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EACH: CCPs have the most 'extreme' scenarios covered

Central counterparties (CCPs) are already strong enough to withstand the 'extreme but plausible' scenario that would trigger a resolution strategy outlined by regulatory authorities, according to the European Association of CCP Clearing Houses (EACH).

Responding to the Financial Stability Board's (FSB) discussion note, Essential Aspects of CCP Resolution Planning, which was released in August, EACH highlighted aspects of CCP resolution that are core to the design of an effective strategy.

Stressing that European CCPs are robust enough to withstand the extreme but plausible circumstances that would lead to default, EACH noted that a resolution strategy would only be triggered by a situation significantly more serious.

It said that the most likely scenario that would lead to a CCP being placed in resolution would be the simultaneous default of several large CCPs.

In a statement on the response, EACH said that, in this case, "the market stress and losses would have far surpassed any scenario that could be deemed 'extreme but plausible' as defined by regulators".

EACH added: "The resources held by CCPs will be sufficient to cover the vast majority of circumstances."

The association also noted that recovery must be given the chance to work as planned. EACH's statement said: "Unless and until recovery is clearly ineffective or it is determined that continuing the recovery plan could result in greater losses for market participants, the recovery plan defined by the CCP should be permitted to run as anticipated by the market."

EACH also noted the importance of flexibility of the resolution authority. Although in the resolution process the authority should use a set of tools prescribed in the CCP's rulebook, it should also be flexible in its methods, in order to "optimise the potential intervention of the resolution authority".

In its response, EACH welcomed the FSB's confirmation of the importance of maintaining the incentive structure, saying: "CCPs are by design risk management and mutualisation systems."

It noted that CCPs are designed to provide a buffer of collateral to cover counterparty credit risk, and that this ensures participants in the system have an incentive to manage the risk they bring to the CCP.

The current structure promotes good behaviour and aligns the interests of CCPs, clearing members, market participants and regulators, according to EACH.

A requirement for CCPs to reimburse members for a default management process could undermine the incentives for clearing members to make recovery work, and could change the "positive risk management features" that make CCPs stable.

In its statement on the response, the association also highlighted the importance of global consistency in recovery and resolution frameworks, "given that CCPs may operate in multiple jurisdictions and clear products which are traded globally".

EACH therefore welcomed the FSB's efforts to ensure a set of guidelines that can be applied cross-jurisdiction, while also accounting for specificities of each jurisdiction, as well as the different CCPs and the different products and markets they clear.

New York pension funds taken to task by Department of Financial Services

The New York State Common Retirement Fund (CRF), the investment arm of several New York state pension funds, has been accused of running a "misguided investment scheme" and failing to "adjust and anticipate potential future losses" in a scathing report by the Department of Financial Services (DFS).

The report, published by DFS superintendent Maria Vullo, singled out the CRF for investing in high-cost, underperforming hedge funds and non-transparent private equity funds since 2008, in stark contrast to other US state pension managers nationwide that have cut or eliminated similar investments.

According to the report, the State of New York comptroller, Thomas DiNapoli, who has sole responsibility for state pension fund asset investment allocation, has "over relied on so-called 'active' management by outside hedge fund managers, who consistently have underperformed low-cost diversified index investments while charging huge fees".

Vullo said: "Pension fund managers across the country have cut or eliminated exposure to these overpriced and underperforming investments, while the Office of the New York state comptroller has stood still and spent pension system funds chasing performance that continues to fall far short."

The report covers the fiscal years between 1 April 2008 and 31 March 2016 and is the first in a series to be released by the DFS on the investment activities of the pension systems it regulates.

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Specifically, the DFS highlighted the CRF's "incredibly poor hedge fund returns in fiscal years 2009 to 2011", where the state's pension funds suffered a three-year deficit totalling $1.3 billion, which increased to $1.5 billion once excess fees were considered.

"Rather than correcting this misguided investment scheme the comptroller put more money—86 percent more by 2016—into the worst performing investment allocation," explained the DFS in the report.

"Still reeling from the system's incredibly poor hedge fund returns in fiscal years 2009 to 2011, the comptroller's failure to adjust and anticipate potential future losses cost the system another 10 percentage point deficit in fiscal year 2014."

Referring to excessive fees paid by the state's pension fund, the DFS described it as 'shocking' that the CRF had paid $1 billion to hedge funds over the past eight years, considering the underperformance those funds returned.

"Hedge funds are the worst of the six asset allocation classes with a 10-year record," the DFS stated.

New York state comptroller communications director Jennifer Freeman responded to the allegations, stating: "It's disappointing and shocking that a regulator would issue such an uninformed and unprofessional report. This report was emailed to our office five minutes before it was provided to the press."

"If the agency had reached out to our investment professionals, it would have known the aggressive steps that comptroller DiNapoli and chief investment officer Vicki Fuller have taken to reduce hedge fund investments and limit fees, including lowering the hedge fund allocation to 2 percent of assets from 3 percent and paying below-average fees."

"In fact, the fund has not put money into a hedge fund in well over a year. Unfortunately, the DFS seems more interested in playing political games, so remains unaware of actions taken by what is one of the best managed and best funded public pension funds in the country. We will provide a full response after a thorough review."

ESMA plans to focus on MiFID II over the next 12 months

The Markets in Financial Instruments Regulation (MiFIR) and Directive (MiFID) II, will be a key priority for the European Securities and Markets Association (ESMA) over the next year, according to the association's 2017 work programme.

ESMA will promote consistent application of the MiFID framework, its work programme said.

It will encourage coordination between national competent authorities on supervision and application of both the regulation and directive, and in their approach to investor protection.

The association will also follow up on recommendations arising from the peer review report on suitability under MiFID II, and will complete its peer review on the guidelines of the MiFID II compliance function.

According to ESMA, the focus on the MiFID framework is intended to lead to better convergence and understanding on supervisory approaches and practices with regards to MiFID II and MiFIR, across the EU and the European economic area. This is particularly important regarding conduct of business and organisation requirements for investment firms, ESMA said.

ESMA will also focus on market integrity, providing guidance to market participants and national competent authorities on MiFIR, the Market Abuse Regulation, short selling and benchmarks regulation, and the Securities Financing Transactions Regulation.

Following a barrage of technical standards regarding market integrity, ESMA will respond to these regulations, mainly through question-and-answer reports and guidelines.

MiFID II comes into effect in 2017. ESMA will produce a question-and-answer report on MiFIR reporting, order record keeping, reference data and clock synchronisation, soon after.

According to the work programme, ESMA will continue to develop a 'single rulebook' to be applied consistently across the EU.

ESMA will focus on opportunities and methodologies for conducting pan-European stress tests of investment funds. The authority will also take steps towards establishing the capital markets union.

Other priorities highlighted in the programme were a focus on data quality and assessing the risks therein, and direct supervision of credit rating agencies and trade repositories and their ancillary services.

ESMA clarified that its overarching aim is "to improve investor protection and promote stable and orderly financial markets".

Clearstream and HSBC collaborate over China Interbank Bond Market

HSBC and Clearstream have paired up to offer Clearstream customers access to the China Interbank Bond Market (CIBM).

Clearstream's overseas institutional investor customers will gain access to the bond marketplace, with HSBC acting as the onshore bond settlement agent and offering trade execution, settlement and custody services in the CIBM.

According to HSBC, the partnership is intended to increase foreign participation in the Chinese bond market, which is the third largest fixed-income market in the world, with a size of RMB 54 trillion ($8 trillion).

Ian Banks, head of HSBC Securities Services for the Asia Pacific, said: "A deep and liquid domestic bond market is a key stepping stone to achieving China's ambition of making the RMB a truly global currency."

"Partnering with Clearstream places us in an excellent position to help foreign institutional investors tap into opportunities in CIBM," Banks added.

Philip Brown, co-CEO of Clearstream Banking, said: "This development coincides with an important milestone, the inclusion of the RMB into International Monetary Fund's special drawing rights currency basket, which is expected to boost investors' demand for what is already the third largest bond market in the world."

"This also represents our focus on Asia and will enable us to offer our clients an attractive and efficient solution to build and further develop their exposure to China's onshore bond market."

UCITS enjoy new allocation growth

The plethora of regulatory burdens confining the investment strategies of alternative UCITS are not dissuading investors from increasing their allocation to the fund type, according to a Deutsche Bank survey.

The Deutsche Bank Hedge Fund Capital Group's 2016 Alternative UCITS Survey found that 70 percent of the 130 institutional investors surveyed currently allocate to UCITS funds and a further 5 percent are committed to investing in the product by the end of the year.

The survey, which was conducted between July and September, also found that two thirds of alternative UCITS investors plan to increase their allocation to UCITS in 2016.

Demand for the highly regulated UCITS products is largely driven from the bottom, according to respondents, with 58 percent reporting that their underlying clients were the ones pushing for UCITS allocations. These funds are unable to commit to term trades, which are becoming an increasingly prominent feature of the market, as well as facing limitations to their repo and reverse repo activities.

Anita Nemes, head of the hedge fund capital group and hedge fund consulting at Deutsche Bank, said: "Total assets managed by alternative UCITS funds have grown by 26 percent annually since the 2008 global financial crisis to reach close to €400 billion. Our survey results suggest that growth is set to continue, with two thirds of alternative UCITS respondents expecting to increase their allocations this year."

She added: "We are also seeing a growing number of hedge fund clients embrace UCITS as a growth strategy for their businesses, leading to an increase in new interesting fund launches."

When looking at UCITS-specific investment strategies, the survey found that systematic equity market neutral and fundamental equity market neutral are the most sought after.

By region, the US and Canada are the most attractive for investment, according to respondents to the Deutsche Bank survey.

Economic growth is a concern for treasurers, according to new report

Uncertainty around economic growth is the number one concern for corporate treasurers, particularly in Europe, the Middle East and Africa (EMEA), according to a new report from the Economist Intelligence Unit and Deutsche Bank.

In a survey, 40 percent of respondents listed global economic growth among the top three most serious macro risks to their firm's finances over the next 12 months.

This was followed by regulatory and tax risks, selected by 25 percent, and currency risks and inflation risks, noted by 21 percent and 20 percent, respectively.

In the EMEA region, 45 percent named economic growth in their top three risks, compared to 38 percent in the Americas and 37 percent in the Asia Pacific (APAC) region.

The UK's vote to leave the EU was not found to pose a particularly significant threat in the short term, with 56 percent saying they do not believe it will affect their firms' finances in the next two years.

Only 10 percent said they think Brexit will affect them positively in the short term, while 34 percent said they believe it will affect them negatively.

In the medium term—in the next three to five years—however, 43 percent believe Brexit will have a negative effect on their business, while 46 percent anticipate no effect and 11 percent expect a positive effect.

Some 55 percent of respondents said their treasury function struggles to stay on top of the changing macroeconomic environment, and results were split on whether this is likely to improve over the next 12 months. While 39 percent said they believe the environment will get easier, 32 percent said they believe it will stay the same, and 29 percent predicted that it will get worse.

The survey and several respondent interviews also highlighted a sense of frustration caused by new regulatory requirements taking up a lot of treasurers' time and resources.

Over the next 12 months, 39 percent of respondents said they think the time and resources spent on regulatory change will remain the same. A further 23 percent said they think it will increase slightly, and 16 percent said they think it will increase significantly.

Only 6 percent said they believe they will spend significantly less time and resources on regulatory change in the coming year.

"Several treasurers express frustration with some pieces of regulation that are seen as creating a lot of work without delivering any perceived benefits, such as greater transparency or stability in the financial system."

Regarding the pace of technological change, 73 percent of respondents said the adoption of new technology is gaining momentum in their company's treasury departments, and 68 percent described their current tech infrastructure as sophisticated or highly sophisticated.

When asked which areas within corporate treasury are improved by technology, reporting capabilities came out on top, highlighted by 48 percent. This was followed by decision-making, noted by 42 percent, and quality of information and data, named by 38 percent.

However, in the interviews, contributors suggested that treasurers are naturally risk-averse and tend to wait for innovations to mature before adoption. The survey also revealed some scepticism on the benefits of technology changes in corporate treasury departments.

Of those that said their company has implemented changes in the last 12 months, 42 percent said that the benefits of that investment 'materialised only partially', and 3 percent said the benefits 'failed to materialise'. Only 21 percent said the benefits of their technology upgrade exceeded expectations. There was also a certain reluctance to engage with financial technology start-ups.

While 58 percent said the development of fintech companies is exciting, and could reduce reliance on banks for funding, 72 percent said they remain risk-averse about partnering with them.

"In addition to risk aversion among treasurers, the interviews also reveal a widespread perception that the solutions on offer simply do not meet all requirements, suggesting that part of treasurers' hesitation with respect to adopting new technologies is rooted in their belief that the right products and services are not yet available."

The survey included 150 corporate treasurers and 150 CFOs, with 100 respondents from the Americas, 100 from EMEA and 100 from APAC.

In addition, 20 senior treasury and finance executives were interviewed in July and August 2016.

Dubai derivatives market signs up ABN AMRO Clearing as direct member

The Dubai Gold and Commodities Exchange (DGCX) has signed up ABN AMRO Clearing Bank as a special clearing member on the Dubai Commodities Clearing Corporation (DCCC).

DCCC is a wholly-owned subsidiary of DGCX and acts as the central counterparty for all trades executed on the exchange.

As a special clearing member, ABN AMRO Clearing's presence will expand and deepen access to DGCX, the Middle East's largest derivatives market. International trading firms and clients can now use the bank's global post-trade services to access the exchange.

Gaurang Desai, CEO of DGCX Group, said: "We are excited to welcome ABN AMRO Clearing as a new clearing member, as this will further augment our client base and widen participation to DGCX's diverse product range. ABN AMRO Clearing is a global leader in clearing services and its addition to the DGCX community further demonstrates our ability to offer a platform for international banks to expand and build their global footprint in this region."

Martin Frewer of ABN AMRO Clearing added: "We are pleased to be live on the DGCX offering clearing services and see it as an important link in our global offering. Our broad client base of liquidity providers will now be able to take advantage of our correlated risk tools for optimising collateral in a new jurisdiction and be able to bring the DGCX's suite of products into their global portfolios."

Accuity and Kyriba to develop new payments screening service

Data and software provider Accuity has partnered up with Kyriba, a provider of cloud-based treasury, payment and risk management solutions, to develop a global payments sanctions screening service.

The service is designed to flag any potential issues with payments to vendors, in a bid to limit delays, and to detect any potentially risky payments as early as possible.

It will combine Kyriba's payment factory and centralisation and screening technologies with Accuity's data solutions, and will be available to all Kyriba clients.

By blocking more payments to sanctioned entities, the solution is intended to help firms reduce fines for failures to block these payments.

Jacques Molgo, director of group financing and treasury at Air Liquide, an early adopter of the service, said: "Digitisation has allowed us to free up time to improve the security of our processes, meet the new regulatory requirements and enhance investments in areas such as anti-money laundering, counter-terrorism financing, and compliance with international sanctions."

Jean-Luc Robert, CEO and chairman at Kyriba, said: "In today's multinational payments environment, it is critical to be empowered by technology so that organisations can avoid sanctions, and remain compliant. Kyriba's alliance with Accuity gives our clients the ability to proactively pre-screen payments, and enables our clients to avoid or better prepare for deceleration in their payments workflows, and protects the financial health of their global ecosystem."

Florence Vicentini, Accuity's global head of channel sales and strategic partnerships, added: "We are proud to be working with Kyriba to offer our leading Fircosoft transaction screening capabilities to help provide increased cost savings and support for better regulatory compliance. This will ensure that corporates have a better handle on their current vendor relationships and increase efficiency across the company."

Paxos and EY go for gold

Blockchain financial technology company Paxos is collaborating with EY to roll out a blockchain settlement and delivery-versus-payment service to the gold market.

The service will use Paxos's blockchain settlement platform, Bankchain, and EY will provide support and consulting services.

Having worked with industry bodies in the London bullion market, EY will also work with market participants to help facilitate industry-wide implementation of the service.

David Williams, partner for capital markets innovation at EY, commented: "Gold market participants are showing interest in exploring how innovation can deliver tangible benefits. We see solutions such as Paxos's Bankchain as being very relevant and timely."

"We believe that the future of capital markets requires ever stronger and more innovative ecosystems, and expect this to be a key early example of the type of collaboration between fintech firms and existing market participants that will truly transform the marketplace."

Charles Cascarilla, CEO and founder of Paxos, said: "EY brings both depth of understanding in market practices and breadth of skill sets in regulatory, financial, tax, operations and technology, all of which are necessary to get innovation like this off the ground."

Currencycloud covering APAC

Currencycloud is extending the reach of its system to six new countries in the Asia Pacific region.

Payments will be available in the Hong Kong dollar, Singapore dollar, Thai baht, Chinese yuan, Australian dollar and Indian rupee.

The Currencycloud system intends to make local payments cheaper and more predictable, while helping clients to manage the complexity of global payments by providing one single connection. It connects directly to local clearing systems, allowing clients to avoid the correspondent banking

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network and offering them wholesale foreign exchange rates.

The expansion is a reaction to the quickly growing Asia Pacific economies, and is intended to support digital enterprises in the region. Moving money across borders more quickly and easily could help smaller business to scale more efficiently, Currencycloud said.

The new capabilities will be rolled out over the next three months, starting with Hong Kong and Singapore.

Todd Latham, chief marketing officer at Currencycloud, said: "We are witnessing an exciting era, with the emergence of a new cohort of dynamic digital based offerings. Traditional financial services offerings risk slowing this wave of innovation, due to their limited capability and flexibility."

"By connecting new applications to Currencycloud, innovators can bring their ideas to market quickly and seamlessly, and we will deal with the complexities of the global banking system in the background. This move into Asia makes it easier for our customers to access low cost payments in the fastest growing economies in the world," Latham said.

Gresham makes £4.6 million investment in messaging specialist

Financial software and services company Gresham has doubled its customer base through completing the acquisition of standards-based messaging and integration specialist C24 Technologies.

The acquisition closed for a total cash consideration of up to £4.55 million. This includes an initial cash consideration of £3.41 million, plus a deferred £1.14 million.

The deferred consideration is made up of £760,000 to be paid one year after completion, and a further £380,000 to be paid six months later, subject to certain conditions and renewal of customer contracts.

For Gresham, this is the first acquisition since it launched its Clareti platform in 2011. It is intended to accelerate product development for new solutions and innovation, such as fast data and offering more certainty in data processing.

It is also intended to speed up the company's growth, adding to its customer base in the UK, Europe, North America and Japan.

Ian Manocha, CEO of Gresham, said of the deal: "The acquisition of C24 marks another important milestone for Gresham in our growth, and further cements our position as a leader in enterprise data integrity. As a partner we have found in C24 a great visionary for big and fast data and the acquisition will accelerate our innovation agenda in that regard."

Steve Miller, co-founder of C4 Technologies, added: "In Gresham we have found a committed and experienced partner to support our global customers and realise our future C24 data platform vision."

"Gresham's Clareti platform is regarded as industry leading, and our technology and expertise will further strengthen its position and opportunity in the market."

Pacific Fund Systems opens IoM HQ

Pacific Fund Systems (PFS) has officially opened its new operational headquarters in the Isle of Man.

According to PFS COO Paul Kneen, the decision was based on the strong talent pool of industry professionals, access to modern office space, the advanced technology infrastructure and the Isle of Man's "growing success as a technology hub".

Chapman's eye on the market

The beautiful and damned

September and October are invariably heavy travelling months for industry participants. We shake off the lethargy and relative stupor of summer, dust ourselves down and put on our metaphorical ties as dress codes revert to being slightly more formal, and we jet off to various client and prospect meetings, events and conferences. Although, these long plane journeys do allow you to catch up on movies.

The main September conference is of course Sibos, to which some 7,500 of us hopped/schlepped (depending on how far you had to come) to Geneva for what was the event's 38th year. This annual jamboree is an interesting bellwether of prevailing trends in the banking and securities industry at both a micro and macro level. And, with sweet irony given that it is designated as a reliable and solid event in the calendar, it has an uncanny knack of coinciding with some major—and invariably unpleasant—external industry incident. Who can forget 2008 and the Lehman Brothers crash on the first Monday of the conference?

This year's happening was Deutsche Bank, whose share prices hit successive record lows on each day of the conference, so all credit to those brave folks hosting the Deutsche Bank stand and walking the floors, who had to withstand a barrage of well-meaning, but at times quite barbed, comments as well as tough questions from clients, prospects and competitors alike.

My first Sibos is lost in the fog of the 1990s, however, I do remember walking conference aisles full of small IT-focused vendors who all had the same mantra—"we have the perfect straight-through processing solution for you", with shiny-suited salespeople foisting squeezy stress balls of the globe. Fast forward 20 years or so and the same broad scenario remains, but now those salespeople (and on certain stands it is exactly the same salespeople) now state that they have the "perfect blockchain or distributed ledger technology solution for you" and try to give you a USB stick or some such gizmo du jour. Looking at their sparse, uninspiring stands next to those of the big tech players gave me the title of this piece—some players will undoubtedly succeed given their scale, drive and level of ambition. Others are destined to simply fade away.

On the conference itself, how good was Sibos 2016? As good as The Wicker Man (the original, not the dreadful Nicolas Cage remake)? No. As bad as anything with Danny Dyer in it? Good grief, no. It was somewhere in the middle, perhaps Titanic-like (the movie!)—large scale, expensive, dramatic, well-received and, overall, inoffensive. I'll cease any further analogies with a ship on an ultimately doomed voyage in case I don't get invited again.

Coming up on the conference front we have NeMa Africa in London—more to come on the subject of NeMa in future columns—NeMa Asia in Hong Kong, the Global Custody Forum in early December, and, of course, the Williams event on 1 December. I look forward to seeing you at one or more of those. Oh, and one final film-related comment regarding popular opinion on the timeframe for full blockchain implementation—From Here to Eternity.

Paul Chapman, Managing director, HornbyChapman Ltd

Smarter than thou

Artificial intelligence is creeping in to the back office, but it must be applied efficiently, and its human masters need to maintain a quantum of control

No longer a mere trope of science fiction, artificial intelligence (AI) and machine learning are gradually, but surely, starting to find practical positions in the financial services sector. While they may not be mainstream, they are most certainly up for discussion, and in some cases they're even in the testing and implementation stages. However, while industry discussion would suggest that the era of AI is very nearly upon us, there are still several schools of thought as to where the technology might be best received, and most beneficial.

In a survey conducted by Finextra and Pelican, focused on AI in the payments space, 37 percent of respondents said their organisation's payments processes were inefficient. The survey whitepaper noted that this is a relatively high number, considering the industry effort that has gone into improving efficiency in this space.

It said: "This raises the question: with all the investment and technology implemented to solve this problem to date, why can't payments processing be close to 100 percent efficient?"

While 72 percent of survey respondents said they see potential for AI to tackle the inefficiencies in their payments processing, the majority also highlighted an issue with management buy-in, with 63 percent saying they would struggle to get the support to implement AI in this space.

One respondent, a director based in the US, said: "AI is still in its infancy. For a highly regulated field like banking and payments processing, AI has to reliably and repeatedly prove that its decisioning process falls under the regulatory framework and not cause operational decisions that can create legal issues resulting in fines."

Henri Waelbroeck, director of research at trading solution provider Portware, comes at risk management from a different angle.

With a background in physics and expertise in genetic algorithms and chaos theory, Waelbroeck focuses on the predictive capabilities of AI. Human beings perceive the world through "the lens of prediction", he says, and this is what allows us to act intelligently within it.

"We identify differences between natural events and what we have anticipated, and we use this to trigger a response mechanism," comments Waelbroeck.

Within financial institutions, risk management typically involves looking backwards and basing analysis on situations that have occurred in the past. AI could potentially allow for a new approach based on more information than simply past correlations.

However, such a model requires harnessing specific machine learning algorithms for specific uses, keeping an open mind about the data collected for the task at hand.

Waelbroeck says: "If you're in the business of predicting market volume or volatility, then the typical machine learning approach is to look at historical volume and volatility numbers and build a prediction model based on that."

"These models lend themselves well to that kind of application, until something unexpected happens."

Using the example of a US Federal Reserve announcement, Waelbroeck explains that while traders know volumes will be quiet before the announcement and surge afterwards, machines have to be programmed to learn the significance of unusual events.

"What is required is to blend in enough domain knowledge for the machine know which daily events are significant, and then leverage that data to handle that situation."

He adds: "When picking a model, it's important not to blindly use a machine learning model that automatically selects features from a broad ensemble, but rather to consider the problem you're addressing and the key things the machine needs to be aware of."

As is often the case, there is also a regulatory angle here. According to Ian Manocha, CEO of Gresham, regulators are putting increasing pressure on institutions to prove they're in control of their transaction data.

He says: "For every report, they have to prove the lineage of where the information came from, right back down to the raw data, and show that all parties involved have integrity in terms of accuracy, completeness and timeliness."

At the same time, the introduction of regulations such as the UK's Senior Managers Regime mean the executives at the top are responsible for what they're reporting. If there are errors, it is they who will be held accountable.

Manocha suggests that "heuristic algorithms" can take stock of transaction flows and supplement them with a specific set of rules that are relevant to the financial market in question, thereby collecting the correct data, and potentially cutting out months of manual IT work.

The technology not only collates the data, but gradually learns to look for holes in it and to find a way to correct the issue. Through a pilot project using this technology, Manocha claims Gresham "did in four days what the financial institution spent six months on".

AI is in fact already in use to aid compliance, specifically with financial crime prevention methods. The Pelican and Finextra survey found that 26 percent of respondents are already using AI and machine learning capabilities for sanctions screening and anti-money laundering (AML) processes, while a further 20 percent said they are exploring options for developing in this area.

When asked whether machine learning would be useful in sanctions screening, AML and fraud prevention, some 63 percent said they expect it to be a significant benefit, and a further 43 percent said it would have some or a little benefit.

The survey report said: "Sanctions screening has been the starting point for many organisations, possibly because the way AI can be applied can easily be understood and checking against sanctions has become an essential activity for most organisations involved in payments."

It added that natural language processing could allow institutions to scan and understand free-format text much more quickly.

"Using machine learning, a system can learn through experience and understanding of context what can pass through the sanctions filter, and what compliance obligations need to be checked, thus reducing false positive rates," it said.

Of course, speeding up any of these processes reduces not only the time taken to complete a task, but also the resources and cost involved. According to Manocha, over time, these cost savings should not be underestimated, especially in large financial institutions that could have tens of thousands of personnel in the back office.

Manocha says: "The solution is not just about proving an institution is in control of the data; it is about helping them to resolve the issues there. That's often the more expensive part of the problem."

Waelbroeck also identifies cost savings that could come out of AI in the trade execution space. For asset managers, he says, trading costs can be a "significant drag" on portfolio performance, and if AI algorithms can improve the efficiency of trade execution schedules and the management of execution, that drag could be reduced.

He says: "Execution algorithms can reduce the friction costs of a portfolio through trading and therefore enhance portfolio performance, especially on a longer timescale when these incremental savings can accumulate to significant levels."

However, overhauls of the back office don't come about overnight. The results of the Finextra and Pelican survey showed some frustration, and resignation, about the industry's sluggishness at adopting new technologies.

Improving time to market for new technologies and products was considered as either challenging or impossible by 53 percent of respondents. The report said: "Without addressing this challenge, they remain slow to deal with the threat from more agile competitors, and slow time to market also means a delay in generating revenue, return on investment and profit."

Equally, the focus on meeting regulatory requirements means that compliance projects take up the majority of institutions' time, budget and resources, meaning potentially transformative projects, such as developing AI, are seldom a priority. It's also unlikely to become a priority until more use cases are developed, tested and proven to add value.

One respondent, a director based in the UK, commented: "AI or machine learning is an untapped, yet to be tested, but potentially huge benefit to the financial services sector."

as seamless as possible. He suggests that it is the responsibility of the technology provider "to physically enable portfolio managers to operate in the same environment they're operating in today, but also to gain access to higher-level and more intelligent insights".

From a regulatory perspective, however, it is still important for the humans within the business to understand how the machines have arrived at any particular conclusion.

According to Manocha, it all comes back to the element of control.

He says: "What a financial institution doesn't want is a black box where information goes in and an answer comes out, but actually nobody knows how that answer was put together."

"Particularly in a regulated environment, you have to know exactly what is going on," Manocha adds.

Gresham has applied AI to the "hard yards and smarts", Manocha says, however he stresses the importance of the machine producing a 'natural language' descriptor of the answer.

Over time, this means that supervisory regimes will have a more comprehensive, real-time view of what is going on within an institution, and the institution itself will have clearly documented evidence of what is going on within its processing systems.

The Finextra and Pelican survey showed a clear desire for more specifics and proof points around AI technology and its application.

> Potentially transformative projects, such as developing AI, are seldom a priority

"The challenge is how to best present the value and demonstrate it in a measurable, quantifiable way."

Waelbroeck notes, however, that innovation doesn't tend to come from the compliance arena, but rather from the drivers of minimising investment risk, reducing costs and driving efficiency.

While these are part of the regulatory agenda, they're also in tune with the asset managers' objectives of improving portfolio performance and generating alpha.

"The better starting point for fintech innovation is when we can identify opportunities for machine learning or artificial intelligence that really impact portfolios from an alpha point of view," Waelbroeck says. "This will catch the portfolio manager's attention, and as the portfolio managers adopt more advanced techniques both in minimising execution costs and managing risks, then eventually those concepts will find their way into the compliance arena."

Waelbroeck is of the opinion that the responsibility here sits with the fintech vendors, which should make a transition to AI systems

The report also noted the desire for a distinction between the depiction of AI in popular culture and its actual tangible benefits in the business world, noting: "Because of the connotations of AI in the popular consciousness, it can be prone to hype and fearmongering."

The vast majority of respondents, 92 percent, agreed, to some degree, that there is a need for more industry awareness on how AI can apply to transaction banking.

Some 88 percent said it could be integral in addressing the inefficiencies that remain in the industry.

Parth Desai, founder and CEO of Pelican, said in the report: "Certainly we are a long way from developing general-purpose intelligent machines that operate on the same scale as human beings, because the computational power needed to use all the knowledge for this will be enormous."

He added, however: "AI can deliver real benefits right now, by offering the ability to solve practical problems in less time and using the available computational power." **AST**


KNEIP

Easier said than harmonised

The Asian market may be improving on the harmonisation front, but the situation is still far from ideal. Experts discuss what there is still left to do

Has harmonisation between Asian markets improved over the last few years? What challenges still remain?

Gordon Russell: Harmonisation has been an industry buzzword for a number of years. However, the Asian financial markets that cover multiple time zones, many different languages and complex regulatory and governmental frameworks have struggled to harmonise. Each market, in conjunction with local regulators and government bodies, has a different view on what is needed to be competitive in order to attract multinational corporations, financial institutions—both sell- and buy-side—as well as service companies that cater for these sectors. Quite often these stances create a barrier for harmonisation, which creates a paradox due to the necessity to have a framework in place to be able to comply with global standards.

This constant balancing act between being competitive in the Asian market and being a good global citizen drives the speed of harmonisation in Asia.

Kelly Ashe: Harmonisation between Asian markets has undoubtedly improved in recent years thanks to various fund passport cooperation initiatives, and momentum towards automation continues to accelerate, with participants stepping up their efforts to motivate and incentivise service partners to embrace automation.

Alongside the improving infrastructure available with the various clearing, settlement and order routing organisations, these efforts have resulted in increased straight-through processing (STP) rates across the region. The predicted trade automation revolution is certainly well underway, but it does still have a fair way still to go.

We also see opportunities continuing to emerge from the opening up of the Chinese market and renminbi (RMB) internationalisation, alongside the continued efforts on the various cross–border fund passporting initiatives, each happening simultaneously.

These changes, however, still have significant challenges to overcome. The main challenge as we see it is the lack of real unity in a diverse region. Obviously Europe is very different because it is driven by the EU, which harmonises a lot of these things. But with no Asian equivalent union, it appears that persuading participating countries to open up to each other remains a challenge in itself.

Even with programmes expanding and continually evolving, we can identify other main areas of focus—tax and distribution rules and restrictions on foreign investment, for example. The issue of tax, specifically producing an outcome which is accepted as fair and reasonable for all concerned, will have to be addressed for the bigger, more regional Asia Region Fund Passport (ARFP) initiative.

Alex Kech: There are many initiatives aiming at harmonising Asian capital markets practices and processes, such as the Association of Southeast Asian Nations (ASEAN)+3 Bond Market Forum, the Asian Funds Standardisation Forum, and the Asia Pacific Financial Forum. SWIFT itself has been facilitating the creation of national market practice groups aiming at getting domestic practices closer to the international standards established by the Securities Market Practice Group (SMPG).

We can also highlight, in the funds space, the establishment of three UCITS-like passporting schemes. Though there has been progress, we are far from the level of harmonisation expected from a region looking at becoming the next global growth engine. However, the public and private sectors realise this and are working on it. One area where a lot has been achieved is in the adoption of international standards such as ISO 20022 by post-trade securities infrastructures, such as the Singapore Exchange, the Japan Securities Depository Center and the Australian Securities Exchange.

This has also been adopted by some central banks for their real-time gross settlement systems, for example in India, China, Japan and Brunei, which de facto implements a harmonised layer of processes and data infrastructure that will contribute to regional harmonisation initiatives. The adoption of the legal entity identifiers for regulatory reporting by various Asia Pacific markets is another example of harmonisation initiatives that will bear fruit in the future and improve life for everybody.

What has been the main driver of this harmonisation? Regulation? Improving cost efficiency? Or something else?

Ashe: All of the above. Obviously, cost is a driver but this is not the only one. Risk and speed are also considered a priority by market players.

Essentially, these countries know that they need to do something to make it easier for foreign investment, in order to take advantage of the interest and investment opportunities in the region. Opening up local markets to foreign investment is a popular ideology and has proved incredibly successful in other markets, but it presents practical difficulties for a region that is as politically and culturally diverse as Asia.

That said, service providers, asset managers, distributors, regulators and all industry participants, including software providers, are trying to overcome this.

The mutual recognition and fund passporting initiatives evolving throughout the Asian region pose challenges regarding the fund administrator and transfer agent's capability to operate in multiple jurisdictions, to support both local and global regulatory reporting, and to communicate with clients using local languages, all in the local time zone.

participants by not reducing the barrier of entry. Each Asian market has functioned in isolation for many years and, as a result, has already set up links with the outside markets. As such, the need for harmonisation is driven by external factors, such as the growing market competition for capital and the ability to offer local customers trade and investment opportunities in external markets. A cost-benefit analysis is crucial for many firms looking to harmonise processes. They need to assess whether the investment is justified and would lead to increased revenue, better client offerings or reduced operational risk. However, in some cases having to deal with two or more different regulatory bodies may lead to increased cost of doing business.

How have tech developments improved harmonisation?

Kech: Richer XML-based standards such as ISO 20022, new modular technology offerings and financial technology companies coming in with innovative technology are all enabling the modernisation of payment and securities infrastructures. Instant payment infrastructures are implemented in Singapore, Australia and Hong Kong. Post-trade securities infrastructures such as central securities depositories are renewing 20- to 25-year-old mainframe technologies, and cross-border linkages are being established, all evolutions that would not have been imaginable 10 years ago. In the funds space, robo-adviser tech is reaching Asia and alternate distribution channels are booming.

Kelly Ashe
Sales and marketing manager
Pacific Fund Systems

> Risk and speed are considered a priority by market players

The more traditional systems that have been historically available are expensive to maintain, can be limited to one market or fund type and quickly become obsolete in such an environment of constant regulatory change and emerging new complex fund distribution strategies. Global fund administration systems and distribution platforms are a key factor in the likelihood of success, and are proving instrumental across the region.

Kech: One of the main drivers is regulation from regional groups such as ASEAN or China to further integrate their economies, banking sectors and capital markets. Efficiency gains and cost reduction are also important. The region wants to increase intra-region trade, banking and finance. The realisation that it cannot work with the current, very domestically-focused infrastructure pushes the public and private sector to collaborate to improve the situation.

Russell: With harmonisation of regulation and accounting standards in the North American and European markets looking to drive efficiency, Asia has strived to adopt these where possible to help reduce operational risk and enable cost savings.

It is important to note that each Asian market is looking at the topic of harmonisation as it relates to the needs of local market participants compared to global market participants. Every jurisdiction needs to balance the need to remain competitive with protecting its own market

Russell: Investment in technology has been a crucial foundation that has helped financial institutions to harmonise post-trade processes. Flexible technology that can be deployed in different countries and support different post-trade processes and regulations helps firms to standardise around one common IT infrastructure, instead of managing and supporting multiple systems. It also reduces operational risk by providing a common platform with the same permissioning and data structures for internal and external reporting.

As each market decides to embrace global and regional harmonisation, a technological solution that can handle changes without the need for whole-scale upgrades or rewrites gives market participants the flexibility to implement their business strategy while being confident that the infrastructure and processes they have in place can easily scale.

What kind of innovations do you see making a difference to Asian securities services in the future? Could they lead the way to a more harmonised market?

Ashe: The introduction of standardised transactions processing systems and application of new technologies for funds distribution would undoubtedly improve and enhance transaction efficiency within the Asian market. As the funds market grows and expands across domestic borders and cultural divides, so does the need for greater standardisation of systems and automation of processes.

Investing in a flexible, regional infrastructure remains key

Gordon Russell
Head of sales for Asia Pacific
Torstone Technology

We talk a lot about the advantages of automation and harmonisation for the funds industry and although this might seem obvious, we have to recognise that European asset managers and distributors are in an advantageous position when it comes to embracing new technologies as they generally have the benefit of operating in a well-established cross-border environment governed by regional legislation. This is quite opposite to the situation for asset managers servicing the Asian market and their providers by default.

The most basic requirement for the successful processing of transactions across borders, whatever form those borders take—geographical, cultural or otherwise—is the adoption of a clearly understood method and language of communication. The industry is fortunate to already have a number of standardised systems to choose from that are already widely accepted. The use of standardised messages and reference data ensures that the data exchanged between institutions is unambiguous, quickly processed and less prone to error than manual transmissions, which reduces costs and mitigates risks. Exception processing then becomes the norm.

We know that standardisation and greater automation in the Asian funds industry will come, and as a software provider we are currently focused on assisting our clients to resolve the known problems and disparities. This can include integrating legacy single market/product platforms onto modern global applications such as our PFS-PAXUS product, keeping track of changing distribution models, the opening of new routes for payments and investments, ensuring know-your-client due diligence, and simply accommodating diverse languages and cultural practices within a global regulatory environment.

Kech: The adoption of ISO 20022 by most, if not all, domestic markets for the automation of securities post-trade, in parallel to the implementation of modular and agile technological platforms, including distributed ledger technology in Australia, will make a difference.

This will allow an enhanced domestic offering in terms of products, speed, liquidity, more cross-border linkages leading to more regional trading and settlement activities, and the creation of a virtual regional market. But it will take some more years. Though the will for change and harmonisation is clearly present, the speed of regulatory and legal framework adaptation to enable it remains slow, with things like conflicting objectives between countries, different levels of development and protectionism issues remaining.

Russell: There have been a number of cross-border initiatives in Central and Southeast Asia but these have struggled to gain traction, as the promised common benefits to all were not well-aligned. The pressure stemming from two main areas will affect the speed of harmonisation.

The first is global standards that have been fully adopted by western markets. Implementation of these standards in Asia, however, will take some time due to market fragmentation and the varying speeds at which each country and region implements them.

Various cases of misconduct resulting from the lack of oversight, regulations or infrastructure, such as the Bangladesh Bank cyber heist, form the second compelling reason to harmonise in Asia. That said, according to some firms, with harmonisation comes a common place for people to exploit systems and thus increase systemic risk. So it may well be that in fragmented markets such as Asia, with a lack of cross-border efficiency, those risks are actually reduced. Nevertheless, investing in a flexible, regional infrastructure remains key as it provides firms and regulators the required comfort to conduct, manage and oversee the whole of a financial institution's activities. **AST**

The adoption of ISO 20022 by most will make a difference

Alex Kech
Head of securities markets and standards for Asia Pacific
SWIFT

Point of reference

Reference data is a tricky beast, and SmartStream's utility solution can help institutions to tame it, according to RDU CEO Peter Moss

Are you seeing increased demand for data utilities? Why?

We are not the first to try to build a data utility. However, now a number of factors are coming together in a way that is driving more momentum in this space than there has been previously. Financial institutions are finding that they need utilities now, particularly in the data management space.

Banks have automated quite significant parts of the business, and so the data that drives that automation has become absolutely critical. If that data is wrong, then the automation doesn't work. Getting that data right is really driving activity in this space.

The three initial sponsors of the SmartStream Reference Data Utility (RDU), J.P. Morgan Chase, Morgan Stanley and Goldman Sachs, have all found that data quality can be improved, even though they have teams putting a lot of work into it internally.

Peter Moss
CEO of the RDU
SmartStream

> The RDU could definitely get them heading in the right direction

From the RDU point of view, we can take the best practices being applied to data management within those banks, consolidate them, and ultimately do a much better job, because we only go through the process once. This is our single focus, and we can deliver the accurate and consistent data set that all financial institutions are trying to achieve in highly duplicated ways across the industry.

Is there anything particularly notable that different institutions are doing differently?

Broadly, all financial institutions have to do the same thing—because they're all trading with each other and trading the same instruments, so they're doing the same processing in their back offices.

That means the majority of what they're doing is consistent, but, because there have never been standards in this space, they all have minor differences, for example, they may have slightly modified the definition of particular fields. That is particularly true for text fields. Different firms will simply have a different way of abbreviating the same thing, for example, where one may refer to 'euro-dollar' bond contracts, another could use 'EUR-USD'. It is little things like that that we have to get right to make sure all institutions' systems continue to work smoothly.

As we onboard new customers, we match the data that we produce with the data they already have, and we make sure we do a consistently better-quality job of creating it from that point forward. We're effectively making the standard, but then moderating it slightly for each individual bank so they can consume the data more easily.

What are the main drivers for improving data quality?

Improving the quality of the data is critical, because if the data is wrong, the automation doesn't work. But obviously, cleansing the data by building a team inside each individual bank, and having 100 banks doing the same task multiple times just doesn't make sense. A utility focused on reference data can manage the data better because that is its sole focus and it can pool resources to make sure that the job is done well.

Then there is the pressure on margins. Since the financial crisis, revenues have remained quite flat, but banks haven't been able to get their costs down, so margins are tight.

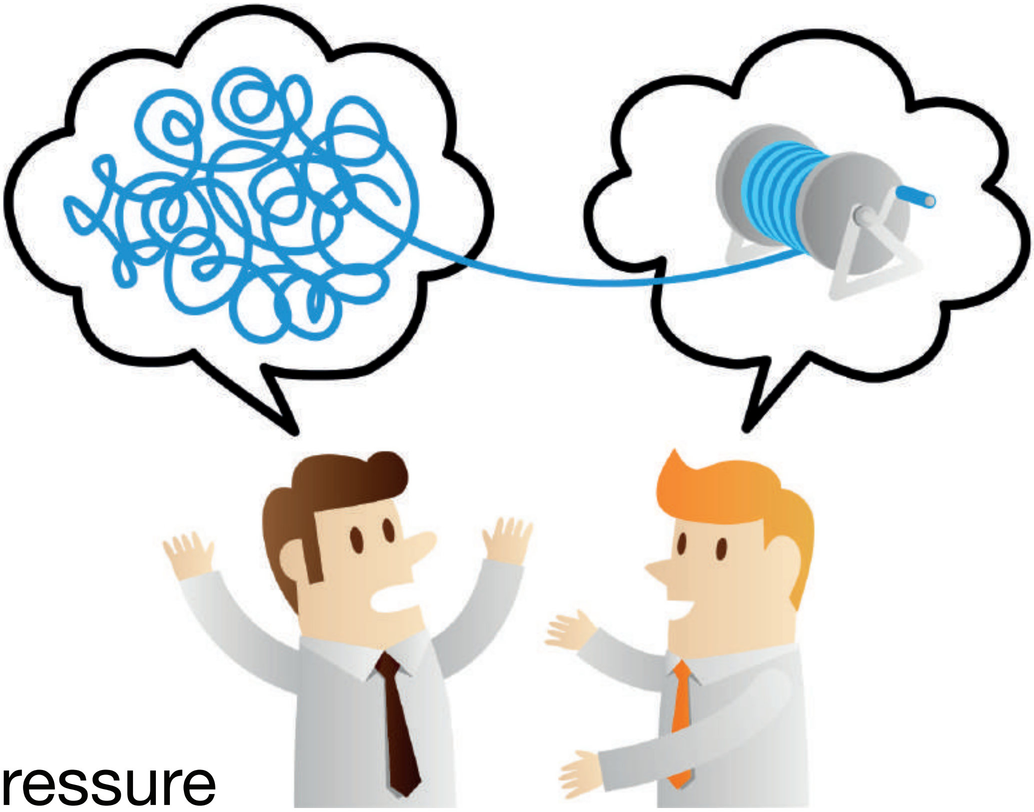
They desperately need to improve their profits, so they're looking much more creatively at how they can get cost out of their businesses. Utilities are very much a hot topic of the moment as they can help banks make those margins.

How much effect can the RDU have on margins?

We point customers in the direction of the areas where we think they're going to see benefits. We can't create the business case for them, but we can identify certain areas where most can find good returns. We can improve the effectiveness of their automation and the quality of their regulatory reporting, we can take much of their data management cost away, and we can simplify aspects of their tech. Are we singlehandedly going to deliver 20 to 30 percent improvement on profit and loss figures? No. But the RDU, combined with a string of other things that the banks could be doing, could definitely get them heading in the right direction.

Who can benefit from the RDU?

Everyone that participates in the capital markets needs complete, accurate and timely reference data: banks, brokers, investment managers, hedge funds and many of the core service providers like fund administrators, custodians and clearing houses. This is an industry-wide challenge and our goal is to help everyone solve that data management challenge. **AST**



Under pressure

In an industry where inefficiency is no longer acceptable, the financial service providers that can provide cost-effective processes will come out on top, according to Mike Slemmer and Keith Parker of FundCount

What kind of inefficiencies do you see in the financial services industry? How have they changed over the last five to 10 years?

Mike Slemmer: The inefficiencies are essentially the same as they were years ago, but they have become more profound because of the advances we have seen in technology, the speed of the market, cost containment and the drive to minimise risk, especially since the crisis of 2008.

Those inefficiencies are, and have always been, around the fact that so many firms—including hedge funds, fund administrators, private equity and family offices—use spreadsheets, which are not secure or efficient. An array of manual systems further adds to the inefficiencies we see in the market. This means firms have to send data back and forth between these manual processes and hope that they can get their reports prepared accurately and quickly.

But this is not only about operational efficiency. There is also a risk element, both investment risk and cyber security risk. We have seen a dramatic increase in the need for firms to up their game and use an integrated system to take care of all their operational investing needs. Spreadsheets are inherently insecure, and your operations are insecure when you have to ‘glue together’ several systems. By having all accounting and mid- to back- office operations tools within one system, our users are able to significantly reduce cyber security risks.

Keith Parker: Being an integrated system, FundCount eliminates the need for hedge funds, fund administrators and others to use multiple systems, which can be expensive and unwieldy in terms of integration. So, in addition to reducing security risks, an integrated system delivers operational efficiencies that are not achievable with disparate systems.

On a more granular level, generating customised client reports can be a lengthy process with some vendors. The company would need to identify what the report should include and how it should look, and communicate with the vendor that will build it for them. There might also be an additional cost associated with developing the custom report.

Our reporting suite is customisable. It has an enormous number of moving parts that essentially allow clients to build their own reports, eliminating the pain points around time and cost.

Can this reporting system be applied to regulatory reports as well?

Parker: There are certain regulatory components that can be met in the system and there are others that currently cannot. For example, in the fund administration industry in Europe there is an Annex IV report that needs to be generated on the back of the Alternative Investment Fund Managers Directive. We do not support that at the moment, not because we don’t intend to, but because we haven’t seen much demand to date.

Slemmer: There is a whole array of regulatory reports in Europe that we will add to the system as demand increases. In the Americas, we address Internal Revenue Service requirements, regulatory reporting requirements from the Securities and Exchange Commission, the

Mike Slemmer
COO
FundCount

Generally, the market is under a lot of cost pressure

National Futures Association and, in Canada, the CRM II requirements. FundCount can provide reports for all of these.

A key factor of the service is not just the integrated nature of accounting and analytics, it is also that we have a tight integration with legacy spreadsheet systems. We can use those templates to accommodate client needs. For example, if a client has proprietary algorithms and functions, we can tightly integrate those with FundCount. What this means for users is that highly complex spreadsheets and calculations can be used directly within FundCount and FundCount results passed back to Excel instantaneously. For regulatory reporting, many of these reports can be compiled and customised very quickly, even if the report is not a standard one in our system.

Do users have to overhaul their systems to benefit?

Slemmer: We are able to convert a new client in a way that doesn't disrupt their ongoing operation. There can be a pragmatic evolution of the implementation, which doesn't therefore necessitate any timeframe in which the company has to convert the information from spreadsheets into FundCount reports. The integration allows for a thoughtful, more pragmatic approach towards bringing data in and getting people trained. We can get data to and from the spreadsheets so clients can use them at month close even as they are implementing FundCount. Most users tend to bring those spreadsheet-based reports to FundCount because it is a more insecure part of the process and the workflow. However, some of our most advanced users continue to use spreadsheets for things like advance tax reporting, partnership distribution reporting and waterfall calculations.

Is it important to have a single view of operations?

Parker: Since the crisis, there has definitely been a considerable uptick in terms of the demand for data integrity, the transparency of data, and the availability of data. This actually started long before the crisis, but was definitely accelerated by it. It's simply a case of investors and any participants in the flow of information wanting more information and more granularity.

If we had had this conversation a decade ago, the reporting components in our system would have been of relevance and interest but would not have been as high on the list of priorities. Now, this is arguably the top priority because the demand for information and the transparency of information is so important from a regulatory point of view.

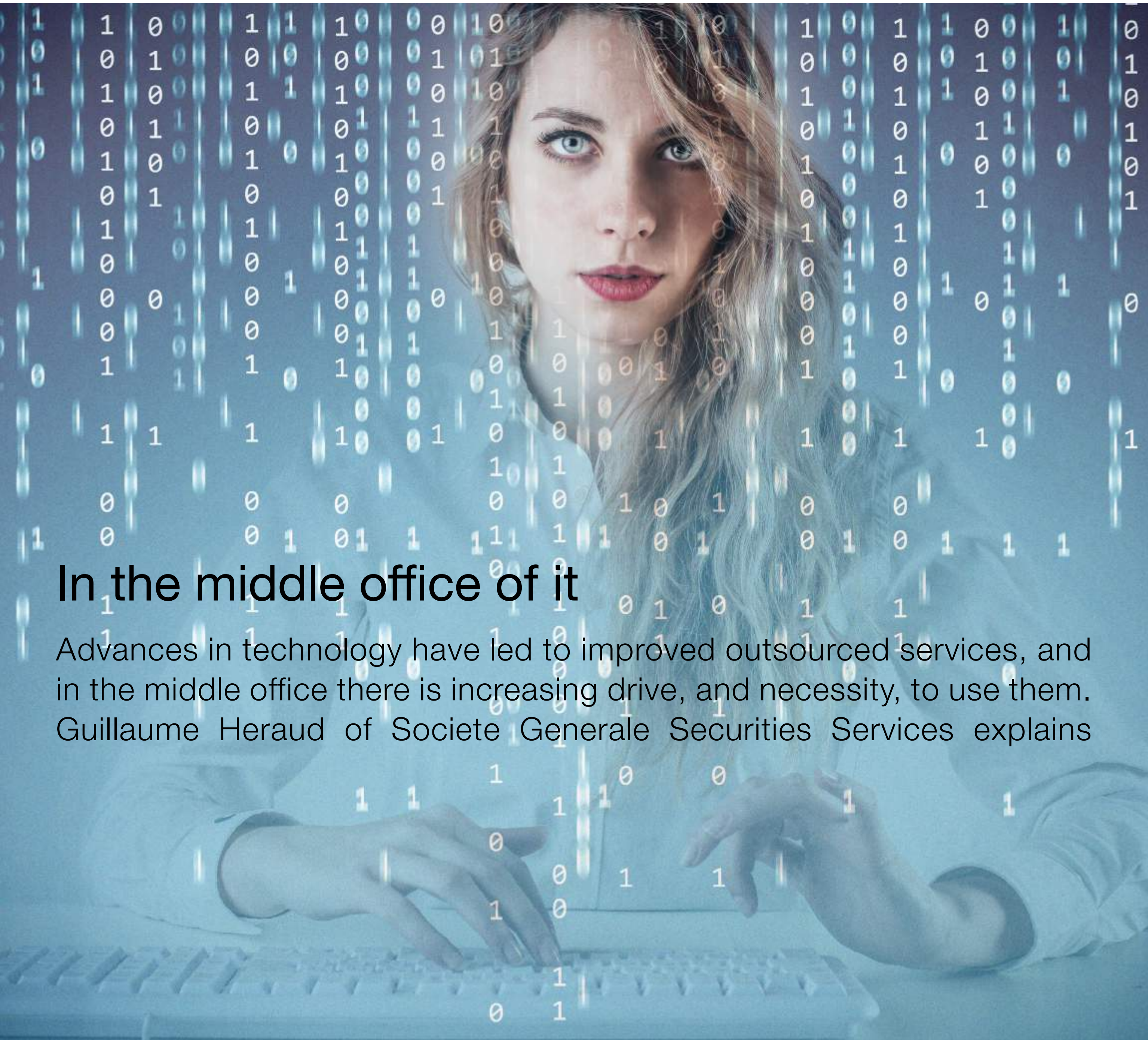
Another consideration is that there are so many different configurations of data required, particularly in the context of a family office, for example. You might find a scenario in which there is an absence of standardisation in terms of the types of reports that family office members want, such that reports need to be constructed on a bespoke basis. FundCount allows for this kind of bespoke reporting so the requirements of each family member can be met and addressed. Since the crisis, we have seen a significant increase in the demand for information and the granularity of that information.

Slemmer: Likewise, since 2008, shadow accounting for fund administration by hedge funds has skyrocketed. Hedge funds are looking for cost-effective and efficient systems to track and 'shadow' the work done by their fund administrator, and that is potentially the biggest regulatory impact of the crisis.

Generally, the market is under a lot of cost pressure. Efficiency translates to the need for better systems, more transparency, audit trails and operational controls, but all of this is also within an environment where there is a downward pressure on fees. Vendors with cost-effective systems that can meet these needs will be well positioned to succeed in this competitive market. **AST**

Keith Parker
Director of business development
FundCount

Data integrity, transparency and availability are key



In the middle office of it

Advances in technology have led to improved outsourced services, and in the middle office there is increasing drive, and necessity, to use them. Guillaume Heraud of Societe Generale Securities Services explains

Outsourcing has been a part of the post-trade environment for many years, but there is now a new momentum behind it. Not only medium-sized financial institutions, but also top-tier banks and asset managers are becoming more ambitious in their approach towards outsourcing. They are looking to maximise efficiency, reduce costs per unit and focus more on core competencies by moving to an outsourcing solution or selecting a better one.

There are a number of drivers behind the renewed focus on outsourcing: the increasing complexity of the regulatory environment; cost constraints, especially in IT developments; the intensification of competition in the post-trade world; and the increasing quality and range of outsourcing services now available. Hence, the evolving regulatory environment is putting pressure on all financial institutions—buy side and sell side. Among these requirements are more detailed reporting, central clearing of an increasing number of asset classes, and stricter rules regarding liquidity monitoring and management. The UCITS V Directive, the European Market Infrastructure Regulation, the Markets in Financial Instruments Directive II, the Dodd-Frank Act in the US and similar moves globally are creating a complex landscape through which institutions must navigate.

The competitive environment is also evolving as financial institutions become more global in their outlook. Buy-side and sell-side firms are facing competition as they expand abroad but are also meeting competitors who are entering their own home markets. They are looking for ways to quickly and efficiently increase market share in order to be able to compete, both in their home markets and internationally. Finding a global operational partner could be the solution.

Much of the new trend towards outsourcing can be attributed to a dramatic improvement in the quality and number of outsourcing solutions in the market. In order to outsource any functionality, a financial institution needs to have a good range of options and know that if something goes wrong there are alternative providers—that they will not be trapped in a non-optimal arrangement.

With a wider range of outsourcing providers, financial institutions are also in a better position to negotiate contracts than they would be if only a handful of organisations offered services. In that scenario, the outsourcing provider would have unequal power in negotiations.

Back in 2000, outsourcing migration projects were absolute nightmares and extremely risky. This has changed, and the risk of failure has decreased. The improvement in outsourcing services is due to considerable investment by providers. One of the main areas that has been improved is client visibility.

Providers have made it easier for clients to monitor the outsourced functions and have given them more controls over processes. Consulting firms have also improved their methodologies to support and establish processes to manage and monitor large deals, making it possible, for example, to outsource the complete middle-office function within a year.

Societe Generale outsources the management of all back-office processes and IT architecture to Accenture, while Societe Generale directly handles the provision of banking services such as securities lending, foreign exchange, execution and liquidity management.

Outsourcing service providers are increasingly specialising in the areas in which they will bring the greatest value. In a global market, no one provider can continue to supply everything that is required. While banks such as Societe Generale are providing outsourcing services to clients, they are also outsourcing functions to other providers, for IT arrangements. The emphasis is on maximising the quality of each component of the post-trade environment and delivering the best integration in the consolidated outcome.

In partnering with other providers, there is a challenge to ensure integration of the components of an outsourcing offering is as efficient as possible. All of the components must work together and there are new technologies that can ensure this happens.

The steady improvement of offerings is leading more buy-side and sell-side firms, including banks, to consider outsourcing middle offices in addition to the more traditional back-office arrangements or dealing services. Middle offices for banks and some asset managers were, until recently, considered too important to outsource.

Firms are more confident they can outsource entire middle offices

Guillaume Heraud
Global head of marketing
Societe Generale Securities Services

In the past, one of the main hurdles to outsourcing was the perceived lack of control over processes. It was believed that once a function was handed over to a third party, the institution would lose control and expertise over that function. This is no longer the case, as outsourcing service providers give their clients the possibility to see what is being done and also provide help with change management. This reduces the risk inherent in any such major change project.

Banks are investing in their own services and also strengthening their offerings by partnering with other specialist insourcing organisations. The methodologies of these specialists are being combined with the post-trade and banking expertise of banks to provide attractive and high-quality solutions. Specialist insourcing companies are able to establish the most efficient outsourcing arrangements, drawing on considerable expertise and experience. They have invested heavily in globalising their offerings and covering every time zone. Consequently, they are able to offer their clients a global reach, which is increasingly important for buy-side and sell-side institutions.

Societe Generale Securities Services, for example, has partnered with Accenture Post-Trade Processing to offer a global broker-dealer services outsourcing solution aimed at institutional brokers, mid-tier banks and broker-dealers. The fully integrated global service includes middle-office services, back-office processing and post-trade services.

They are seen as the way to monitor the provision of post-trade services and are also very close to the client relationship; handing them over to a third party was previously considered too risky. But with the advances made in monitoring and controls, firms are more confident they can outsource entire middle offices without jeopardising the client relationship or compromising the quality of the post-trade services they provide.

In the past, a service that was considered core would not be outsourced. But as financial institutions come under greater regulatory, cost and competitive pressure they are forced to arbitrate the capital they can invest in and review what brings more value between internal and external options. Previously, one of the main determinants of selecting an outsourcing service provider was cost, but this has changed. While price will always remain a significant decision factor, other factors, such as investment capability in global platforms, new technologies—including blockchain, robotics and big data—and regulatory and IT complexity are also playing their part.

In today's post trade environment, outsourcing service providers are now presenting themselves as 'complexity breakers', able to monitor sophisticated functions and provide global and integrated processes. On the other side, financial institutions are more confident that outsourcers can deliver the expected quality. Both can effectively partner, sharing more ambitious objectives. **AST**

The evolving business of network management

Asset servicing providers are facing increasing responsibilities. Valérie Gilles of CACEIS explains how these can be overcome without breaking the bank

The network management business has evolved considerably over recent years. Today's challenges are the ever-greater complexity and tightening supervision and monitoring. Regulatory issues no longer solely concern sub-custodians and cash correspondents but extend to all types of third-party holders, such as collateral managers, clearing brokers, prime brokers, transfer agents, and central counterparties—any party where the fund's depository or the custodian could be involved, whether directly or indirectly.

The aim of a network management operation is both to enable investment managers to access market opportunities worldwide and to provide a well-supervised secure monitoring infrastructure. Asset servicing providers' network management departments are a nexus of sales, operations, compliance, legal and risk expertise, which is combined to offer global asset safekeeping under optimal conditions.

Asset servicing providers are facing increasing responsibilities due to their obligation to return assets, as enshrined in various European fund directives, for funds for which they act as depository. Subsequently, there has been increasing focus on compliance, audit, risk and legal elements of the network management business, and demands for regulatory and management reporting have become more complex.

This increasing complexity nevertheless ensures that safekeeping assets globally is a highly-regulated and now very competitive business to be in.

A best-of-breed network at the right price

Sub-custodians must be selected from among the top three in the market to ensure services are of sufficient quality, there is an appropriate level of expertise, and that the players are large enough to offer highly competitive rates. To guarantee these rates remain competitive for clients, a dedicated cell must constantly negotiate fees downward.

Teams should be coordinated at group level but be based in different locations in order to manage the relationship with clients, providers, and regulators. This ensures efficiency, responsiveness, in-depth understanding and knowledge of local market practices.

Network management is about connecting investors to the market, managing, supervising, monitoring the various stakeholders, and keeping track of interactions through a high-quality, secure and competitive process.

In addition to overall performance and high operational efficiency, network management divisions put a high value on developing and enhancing a close, long-term business relationship with correspondents. Commitment is required from both sides. Maintaining the close relationship is also one of the major challenges in the way that business is done today. The growing role digital technology and data management plays in daily interactions certainly needs to be balanced by process transparency and true inter-personal relationships, which can generate further value. A close relationship helps to promote a long-term vision in an environment that favours immediacy and the short term.

Attaining broader global coverage in an increasingly regulated world

This is clearly not only a network management challenge, but also an industry-wide concern. Risk is a key factor when looking to enter a new market and a new relationship for a client.

Even though the selection and monitoring process is very detailed and time consuming, it ensures that an accurate and complete analysis of the impacts and opportunities for the asset manager and the client, while providing added value by generating in-depth knowledge of the local market practices. Correspondent banks understand these risk and compliance obligations and so due diligence processes are efficiently completed.

The influence of tech on network management

Levels of straight-through processing in process flows with correspondents are usually high. However, for network and operations teams, dealing with the exceptions and/or complex items such as corporate actions and tax issues can be time consuming and a source of operational risk. Blockchain technology may go some way to providing a solution to the operational risk issues and manual processing required, and the industry is looking at ways of incorporating distributed ledger technology (DLT) to bring more transparency and further cost savings. Whether seen as an opportunity or threat, they cannot be ignored and will have a large scope of application (for example, in know-your-customer compliance, reconciliations, monitoring and registration).

Most industry events have a DLT feature. It is potentially the key technology development that will influence and change the entire asset servicing industry most in the coming years. The European Securities and Markets Authority has launched discussion papers on it and we are likely to see regulators soon taking it more seriously and drafting legislation to govern its use. It is still in its infancy, but its potential to reduce costs and barriers to entry, along with industry disruption, will see it continue to advance.

T2S impacts on network management

The Target2-Securities (T2S) platform brings operational and liquidity management facilities and enables clients to access all the T2S markets from a single entry point. For the time being, the impact on network management is indirect, however, as T2S implementation progresses, it will be liquidity management that is most affected, rather than the settlement facilities. Only once the most significant markets have been onboarded, all the expected settlement features are made available by all the participants, and the costs of the project have been absorbed, we will have an idea of the increased settlement efficiency under T2S.

However, it will be a number of years before the full benefits of the enhancements offered by such a huge initiative are seen. At CACEIS, from a network management and operational perspective, we have taken a combined approach—act as a direct participant on markets where we already have direct access to the central securities depository (CSD), and then remain with our best-of-breed sub-custodian network for the others.

Depending on the above elements, we are open to reshaping our set-up should we need to adapt, using T2S to broaden the number of CSDs we access directly while continuing to rely on local custodians for the other markets or any other model that shows evidence of operational, financial and risk efficiencies. **AST**

"Risk is a key factor when looking to enter a new market"

Valérie Gilles
Global head of network management
CACEIS

T+2 steps forward

Lou Lesnika, assistant vice president of trade settlements at CIBC Mellon, provides an update on asset servicing in Canada

As a fundamental requirement for asset owners, asset safety remains a priority for financial services firms in Canada as it is for firms around the world. Custodians should continue to be expected by asset owners and managers to adhere to high standards and have appropriate controls in place.

With asset safety an umbrella concern, there are market changes pending in Canada as well. A key market change on the horizon in Canada is the adoption of a shorter settlement cycle. Canadian market stakeholders and participants are likewise preparing to shorten the settlement cycle to T+2 from the current T+3 standard, which is targeted to take place on 5 September 2017. Additionally, the industry in Canada is proposing to the regulator, the Canadian Securities Administrators (CSA) to shorten the trade cycle for trade matching scorecards for the non-western hemisphere to T+1 at noon from T+2 at noon.

Safeguarding assets

Canada is known globally as a market with high standards for market participants and a known destination for market participants seeking stability, robust market infrastructure and an effective regulatory environment. A service provider with similarly high standards is important, as careful attention to organisational risk governance, transparency and personal accountability related to asset safety is critical. Asset owners and managers should expect their custodians to adhere to high standards, such as having well-defined controls and robust reconciliation procedures, to support the security and safety of assets held in custody.

CIBC Mellon applies these principles. CIBC Mellon's operational control group is a line of a business agnostic group. Its role is to validate that the controls used by business operations in daily processes are both designed appropriately and working effectively. The group works to promote the identification, measurement and management of risk via four processes: control testing, operational loss processes, providing risk and audit support, and control and risk awareness training. Those are just some of the ways we maintain a strong risk culture at CIBC Mellon.

The adoption of shorter settlement cycles

A noticeable market change is the adoption of shorter settlement cycles in various jurisdictions. As global markets continue to move—or have already moved—to a T+2 settlement cycle, Canadian market stakeholders and participants are similarly preparing to shorten the settlement cycle to T+2 from the current T+3 standard. Canadian regulators and securities firms recognise the necessity of properly preparing Canadian stakeholders for the new cycle. The Canadian Capital Markets Association (CCMA) notes there is full Canadian industry agreement and believes that the change to T+2 settlement with the US is required given the highly interconnected nature, and relative sizes, of the Canadian and US capital markets. With the substantial volume of cross-border trading activity between Canada and the US, Canadian regulators and the CCMA have aligned the Canadian market timelines to those of the US, targeting 5 September 2017.

Given complex regulations and market structure in Canada and the US, planning a shorter settlement cycle well in advance gives stakeholders the time they need to assess and test their preparations. Every firm in the securities industry in Canada and the US will be—if not already—involved in the transition, directly or indirectly.

Affected securities that will settle on T+2

In July 2016, the CCMA issued a final list of investment vehicles affected by the change to T+2. The list of affected securities that will settle on T+2 includes: stocks/equities; corporate bonds; federal, provincial and municipal government bonds with a remaining term to maturity of three or more years; mutual funds; exchange-traded funds; hedge funds; segregated funds; and principal-protected notes.

The CCMA is working to promote industry awareness and prepare Canada for T+2. The CCMA is coordinating key securities infrastructure including the Canadian Depository of Securities (CDS), Fundserv, and exchanges along with the CCMA's dealer, custodian, asset manager and other industry stakeholders to prepare them for the transition. The CCMA has established a T+2 Steering Committee (T2SC) to support a smooth transition to a T+2 settlement. Additionally, CDS is coordinating activities with stakeholders to position Canada for a smooth transition and it has determined that its systems will be minimally affected.

There are some key considerations for Canadian investors and investors into Canada regarding the move to T+2. These focus areas include: National Instrument (NI) 24–101 rule amendments, holiday processing, corporate actions (for example, ex and record date calculations) and buy-side client readiness. Firms preparing for T+2 may want to consider the changes that may be necessary for their relevant securities systems. Firms in Canada are not only responsible for satisfying themselves regarding their own systems, but are also expected to take steps to confirm that their linkages with other stakeholders in the settlement chain are prepared for the move.

Moving trade matching to T+1 at noon

Another market change is shortening the trade cycle for trade matching scorecards for the Eastern hemisphere to T+1 at noon. The CCMA's operational working group is currently recommending to the CSA that trade matching for non-North American clients should move to T+1 at noon from T+2 at noon to be in line with North American clients. This is a result of the shortened settlement cycle, T+2 from T+3.

T+2 and CIBC Mellon

CIBC Mellon is playing an active role in the readiness and consultations taking place across the industry leading up to the 2017 implementation of T+2. We bring considerable settlement experience—in addition to our daily settlement activities—and will continue to remain active and provide clients with updates as they relate to the T+2 settlement in Canada and CIBC Mellon's supportive efforts. **AST**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Data down under

A robust content management solution and data set is more important than ever before, says Colm Carey of Donnelley Financial Solutions

Since the financial crisis, numerous regulatory initiatives have led to a number of new reporting requirements for fund managers globally. These include the Key Investor Information Document (KIID), the Regulation for Packaged Retail and Insurance-based Investment Products (PRIIPS) and its corresponding Key Information Document (KID), and the Alternative Investment Fund Managers Directive (AIFMD) Annex IV in Europe, as well as Form PF in the US, and the Stronger Super reforms in Australia. Fund managers have had to navigate their way through various operational and implementation challenges in order to comply with new reporting and disclosure requirements.

In Australia, the fund industry remains the world's fifth largest, valued at US $2.3 trillion, and has experienced one of the highest growth rates of pension fund assets in the world. A number of key regulatory changes are being made in Australia to investment fund compliance.

Expanded product disclosure statements

Here, the focus has been on expanding disclosure information required in offering documents to potential investors through the funds' product disclosure statements. The Australian Securities & Investments Commission (ASIC) has published the RG 97 regulation, which clarifies key fee and cost disclosure requirements for investment funds. This includes disclosure of both direct and indirect costs to investors from February 2017, and in periodic fund statements from January 2018.

APRA reporting framework

The Prudential Regulatory Authority's (Australian PRA) superannuation reporting framework is also changing. New requirements were added from 1 July 2016, which require managers to submit a number of new reporting statements. These include statements of financial performance, derivative schedules and investment exposure concentrations. Also in 2016, new Australian rules come into force that include enhanced portfolio holdings disclosure requirements. Disclosure will now be required for the following assets:

- Number and investment level of each financial product or property allocated to the investment option;
- Name and number of units of that product or property;
- Number of units held in that product or property; and
- Price per unit and total invested.

Product dashboards

The new product dashboard rules change the information that needs to be provided for the fund's investment options. Product dashboards now need to show the fund's 10 largest choice investment options, as well as disclosing its portfolio of indirect and associated assets.

Attribution managed investment trusts

The new Australian attribution managed investment trust (AMIT) regime will provide qualifying managed investment trusts (MITs) with greater flexibility and more attractive tax treatment of their unit holders.

The AMIT regime, which commenced on 1 July 2016, allows qualifying MITs to 'flow through' taxable income to their unit-holders on an 'attribution basis', allowing MITs to attribute or determine the amount and character of the taxable income of the trust that each unit holder is assessed on.

This new tax treatment should make Australian fund managers more attractive and competitive internationally—in time for the new Asian fund passport regime, which comes into effect at the end of 2017.

It is expected that fund managers will have significant disclosure and documentation requirements under the new AMIT regime.

Meeting these enhanced global and Australian regulatory requirements represents a significant challenge for fund managers and their service providers. Globally-focused fund managers have been busy integrating and complying with multiple regulatory requirements from different global jurisdictions.

The cost of regulatory compliance is increasing. The average total cost for a medium-sized investment manager for compliance with all the new global rules since 2008 is US $6 million. This goes up to $14 million for larger fund managers. In Australia, the fund research firm Australian Fund Monitor has suggested that increased local fund regulation could be a significant cost burden.

The pressure is on fund managers to enhance their operational efficiency. However, there are a number of potential difficulties in managing the regulatory implementation process. Requirements around information, text and data gathering, templates completion and timeliness can all be complex issues.

For Australian regulations—like the enhanced PDS—there is a need to streamline text properly for the documents, as well as share content efficiently throughout the PDS and across the range of documents in the fund library.

As well as the challenge this represents, it can also mean opportunities for the best-prepared fund managers. The forthcoming Asia Region Funds Passport (ARFP) regime will allow compliant investment managers to market and sell their funds across a number of leading Asia Pacific countries, including Australia, Japan, South Korea and New Zealand.

- Steering committee oversight: Steering committees with vendor participation have formed and set critical metrics for success, especially in larger administrators where they are overseeing the implementation and then evaluating periodically the process improvement over time and the maintenance of the controls introduced with the software.

- Simplification of style: There's too much volume and not enough time to tweak the style and format. Steering committees are focusing on simplifying style and making it consistent so they can minimise automated layout issues and maintain throughput.

An ever-increasing demand for robust and scalable content management and reporting solutions

The most successful solution to these regulatory challenges has been where fund managers work closely in conjunction with specialised partners to deliver a bespoke regulatory solution for their compliance requirements.

We've seen automated documentation and disclosure solutions significantly reduce regulatory risk, particularly as financial regulators will no longer accept spreadsheets from fund managers for their regulatory submissions.

The fund industry is increasingly focused on meeting a growing number of complex regulatory requirements, both locally in Australia and throughout the world.

At Donnelley Financial Solutions, we are seeing an ever-increasing demand for robust and scalable content management and reporting solutions.

Many of our clients see a 75 percent improvement in their document update process.

Fund managers could face new disclosure rules under ARFP

Colm Carey
Director of new business for Australia
Donnelley Financial Solutions

Documentation and disclosure

Over time, fund managers are expected to face new disclosure requirements as part of ARFP. At Donnelley Financial Solutions, we've seen firms in the US and EU adopt content management solutions to keep on top of their data and enable them to scale effectively when new rules like KIID, PRIIPS KID and AIFMD Annex IV were introduced.

Best practices for driving adoption will sound familiar:

- Super user training: Teams have found it critical to train selected users as experts as well as basic users. 'Super users' provide support for basic users and maintain continuity if there is turnover.

With a robust content management solution in place, their content is more consistent, data sets more organised, and custom workflows ensure that documents are created, managed and updated in the most efficient way possible. This allows for quicker turnarounds, reduced overall costs, and it is easily scalable.

In partnership, we help clients to meet their disclosure and reporting requirements, to be prepared for growth and ready for regulatory change, and to streamline their content and data sets in the process. A robust and dynamic content management solution is more important than ever for fund managers and can greatly assist the drive towards successful operational cost reduction and regulatory compliance. **AST**

Africa rising

Market infrastructure in Africa has come on in leaps and bounds since the global financial crisis, says Akeem Oyewale of Stanbic IBTC

There has been talk of market infrastructures in Africa improving very quickly. What have been the main drivers of this?

Market infrastructures in Africa have experienced impressive growth over the last decade. This growth has been a result of various reasons.

Firstly, we have seen entrenched democratic values and more open economic policies. The political landscape of Africa had been experiencing relative stability with democracy taking roots and the number of dictatorships declining at a great pace, especially in sub-Saharan Africa, with the exception of one or two non-conforming outliers. The positives of political stability have led to enhanced and robust economic policies with the support of global financial entities like the Bretton Woods Institutions, African Development Bank and other multilateral agencies.

There has been an increase in foreign direct investment flows into frontier markets. We have seen increased interest in African markets from offshore investors since the 2008 and 2009 global financial crisis, as most African countries were seen as providing opportunities to buck the global trend and offer some diversification potentials.

African countries are also increasingly listed on global indices. Nigeria experienced a quantum lift in inflows with the listing of Nigerian sovereign bonds on the J.P. Morgan GBI-EM Index and the Barclays index. Similarly, its equities market experienced a boost with the listing of its exchange on MSCI Frontier Market Index.

With the reforms introduced into the pensions markets of several African countries, such as Nigeria and South Africa, and other sub-Saharan markets, the infrastructure increased in leaps and bounds to meet the new demands.

We have also seen a positive impact of reverse brain drain. The crisis of 2008 and 2009 led to the return of quite a number of Africans who were working in top flight financial organisations. Their return to Africa led to the benefits of talent and contacts, which was valuable to the continent's capital markets in terms of structures and opportunities. Leading firms in Ghana, Nigeria and Botswana were reinforced by this positive reversal of brain drain.

With enhanced technological development, especially mobile technology, and the rise of financial technological firms, disruptive technologies have been harnessed by the African markets, as well as in mobile trading devices and in usage of technological messaging platforms like SWIFT, Bloomberg and Reuters EIKON terminals. Mobile brokerage platforms have led to the demolition of trade barriers, for example.

However, in all of the key drivers of market infrastructure, perhaps the most dominant force has been the pressures of competition. The need to keep up with competition 'or die' has seen the development and adoption of enhanced market infrastructure on the African continent.

Infrastructure developments referred to here include the use of top-notch international standard software for trading. The Nigerian Stock Exchange acquired the fastest trading system, Nasdaq OMX, in 2013 and the Johannesburg Stock Exchange moved to a T+3 settlement cycle in 2016.

There is increased use of mobile trading platforms such as the ones used by the leading brokerage firms in Nigeria, and increased use of Reuters-based platforms as the minimum trading platform for the FMDQ OTC Exchange in Nigeria for all dealing members in the foreign exchange and fixed income trading market. Finally, we have seen increased adoption of the FIX protocol for transactions, and the introduction of high frequency algorithmic trading software and direct market access.

How has the Nigerian market contributed?

The Nigerian market has been an integral contributor to most of the infrastructural developments seen in the African capital market over the last decade and certainly has been one of the major beneficiaries.

Bearing in mind the recent commodity price slump and the associated foreign exchange crisis, which had resulted in an ongoing recession, Nigeria had hitherto been one of the leading economies in Africa and is currently one of the top three largest economies on the continent following a rebasing of its GDP.

The benefits experienced in the Nigerian market include the introduction of an efficient trading engine for the Nigerian Stock Exchange (NSE), which is not only the fastest and most robust on the continent, but also supports efficiently the hosting of the NASD OTC Exchange platform, another exchange recently launched in Nigeria for OTC equities.

The reform of the market infrastructure of the NSE has led to brokers being able to utilise FIX protocols such as the FIX/Pro-Trader, which gives clients direct market access to the exchange and allows local central securities depository and custodians to utilise SWIFT as a means of communication.

It also introduces custody software and projects like the ongoing development of an electronic certificate of capital importation system to handle cumbersome exchange control documents.

A number of stockbroking firms in Nigeria now offer their clients the ability to trade from their iPads or laptops and other mobile devices. Payment networks are quite extensive and developed, and the use of platforms like Bloomberg and Reuters are also commonplace standards, which has increased the connectivity with the international market.

Are you seeing an increase in Nigerian asset managers investing cross-border?

There has been an increase in investments by Nigerian asset managers cross-border. However, most of these investments are usually into Eurobonds of local entities and sovereign issues, and on a limited scale in global depository receipts.

However, the largest asset managers in Nigeria are currently the pension fund managers. Unfortunately, pension fund managers do not currently invest outside of the shores of Nigeria, due to the stringent investment guidelines they have to comply with. Also, most mutual funds are not allowed by their trust deeds to invest outside of Nigeria. With the recent extensive devaluation of the local currency, the naira, one could argue with hindsight that these investments implicitly have lost some value dollar-wise.

How about investment coming into Nigeria? Where is this interest coming from?

Investments coming into Nigeria have been from global fund managers in the US, the UK, European countries, the Middle East, the Far East and other countries in Africa, especially South Africa. The adjustments in the investment rules in South Africa allowed the pension funds to make significant investments in the Nigerian capital market.

Africa-focused fund managers have Nigeria as a key component of their investment strategies.

A challenge is still the influence of politics and policymakers

Akeem Oyewale
Head of investor services, Stanbic IBTC Bank
Chief executive, Stanbic IBTC Nominees

The listing of Nigerian bonds in reputable international indices led to a significant upsurge in investments in the capital markets, supported by the freeing up of investment rules by the Central Bank of Nigeria, which allowed investment in government securities without restrictions on tenor. Between 2004 and 2014, stability in the foreign exchange regime supported decisions of foreign investors to view Nigeria as an investment haven, and the decisions to invest were largely driven by the investment analysis of such instruments and its sectors.

What kinds of challenges remain in opening Africa up to international investment?

Africa is a continent that's still developing, and the slogan 'Africa rising' is quite apt. To this end, one would expect there are still challenges that need to be addressed to enhance a continued opening up of the continent for international investments.

A key challenge of the continent is still the influence of politics and policymakers willing to influence economic flow for political purposes. The economic drivers and policymakers like our reserve banks need to be independent, and their decisions should largely be for economic growth and development. Where the reserve board chairman or governor has to react to the body language of the president or prime minister, he could be making sub-par decisions that would impact the flows of investments into the continent.

Other ongoing challenges include:

- Cost of infrastructure development is still relatively high. Most firms find the cost of subscriptions to international trading terminals generally on the high side. Where this could be addressed, for example with communal usage or shared services schemes, trades and investments would improve.

- Collaboration between countries within the continent and also international counterparts such as fund managers, via integration initiatives such as the West African Capital Market Integration programme and African Securities Exchanges Association, could increase the attractiveness of Africa investments to international investors.

- Regarding ratings of issues and introduction of new issues, African companies could be encouraged to list and they should also have their issuances rated. Issuers should work towards improving their ratings and sovereign states should also implement efforts to enhance the quality of their ratings.

- Rules changes in local economies should be improved to make the investments by offshore investors easier.

- Macroeconomic decisions should be made to ensure that investors are attracted. Africa should be a friendly nation to invest in and steps like issuing visas on arrival, having robust statistical bureaus and having one-stop shops for investment enquiries should be encouraged.

- Where possible, African countries should work towards having their sovereign bonds and exchanges listed on reputable international indices. And where they are removed, they should address reasons for their removal so as to facilitate prompt reinstatement.

African countries should diversify their economic production bases and not be subjected to the intense vagaries of mono-commodity prices globally. **AST**

Here's looking at you, KID

While PRIIPs could increase costs for fund managers, the real challenge is ensuring the clients are protected, says Paolo Brignardello of Fundsquare

There is a risk that the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation could add another layer of cost for funds, regarding the information document required for product distribution. This could come just when the market was beginning to produce economies of scale. There are around 40 Key Investor Information Document (KIID) factories, through which substantial fund document production work is outsourced.

Some funds are moving to provide PRIIPs Key Information Documents (KIDs) as soon as the regulation is implemented. In so doing, linking both asset managers and PRIIPs manufacturers could present them with a competitive advantage in a revamped market.

UCITS IV introduced the KIID, and now the PRIIPs directive is bringing in the KID. These documents will eventually merge in 2020, but in the meantime there will be a lot of work to process the different requirements while keeping costs under control. There is time to adjust, as it seems likely that the implementation of PRIIPs will be delayed by a year from the scheduled date of 31 December 2016.

KID: a question for funds now

The UCITS IV KIID is deemed to be equivalent to the PRIIPs KID for retail funds until 2020. However, funds that are used by life insurance products in unit-linked products will have to communicate a range a data from the PRIIPs implementation date. This is adding effort and cost for those producing KIIDs, whether it is asset managers doing this work in-house, or KIID factory outsourcing partners. There are around 150,000 UCITS fund share classes being distributed cross-border in the EU, with each requiring on average four to seven versions of the KIID in different languages. When you consider that the average price of each document ranges between €50 and €80, the numbers start to add up to a significant cost for the fund industry.

Reversing cost control?

In the five years since UCITS IV was passed, the document-processing industry has worked hard to streamline procedures and standards. Gone are the early days that saw a confusing, costly array of incompatible offerings and service models. The more than 40 KIID factories have created, and are continuing to perfect, more industrialised approaches. With steady competition has come sustained downward pressure on costs, particularly thanks to technology, which has enabled self-servicing solutions and re-insourcing processes.

However, could PRIIPS be a game changer that reverses this process? Will the added complexities lead to a shake up in competition and the current market positioning of KIID factories? Will the new 'super KIID factories', which produce documents to satisfy the requirements of both funds and PRIIPs manufacturers, lead to market consolidation? Will they be able to create efficiencies and provide services at lower cost? Or would this reduced competition slow the current ongoing trend towards better-value services?

Diversity and competition

A key cost driver will continue to be the work involved in retrieving data from multiple sources. This will lead to the creation of new connections, as well as industry standards regarding the format of documents and how they are processed. Rethinking the workflows will permit existing actors to challenge competitors' service propositions. There would also be a path by which incumbent players enjoy first-mover advantage, enabling them to increase market share.

Standardisation of documents, data formats, and procedures is central to the ongoing efforts to improve quality and reduce the cost of fund documentation processing and production. Several industry initiatives are very encouraging, such as the definition of the pan-European data model known as European PRIIPs Template and the Complementary European PRIIPs Template. This will help, but the devil remains in the detail, and how these technicalities are implemented. Performance scenarios and the required holding periods for data are often a concern. In addition, data exchange between parties remains problematic, with the risk of creating costly, time consuming complexity.

In other words, clear efforts to cut costs need to be made, and they must be seen to be made. It is important that the advantages of lower cost and greater data quality that will result from these moves are passed onto the fund and the end investor. A market utility would help.

By replacing a spaghetti plate of point-to-point connections with a hub-and-spoke data collection model, a central utility would cut data collection complexity. It would also be neutral, allowing access to any market participant. The industry has the time to adjust and put in place the systems and tools to produce these detailed documents in a timely, accurate and cost effective fashion. In line with the fund industry's objective, costs must be driven downwards. Fund industry clients must be the winners from this latest round of regulation. **AST**

It would be neutral, allowing access to any market participant

Paolo Brignardello
Head of product management and marketing
Fundsquare

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Industry **Recruitment**

Data Developer (Python, Bash Scripting, Linux Administration)

Recruiter: Alexander Ash
Location: London

My client is a global asset management company who require a data focused developer with strong Python skills

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Recruiter: Northern Trust
Location: London

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Recruiter: Bruin
Location: Luxembourg

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Senior Product Manager, Fund Services

Recruiter: HornbyChapman Ltd
Location: Asia

We have a great opportunity for someone to take responsibility for product enhancement and service offering for fund services across all Asian markets for one of our clients

Comings and goings at RBC I&TS, MUFG IS, J.P. Morgan and more

Royal Bank of Canada (RBC) Investor & Treasury Services (I&TS) has appointed Rosemarie Kriesel as managing director for global client coverage.

Based in Hong Kong, Kriesel will support RBC I&TS's clients in the region, including fund managers, asset owners, banks, brokers and exchanges, offering tailored advice and solutions.

She joins from BNY Mellon, where she was head of client management and country executive for Hong Kong, a position she held for 10 years. She also worked for RBC Investor Services as managing director between 2003 and 2005.

In her new role, Kriesel will report to Andrew Gordon, managing director for the Asia region at RBC I&TS.

Gordon said: "Global fund managers and asset owners continue to explore market opportunities in Asia, while increasingly looking to partner with asset service providers with solid operational and regulatory knowledge."

"Rosemarie Kriesel's extensive experience, deep understanding of both the local and global markets and her industry relationships will enhance our support for global asset managers in Hong Kong."

The Depository Trust & Clearing Corporation's (DTCC) Timothy Keady has expanded his remit by taking the helm of DTCC's solutions and sales and solution delivery division.

Keady will assume responsibility of the post-trade services provider's derivatives, collateral and institutional post-trade processing after the departure of Donna Milrod in November. Keady will also manage the firm's various data products, while retaining his current responsibilities as chief client officer for leading the company's sales, relationship management, and marketing and communications functions.

He joined DTCC in January 2014 during the company's acquisition of Omgeo, where he also served as managing director of sales and solution delivery.

He will continue to be based in Boston and will report to Mike Bodson, president and CEO of DTCC.

Bodson said: "We are delighted to have someone of Tim Keady's calibre and experience assuming leadership responsibility for DTCC's solutions businesses."

He added: "Tim Keady's deep industry knowledge and understanding of our clients globally will help us deliver more integrated and enhanced solutions that meet our clients' needs across the entire trading lifecycle."

Damian McAree has joined MUFG Investor Services as executive director for business development in Europe, the Middle East and Africa (EMEA).

McAree will help drive new business for MUFG's asset servicing solutions, including fund administration, middle-office outsourcing, custody, depository and trustee services, throughout the EMEA region.

He brings more than 18 years of experience in the investment services industry, and joins from Capita Asset Services, where he spent six years as head of business development for the Irish and offshore fund servicing products.

Before this, McAree was vice president for European sales at PNC Global Investment Servicing, which is now part of BNY Mellon.

In his new role, McAree reports to Marc Russell-Jones, managing director and regional head of business development at MUFG Investor Services.

Russell-Jones said: "Damian McAree's appointment is a key hire in our strategy to grow organically and continue providing best-in-class asset servicing solutions for clients."

"[He] has a wealth of experience in developing strategic client relationships and his expertise and understanding of the EMEA market underpin our growth plans over the coming years."

McAree added: "This is an exciting time in MUFG Investor Services's development and I look forward to helping MUFG Investor Services achieve its growth plans."

"There is such an array of services that managers need in today's world and MUFG is ideally positioned to support clients throughout the investment lifecycle."

J.P. Morgan has promoted Kiat Seng Lim to the position of global head of financial institutions sales for treasury services.

In his new role, Lim will add to his existing responsibilities as head of financial institutions for treasury services for the Asia Pacific region.

He will have global oversight of clients and sales in both the bank and non-bank sectors of cash management, and will remain based in Singapore.

As part of the global treasury services team, Lim will report to Jeff Bosland, global head of treasury services.

Lim has been with J.P. Morgan since 2012. Before this, he spent 12 years working in global transaction banking at Deutsche Bank.

Bosland said: "Over the past three years, our financial institutions teams have achieved a lot, from improving governance and controls to repositioning the business for sustainable growth."

"Under the leadership of Kiat Seng Lim and the financial institutions management team, I am confident we will further strengthen our franchise by continuing to enhance our client focus and maintaining our robust control environment." **AST**

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