leibbrandt said it is no coincidence that this threat has increased at the same time as major innovation in the industry. The so-called 'internet of things' has led to a "breeding ground" for cybercrime, including fraud and espionage, he said.

However, Leibbrandt described this threat as a 'disease' comparable to those that emerged, and quickly spread, when humans first settled in cities en masse. Early city dwellers "changed an existential threat into a manageable nuisance", he said, and banks must treat cybercrime in the same way, stepping up innovation in order to protect themselves and the industry.

Leibbrandt outlined a three-part plan to minimising the threat. First, banks need to make sure their own environment is secure, maintaining "basic hygiene" of secure passwords and up-to-date virus protection software.

Second, he warned that when dealing with counterparties these basic steps are important but not sufficient, and banks must be prepared to manage those relationships with maximum transparency.



Finally, the community as a whole must "share and prepare" to make information available to others within the global business to ensure that all entities can prepare for similar style attacks.

Stressing that "we have to move forwards" rather than turn back the clock on innovation, Leibbrandt noted that fintech is transforming the landscape, and technology is also being developed for combatting cybercrime.

Another conference speaker, professor Marco Gercke, director of the Cybercrime Research Institute, suggested that developments in artificial intelligence and machine learning are also increasing the threat of financial cybercrime. He stressed that the financial services industry must be prepared in case of an attack.

Gercke noted that, while humans are still superior in making emotional decisions, rationally, robots are ahead.

In certain situations, "artificial intelligence can substitute negotiators", he said, adding that in the future, more dependencies on those machines will emerge.

The main issue with this, Gercke said, is that "machines will suggest solutions that are based on analysis so complex that we won't be able to go through it in a lifetime".

Without the ability to verify these analyses, there will be little choice but to trust the machines. As we become more dependent on them, "attacks become more severe".

The financial services industry is increasingly dependent on its systems and on financial technology, and, Gercke said, criminals are not going to attack servers. Instead, they will manipulate financial documents, make data inaccurate, and then hold institutions to ransom. He warned attendees: "Your whole industry is based on trust and confidentiality."

In order to protect against this, institutions must consider their individual risk assessments, considering what a data breach could mean for the business, how clients would react to their financial data being leaked, and how employees would react to personal details, or contract details, being made public.

Cognitive technology, however, could give financial services firms a competitive advantage, as long as they seize the opportunity now, according to Ginni Rometty, chair, president and CEO of IBM.

Rometty noted that the vast majority of financial service providers are already ‘digital’, however she said: “Digital is the foundation, but I don’t think it’s the destination.”

Cognitive business represents “another shift right in front of you that is actually going to be more transformative and more disruptive”, she said.

Rometty’s argument was that taking a digital business and adding digital intelligence creates a cognitive business—making it both a business model and a technology model, which can mean the “ultimate competitive advantage”.

The huge amounts of data available to institutions can create a competitive advantage, but they need a cognitive technology to understand the insights in the data, and to extract them.

This is “far more than artificial intelligence”, Rometty said, adding that it can “interact in natural language”, that it has domain knowledge, and extensive knowledge of various areas.

She added: “I don’t think of them as artificial intelligence, I think of them as augmented intelligence and, therefore, these systems learn.”

She suggested that this will be an “era of systems that understand—they reason and they learn”, and that we need such systems, as “the challenges are too big otherwise”.

Citing the success of the financial services industry in leading the innovation charge in the past, she suggested that it could now pioneer new technologies that can be applied in other industries. She said: “Financial services can and will lead the world into this era.”

Technological development must, however, operate within the existing regulatory framework, according to a panel discussion, during which developing workable standards also emerged as an important issue.

David Geale, director of policy at the UK’s Financial Conduct Authority (FCA), said that the regulator is focused on trying to make markets work as well as possible, while protecting consumers and market integrity, and that part of this is promoting competition in the interest of consumers.

He suggested that innovation, while it brings an element of risk, also brings about “positive disruption”. However, with regards to regulating new technologies, there is a balance to be struck.

Too much regulation could potentially “stifle things that can be good for consumers”, but regulators must not allow potentially risky technologies to be “left unchecked”.

Peter Randall, CEO of blockchain-based payment and settlement infrastructure SETL, suggested that now is the time to bring 21st century distributed ledger technology into the post-trade space.

He outlined five key things the technology must be able to achieve in order to be successful.

Randall argued that distributed ledger technology must be able to “operate at real world speed” and at “real world capacity”, capable of processing thousands of transactions per second, and potentially billions per day.

It will also have to have know-your-client and anti-money laundering compliance capabilities “as native”, and must be able to move “real world assets”—those that affect asset finality, rather than purely digital assets.

Finally, and most importantly according to Randall, it is unlikely that there is going to be one “big pan-galactic blockchain”, but there will be many chains, even within one institution, and these must be able to communicate.

Another speaker, Chris Church of Digital Asset, added to this, saying that open-source technology will be a large part of the strategy and that those who embrace this “will be the winners in this race”.

Regarding standards as a remaining issue for the development of blockchain, Randall said: “The great thing about them is that there is plenty to choose from.”

He expressed concern over the idea that there will be a lot of institutions trying to create standards, and that the industry will end up working to the lowest common denominator.

Suggesting that distributed ledger will do to the finance and payments industry “what the shipping container did to world trade”, Randall noted that when the size and shape of the container is standardised, many containers can be much easier to manage.

In this industry, this represents dematerialising of assets, Randall said. If one container holds $1 million, and another holds a bond worth $1 million, rather than swapping the contents, parties would simply have to swap keys.

In a later session, panellists sugested that, in the relatively short term—between now and 2020—the biggest changes to the financial services industry will be cultural.

Eileen Burbidge, partner at Passion Capital and special envoy for fintech for the UK Treasury, suggested that if financial institutions do not react quickly enough to innovation and technology change, “they will risk obsolescence”.

This threat does not necessarily come from fintech companies, she said, but from large technology players that will venture into the financial services space.

Burbidge noted that technology is in a steady state, “in that it continues to accelerate”, and continues to have an impact on the industry.

But, she also reflected on “how people’s expectations are changing and also how financial services institutions think about delivering to those expectations”.

She argued that this will include the regulators, and urged them follow the example of the FCA in the UK, which is “increasing innovation and competition and not simply about protecting incumbent industries”.

Closing the conference, habitual risk-taker Piccard educated attendees on the intricacies of balloon navigation, encouraging them to ‘drop weight’ in order to reach new heights and track a new course for the industry.

In life and in business, Piccard mused, certitudes and limitations are the ballast that weighs down the balloon and prevents change.

These limitations can stifle imagination, and we can only move forward once they’re cut loose. Encouraging them to look beyond what they know, Piccard left attendees with the message: “Innovation and progress is not a new idea we have, it’s an old belief we leave behind.” **AST**

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Stephanie Palmer reports

The path un-travelled

As the UK government starts to consider what a post-Brexit Britain might look like, it must consider what the new model will mean for fund managers, says Sam Pearse of Pillsbury Law

Post-Brexit, what kind of model would be the most beneficial for the UK financial services industry? What are the potential outcomes, and which is most likely?

For financial services, the best option could be the Norwegian model, whereby we leave the EU but join the European economic area (EEA) and remain subject to various existing laws, legislation and directives. That model would mean life in financial services, from a regulatory standpoint, wouldn't change too much. It would also give us the greatest alignment with the EU regime, and the best chances of equivalency. With regard to legislation such as AIFMD, it would mean that UK fund managers would be considered 'alternative investment fund managers' within the definition, and so the automatic passport would apply.

The problem is that access to the single market will almost certainly come at the cost of having freedom of movement for workers, which is a contentious issue for some UK leave voters, who are very focused on controlling the borders. It would be a bold move from the UK government to retain that free movement. I don't think we will adopt the Norwegian model, but that's not to say we will adopt something that is so far away from that model that the financial services sector is threatened.

There is also the Swiss model, which is quite interesting from a financial services perspective, because they have a parallel regime for AIFMD that you can opt in to. Even more interesting is that Switzerland and Germany are engaged in an ongoing process to intensify cooperation between the two countries in the financial services sector. They have agreed a regime that allows Swiss firms to operate in Germany without needing a licence from the German regulator. The simplified exemption process is not dissimilar to the EU passport. Swiss companies can apply to the supervision of the German regulator and they become free from various things, such as the requirement for a German intermediary. It just makes that process much smoother and the German markets more accessible.

The fact that the Germans and the Swiss have already negotiated that deal might provide an indicator that it will be possible for the UK to negotiate a similar kind of arrangement. We're not re-inventing the wheel here. We are a valuable trade partner to the Germans, so they might be a bit more moderate than some people fear.

I don't think the competing interests within the UK mean that we suit an existing model. I think we will come up with our own UK model, and I think the preservation of the financial services sector and the ability to passport around is very high on the agenda for the negotiations.

Once the terms of the exit are confirmed, which EU regulations/directives do you think will remain? Which are likely to change?

There is a temptation to mock over-zealous EU regulation, to cut them just to get rid of the red tape. But the further we move away

from European regulation, and from what we have now, the more difficult it is for the European authorities to accept that we have equivalency and should be able to get a passport.

Actually, regulations in the UK are not as strict as in some other EU member states—we didn't go overboard on gold-plating everything, so I think a lot of the EU regulations and directives will substantively remain. Moving away from the regulations that Europe have could be a threat to financial services.

There is a lot of money to be raised around Europe for funds, and it's not as if the UK dominates the market. We can't assume that we can drive the conversation here, because this is not where all the fund managers and potential investors are.

How will Brexit affect alternative investment fund managers in the UK, in terms of AIFMD? Will they have to apply for an AIFMD passport?

For now, we don't know what Brexit looks like, so nothing changes for fund managers except, perhaps, considering alternatives just in case things go sideways.

We keep talking about having the funds passport, but if we're out of the EU and we don't join the EEA, then we're relying on the European Securities and Markets Authority undertaking due diligence on our new laws to determine whether we have sufficient equivalency to justify a third country passport. We know they're not doing this quickly, so we will just end up joining the queue with no idea of when we will be assessed.

If we end up in a position where we're not in the EU or the EEA and we haven't yet been granted a funds passport, managers may have to consider setting up shop elsewhere. They could potentially re-jig their arrangements, appointing a third-party fund manager in Europe, with the investment management services delegated back to the UK office. That will inevitably cost more money, and they will have to be very careful not to be seen to be abusing the directives and creating 'sham' fund managers that aren't doing anything.

How will the trade negotiations affect the funds industry in the UK? Is there a danger that the UK will become a less attractive jurisdiction?

It's certainly a risk. We may have to be quite careful, because if we stop being part of a trade association because we're no longer part of the EU, that will make certain sectors more difficult to perform business in. The ripple effect is that those sectors will also be more difficult to invest in.

This is definitely something we could get wrong, and trying to balance public sentiment with what is best for the UK is going to be very difficult. Something is going to have to give, and one party has to be a bigger loser than the other.

My hope is that the government recognises the value of financial services to this country and is not prepared to sacrifice it. **AST**

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Comings and goings at CIBC Mellon, SGSS, Maitland and more

CIBC Mellon has appointed Steven Wolff as new president and CEO, effective 14 November.

He will replace Thomas Monahan, who is set to retire at the end of the year.

Wolff will take on responsibility for strategy and performance, and will also take up a place on the board of directors for the CIBC Mellon Trust Company.

He has 30 years of experience in financial services and investment administration, and will join CIBC Mellon from the Nova Scotia Pension Services Corporation (NSPS), where he is currently CEO.

Here, he is credited with leading the transition from a government to a non-profit organisation as well as with improving operating platforms and encouraging expansion into new alternative investment classes.

Before this, Wolff held several senior risk management and investment operations positions at State Street Bank and Trust company, leading teams in Canada, the UK, the Cayman Islands and Africa.

John Ferren, senior vice president for finance at CIBC, and a member of the board of directors for CIBC Mellon, said: “Canada is a complex and unique investment marketplace, and Steven Wolff’s deep and personal understanding of the challenges and opportunities ahead will no doubt prove very valuable for CIBC Mellon and its stakeholders.”

Wolff said: “CIBC Mellon is well known and respected as a leader in its industry.”

He continued: “As a client for many years, I know first-hand the importance the company’s highly engaged team places on putting clients at the centre of all they do.”

Wolff was a founding member of the Canadian Public Pension Leadership Council, and has sat as vice chair of the Actuarial Standards Oversight Council.

Societe Generale Securities Services (SGSS) has promoted David Jaegly to the position of deputy managing director of SBI-SG Global Securities Services, the joint venture between SGSS and the State Bank of India.

Jaegly moves on from his previous position as head of Poland, which is being taken on by Cyril Tourneur, previously head of clearing and settlement services for SGSS in Luxembourg.

In his new role, Jaegly will be based in Mumbai. The new venture offers services such as custody, fund accounting and administration, risk analysis and performance measurement to both domestic and overseas investors in the Indian securities market.

As new head of Poland, Tourneur will be responsible for further developing the custody, trustee and fund administration services in the region. Both appointments are effective immediately.

Jaegly and Tourneur will both report to Philippe Huerre, head of the international department at SGSS.

Huerre said: “These appointments will play an important role in strengthening and expanding our service offering for domestic and international investors to support their operations and development in India and Poland.”

SGSS has also named Massimiliano Notarianni as its global head of sub-custody network management.

Notarianni will report to Didier Rolland, global head of securities banking operations, and will replace Mathilde Guérin, who has been appointed deputy head of product engineering.

In his new role, Notarianni will be responsible for developing and managing both SGSS and the corporate and investment bank’s sub-custody relationships globally.

Guérin will be responsible for developing and enhancing SGSS’s securities services offering from design to implementation with operational business lines and support functions. Both appointments are based in Paris and effective immediately.

Maitland has appointed Martina Swart to the newly created position of group head of governance services.

Swart brings 15 years of experience in the investment banking and fund management industry, and joins Maitland from Orbis Investment Advisory, where she was a senior advisor on governance matters.

Previously, she was global head of prime service legal advisory at Barclays, and she has also held senior legal roles at the likes of Citigroup, Citadel Investment Group and Credit Suisse.

In her new role, Swart will be responsible for day-to-day management of governance services, including regulatory, compliance and risk management. She will also sit on Maitland's executive committee.

Based in the London office, she will report directly to CEO of Maitland Steve Georgala.

Georgala said: "Martina Swart's comprehensive knowledge of relevant international laws, regulations, and state-of-the-art risk and control practices will be crucial in underpinning our next phase of growth."

Swart added: "[Maitland] has been built on a foundation of excellent client service and corporate governance expertise. I look forward to helping the business in achieving its goals as it continues to expand internationally."

Technology consultant GFT has appointed David Collins as head of financial services for the pan-Atlantic region.

Collins will work on developing new products, engaging with new customers and improving relationships with existing ones, for the UK, US and Canadian markets.

According to GFS, the appointment is part of a strategy to improve services for clients in these regions.

Collins joins from Sapient, where he was a 'change agent' working on digital transformation in the Europe, the Middle East and Africa division. Previously, he was CEO of SDX Trading and also chief marketing officer at SuperDerivatives.

Gareth Richardson, managing director at GFT, commented: "We are thrilled to have David on board and we are eager to utilise his broad range of skills, gained from his wide experience in the financial services sector." **AST**

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