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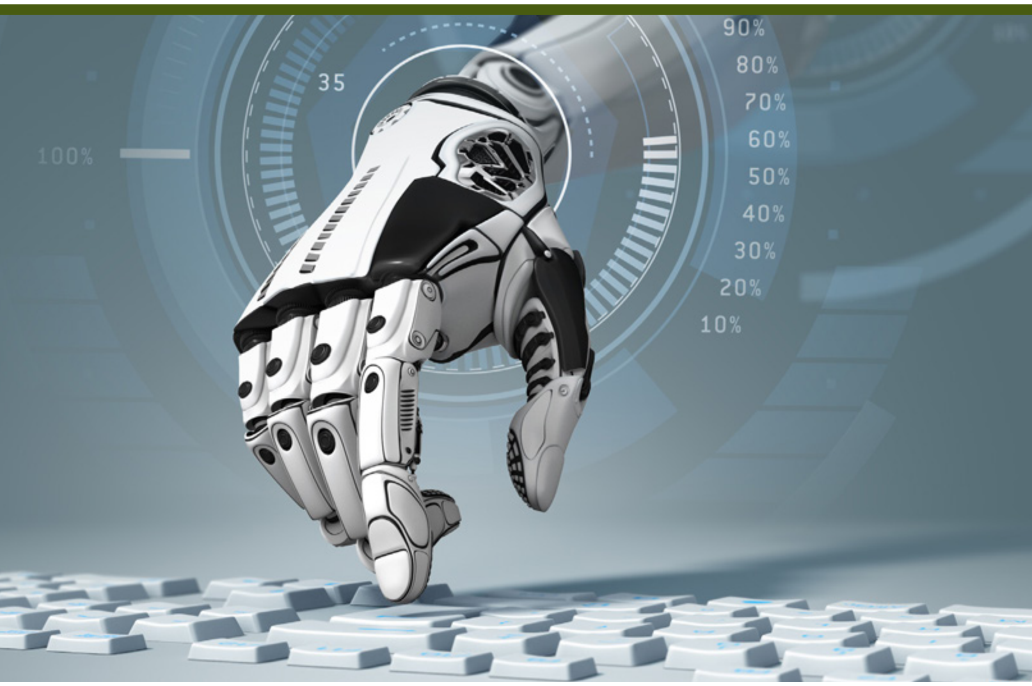

Reconciliation efficiencies the next target for distributed ledger tech

Blockchain technology could be the answer to inefficient reconciliations and data management, according to a report from TABB Group.

The report, Inside Reconciliations: Capital Markets Dirty Little Secret, noted that increasing compliance pressures and demand for investor transparency are exacerbating the need for accurate, timely and well-integrated data.

Senior analyst at TABB and author of the report Dayle Scher suggested that the way firms react to the data challenge is a “critical differentiator in an ecosystem where only the agile and accurate will survive”. She said: “Securities firms may have a wealth of customer data, product data, business rules, and analytical tools, but the typical technology architecture does not make it easy for different functional areas to share information or for firms to provide the full client picture to employees and managers.”

“Inconsistencies and discrepancies that arise due to an inefficient infrastructure and unsuccessful reconciliation processes can have multiple—all damaging—consequences,” the report added.

These include over-sells, violation of compliance guidelines, incorrect counterparty exposures, inaccurate client reporting, skewed risk and performance analytics, and trade delays.

Of the buy-side firms surveyed, 52 percent said they experience trade errors, with 8 percent saying they experience this ‘constantly’ and 14 percent saying it happens ‘often’.

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OCC commits to fintech innovation

The US Office of the Comptroller of the Currency (OCC) is planning to establish an office dedicated to responsible innovation.

The OCC will also implement a formal framework to improve its ability to identify, understand and respond to financial technology innovation affecting the federal banking system.

Beth Knickerbocker has been installed as acting chief innovation officer to lead the office of innovation, as it will be known. The OCC aims to launch it in early 2017.

A small staff located in Washington DC, New York and San Francisco will support the chief innovation officer, whose remit will be to implement the responsible innovation framework.

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Single managers dominate new HF entrants but APAC sees drop

Almost 120 hedge funds were launched in Q3 2016, with single managers dominating new entrants to the market, according to data and intelligence provider Preqin.

Single-manager hedge funds accounted for the vast majority of launches in Q3 2016, up from 71 percent to 86 percent sequentially.

UCITS funds and funds of hedge funds saw substantial decreases in launches, reported Preqin, with their share of incepted vehicles more than halving compared to Q2 2016.

Hedge fund managers in North America dominated new launches in Q3 2016 with a 12-month high of 76 percent of vehicles brought to market.

Managers in Europe accounted for a fifth of funds launched.

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Reconciliation efficiencies the next target for distributed ledger tech

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Of those that said they experience trade errors, the majority, over 60 percent, attributed this directly to poor reconciliation.

The report suggested that distributed ledger technology could be used to communicate transactional data through an internal blockchain, creating a shared audit trail. This could potentially significantly reduce the costs of the reconciliations process, and the cost of personnel and systems could be reduced, or removed entirely.

The report said: “Once the trade is on the blockchain it is distributed to the other systems or platforms that need to mirror it and they can ‘see’ the original terms. No participants can modify or delete data added by another.”

While acknowledging that this could lead to issue regarding inter-departmental and regional privacy, Scher noted: “The challenges are certainly easier to overcome than those posed by communicating data externally.”

The report advised that firms should focus their resources on investigated the uses of internal blockchains before researching external uses, a strategy that would also allow more time for common standards to become established in the technology.

It concluded: “By utilising a single immutable source of transactional data, as espoused by proponents of blockchain or distributed technology, the need for multiple internal reconciliations and the risk of trade or reporting errors is vastly reduced.”

OCC commits to fintech innovation

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The new office will be the central point of contact and clearinghouse for requests and information related to innovation.

The office will also implement other aspects of the OCC’s framework for responsible innovation, including establishing an outreach and technical assistance programme for banks and non-banks, and promoting inter-agency collaboration.

“The OCC supports responsible innovation that enhances the safety and soundness of the federal banking system, treats customers fairly, and promotes financial inclusion,” said comptroller of the currency Thomas Curry.

“By establishing an office of innovation, we are ensuring that institutions with federal charters have a regulatory framework that is receptive to responsible innovation and the supervision that supports it.”

The OCC is also considering whether to grant a special purpose national bank charter, to non-bank financial technology companies.

It plans to publish a paper later this year discussing the issues associated with establishing a special purpose charter and will seek comment on the topic.

Single managers dominate new HF entrants but APAC sees drop

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Asia Pacific managers struggled in Q3 2016 with their share in launches remaining at 3 percent over the past two quarters and below the 12 percent seen in Q3 2015.

Preqin noted a similar trend in the proportion of new hedge funds that consider the Asia Pacific as their preferred investment target.

Only 1 percent of new funds tracked over Q3 2016 focused on the region, down from 9 percent sequentially.

DTCC launches LCR data solution

The Depository Trust & Clearing Corporation (DTCC) has added a Liquidity Coverage Ratio (LCR) capability to its DTCC Data Products service.

The LCR service is designed to help firms manage their buffer requirements for liquidity facilities.

It is intended to support clients in meeting commercial paper requirements under Basel Committee on Banking Supervision regulation 238, as well as various mandates from other regulators. It can also provide a more cost-efficient way to improve visibility into liquidity obligations.

DTCC Data Products provides centralised data provisioning, offering fast access to DTCC data. It offers a consolidated view of trading activities and aggregated market data, sourced from DTCC’s transaction, reference and asset servicing data.

According to DTCC, the data products service has seen significant growth in interest since it launched in 2015. By the end of 2016, it will include data solutions for equity, derivatives and fixed-income asset classes.

Barclays was one of the first clients to go live on the LCR data service.

Navneet Kaur, business line treasurer for portfolio management at Barclays, said: “DTCC’s new LCR data service

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has significantly enhanced our ability to understand buffer requirements. DTCC's completeness of data coverage in this market has made its solution very comprehensive."

Ron Jordan, managing director of DTCC Data Services, said: "When banks issue facilities to corporates to provide liquidity against outstanding commercial papers they don't always have a precise view of when the underlying corporates' commercial paper obligations are due."

He added: "The LCR Data Service allows banks to receive overnight delivery of aggregated maturities based on outstanding commercial paper market positions, and refine buffer requirements relevant to market exposure, thus allowing banks to manage their business more efficiently while complying with liquidity coverage mandates."

Trade Informatics launches tool to tackle MiFID II

US financial technology provider Trade Informatics is tackling the best-execution and governance requirements of the second Markets in Financial Instruments Directive (MiFID II) with the European launch of its PLIA process management solution.

According to Trade Informatics, the cloud-based counterparty management and compliance tool comes as a response to regulatory requirements in Europe, and for an electronic trading information platform.

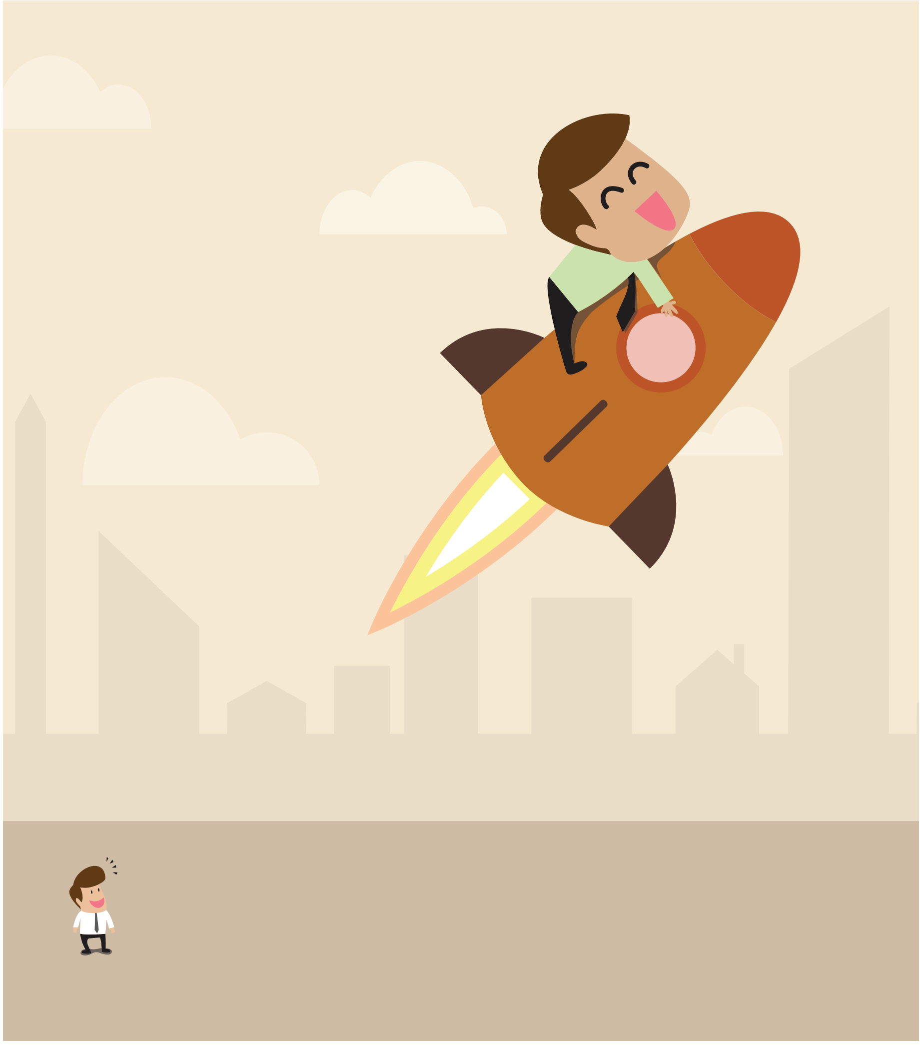
PLIA is intended to reduce operational overhead by making the process of meeting information requests more systematic and streamlining the transfer of due diligence information between asset managers and brokers.

It provides a central repository of questions and responses, audit trail history, analysis and compliance reporting on request, and due diligence committees and regulatory audits.

The platform also allows for customised solutions for asset managers, and, as well as its MiFID II capabilities, it is designed to support regulatory requirements in the US, Europe and Asia.

Allan Goldstein, COO of Trade Informatics, said: "The sheer bulk of MiFID II requirements and the continuing drive for operational efficiencies mean that the age old solution of 'throwing people at a problem' is simply no longer tenable."

He added: "The clear solution for counterparty management requirements is automation and, with over one hundred global buy- and sell-side firms already using it, PLIA is rapidly filling this gap."



Ana Burke, PLIA product manager, said: "We are delighted to be extending our PLIA web-based software to a European audience. Our clients are globally focused and have been finding great value in using PLIA's database of questions and ad-hoc data request coverage to answer European regulation and enterprise–wide efficiency."

PLIA was developed with help from the US Securities and Exchange Committee and Financial Industry Regulatory Authority as well as regulatory organisations in the UK and Europe. Trade Informatics also sought insight from both buy- and sell-side firms and legal and regulatory professionals.

Nasdaq and SIX partnership goes from strength to strength

SIX Swiss Exchange has extended the term of its contract for use of Nasdaq technology.

The exchange uses Nasdaq's X-stream INET Trading technology for all of its equity, exchange-traded fund, structured product, fund and fixed income markets.

The exchange also uses Nasdaq's SMARTS Market Surveillance and pre-trade risk management technology.

The SIX Swiss Exchange at Midpoint dark pool was launched in October, using Nasdaq trading and surveillance technology.

The new service allows for mid-point execution on Swiss equity instruments directly within the largest source of liquidity.

Nasdaq and SIX Swiss Exchange have been working together for more than 10 years.

Christoph Landis, division CEO of SIX Swiss Exchange, said: "Our broadly diversified international client base benefits from the multifunctional and high-performance trading platform as well as from the surveillance and control instruments."

"The cutting edge X-stream INET Trading technology allows to implement investment decisions in a stable, secure and reliable trading environment and therefore supports us in serving our clients."

Lars Ottersgård, executive vice president and head of market technology at Nasdaq, said: “SIX is one of the leading exchanges in the world who consistently strives to bolster reliability, latency and capacity performance across their markets. It’s an honour to support them in their ongoing technological and innovative endeavours.”

Q3 2016 brings record assets under management for BNP Paribas

BNP Paribas has seen a record level of assets under management, over €1 trillion, in its insurance, wealth and asset management division for Q3 2016.

The total of €1.001 trillion represents a 9.3 percent increase on Q3 2015, and an increase in assets under management of €50 billion since the beginning of 2016.

Assets under management comprise of approximately €413 billion in the asset management business, €341 billion in wealth management, €227 in insurance, and €23 billion in real estate services.

According to BNP Paribas, the increase was due to strong net asset inflow from the wealth management businesses in France, Italy and Asia, as well as good net asset inflows in the asset management division, particularly in diversified and bond funds.

It was also partially attributed to strong asset inflows in insurance in the domestic markets, as well as a generally favourable performance effect.

In total, securities services revenues, including custody services, reached €457 million, an increase of 2.9 percent on last year. This was generally attributed to an increase in assets under custody and administration.

The international financial services business saw revenues of €3.95 billion, up 3.9 percent on Q3 2015.

In total, BNP Paribas recorded revenues of €10.59 billion, an increase of 2.4 percent compared to the same period last year. This included the impact of a €202 million loss in own credit adjustment and own credit risk.

SETL and Cobalt DL partner up for technology deployment

Blockchain specialists SETL and Cobalt DL have paired up to deploy SETL’s Open CSD product in the Cobalt FX post-trade platform.

Cobalt DL is a private peer-to-peer network that uses distributed ledger technology to reduce post-trade risk, and costs, in the financial markets.

The SETL OpenCSD distributed ledger will provide a depository of foreign exchange trade information captured in the Cobalt reconciliation system, offering cryptographic confirmations of trades and proof of agreements to the terms of the trades.

Creating a shared view of foreign exchange trade data is intended to free up back- and middle-office resources, remove several layers of reconciliation processes and reduce the costs associated with legacy infrastructure.

Participants will be able to retrieve and verify details of their own trading activity, while the activities of other participants will remain private.

The new capability will be available in 2017, and 15 institutional FX participants have already committed to using the service.

Andy Coyne, co-founder of Cobalt DL, said: “The FX market requires systems to be able to achieve burst throughputs of over 20,000 transactions per second with daily capacity in the millions. SETL were able to demonstrate working technology processing at these speeds and in excess of 1.4 billion transactions a day—an absolute necessity in the high volume FX market.”

“The SETL OpenCSD platform provides a real-world interface and application programming interface structure that will allow us to fully integrate it into our solution.”

Peter Randall, CEO of SETL, said: “The Cobalt team are leaders in the field of FX processing and our common focus on speed and resiliency makes us natural partners.”

“This is not a proof-of-concept or a prototype; we expect it to be a revenue generating implementation of distributed ledger technology.”

Wolters Kluwer wins new mandate from Latvian private bank

Latvia-based private bank ABLV Bank has selected the Wolters Kluwer OneSumX regulatory reporting solution both for its Riga headquarters and its Luxembourg subsidiary.

The OneSumX solution offers a range of solutions and services for managing governance, finance risk and compliance obligations, and is intended to improve operational efficiency and to help firms to remain adaptable and prepared for growth.

ABLV Bank has signed up to use OneSumX Regulatory Reporting, including the Regulatory Update Service, which monitors the regulatory landscape to keep institutions up to date with regulatory reports.

This will include reporting for the European Banking Authority obligations.

Kris Van Bavel, managing director for finance, risk and reporting for Europe, the Middle East and Africa at Wolters Kluwer, said: “Private banks, more than ever before, are under pressure to submit an ever increasing range of information to regulators.”

He added: “Our deep understanding of the markets, through our large installed base in Luxembourg and the rest of Europe, not to mention our content-rich offering, allows us to provide clients such as ABLV Bank with a comprehensive regulatory reporting solution.”

Benoît Wtterwulghe, CEO of ABLV Bank in Luxembourg, said: “[ABLV Bank Luxembourg] works hard to satisfy its clients’ needs while ensuring all our regulatory obligations are managed comprehensively and in a timely way in a period of frenetic increase of the regulatory burden.”

“As a result it’s clear that we require a market leading technology provider to aid us in these ongoing efforts.”

Russia’s NSD sees growth in assets under custody and repository trades

National Settlement Depository, the Russian central securities depository (CSD), saw a 13 percent increase in assets under custody in Q3 2016.

NSD reported assets under custody of RUB 33.6 trillion ($533.9 billion) in Q3 2016, compared to RUB 29.6 trillion ($470.2 billion) in Q3 2015.

The CSD also saw an increase in the number of securities issued from about 9,300 in Q3 2015 to about 11,000 this year.

The value of money transfers, however, saw a decline of 8 percent from RUB 89.7 trillion ($1.43 trillion) to RUB 82.6 trillion ($1.31 trillion) in Q3 this year.

Trades registered on the NSD’s repository reached 126,800, some 17.6 percent more than in the same period last year, which totalled 107,800 trades. But the total value of registered trades also decreased from RUB 105.3 trillion ($1.67 trillion) last year to RUB 99.5 trillion ($1.58 trillion), marking a 5.5 percent decrease.

This follows the introduction of a mechanism enabling users to report on trades concluded beyond master agreements, which was made mandatory on 9 October.

As part of the repository 2.0 project, NSD allows clients to refrain from indicating principle reporting agents and to provide hard copes of power of attorneys.

The value of off-exchange delivery-versus payment transactions increased to RUB 1.2 trillion ($19.1 billion), more than double that recorded in the same period last year, which totalled RUB 585.4 billion ($9.31 billion).

July 2016 saw the introduction on a new legal framework under the NSD's corporate actions reform.

In Q3 2016, 550 shareholder meetings were held using the new e-proxy voting technology based on ISO 20022, compared to just 41 held in the same period last year. Some 1,160 corporate actions were held on foreign securities, compared to 562 in Q3 2015.

Repo transactions with the Russian Federal Treasury through NSD's collateral management system more than doubled in Q3 2016.

NSD's clearing value for the quarter exceeded RUB 10 trillion ($159 billion), up from RUB 4.6 trillion ($73.12 billion) in Q3 2015. The depository's recorded transactions grew to 495 from 334 year-on-year.

However, the value of NSD's repo transactions with the Bank of Russia conducted through the depository's collateral system dropped significantly in Q3 2016, compared to the same period in 2015.

Cleared repo between the central bank and NSD stood at RUB 3 trillion ($47.7 billion), down from RUB 8.1 trillion ($128 billion).

BNP Paribas is planning to expand repo clearing in more countries

BNP Paribas Securities Services is working with central counterparties to extend its European third-party clearing services for the repo clearing of bonds to more countries.

The bank already provides this service for French, Spanish and Italian bonds.

In a statement on its ongoing and upcoming market initiatives, the bank didn't specify which countries it is looking to include next.

BNP Paribas also clarified that its Collateral Gateways solution for banks and brokers has been upgraded in line with the newest Target2-Securities (T2S) requirements.

The bank said the improved functionality will allow its clients to benefit from the T2S auto-collateralisation services, along with the bank's Collateral Gateways, independently.

BNP Paribas Securities Services gives clients the option to settle trades using the dedicated cash account in T2S.

The bank has also become a direct securities participant to the US Federal Reserve through FedLine, the Federal Reserve's online financial services information and payment service.

This facilitates its clients' set-up and growth in the local fixed income securities market and allows for improved settlement turnaround and reporting, as well as first-hand pre-qualified information on income events.

Direct connectivity also facilitates and protects clients' securities margin and collateral movements.

Alain Pochet, global head of clearing, custody and settlement at BNP Paribas Securities Services, said: "Financial institutions need fast and efficient access to local fixed income markets to satisfy their need for high-quality collateral. Additionally, regulations are pushing investors to hold sovereign debt and corporate bonds."

"All this comes at a time when the markets are concerned with a possible shortage of government and corporate bonds."

Pochet added: “As a global custodian and asset servicer, we see it as our role to help our clients secure the collateral they need and enable them to fulfil their investment strategies. That is why we are participating in a number of initiatives to give our clients direct access to local fixed income markets around the world.”

Deutsche Bank carves out profit

Deutsche Bank has beaten forecasts to report a €256 million profit for Q3 2016 as the threat of a $14 billion fine in the US continues to loom.

Many had predicted losses in the hundreds of millions of euro, but revenue was slightly up year-over-year to €7.5 billion, despite a tough interest rate environment.

CEO of Deutsche Bank John Cryan said: “The results for the quarter demonstrate well the strengths of our operating businesses and the outstanding work of our people. We continued to make good progress on restructuring the bank.”

“However, in the past several weeks these positive developments were overshadowed by the attention around our negotiations concerning the residential mortgage-backed securities matter in the US. This had an unsettling effect. The bank is working hard on achieving a resolution of this issue as soon as possible.”

US regulators are demanding $14 billion from Deutsche Bank for its alleged part in the mortgage-backed securities crisis.

The bank is working to have the fine reduced but fears that the bank will fail to negotiate a reduction, coupled with the belief that its capital base will not cover the cost, has damaged investor confidence and caused its share price to plunge.

Deutsche Bank is continuing to embark on its Strategy 2020, a plan it outlined in November last year that is designed to tackle its cost base.

The bank plans to cut 9,000 full-time positions and 6,000 external contractor positions, as well as remove onshore operations in Argentina, Chile, Mexico, Peru, Uruguay, Denmark, Finland, Norway, Malta and New Zealand.

Deutsche Bank has entered into an agreement to sell its subsidiaries in Mexico to InvestaBank, Institución de Banca for an undisclosed sum.

The bank will centralise its Mexican global markets and corporate and investment banking coverage function in its global hubs once Deutsche Bank Mexico and Deutsche Securities are off its books.

“Only two months after announcing the sale of our Argentina subsidiary, we are pleased to mark another major milestone in simplifying our bank by selling our subsidiaries in Mexico as part of Strategy 2020,” said Karl von Rohr, chief administrative officer at Deutsche Bank.

“We will work in partnership with our clients, regulators, employees and other stakeholders to ensure a smooth transition to the new arrangements.”

The transaction is expected to close in 2017, subject to regulatory approvals.

Chinese and Russian CSDs pair up

The Russian and Chinese central securities depositories (CSDs) have signed a memorandum of understanding to cooperate on depository and settlement operations.

Russia’s National Settlement Depository (NSD) and the China Securities Depository and Clearing Corporation will exchange experience and information on operational interactions and correspondent accounts.

They will also work together on corporate action processing and information services, and on fintech developments and research into using blockchain in the post-trade sector.

Eddie Astanin, chairman of the executive board at NSD, said: “The Asian region is a very important element for full-scale integration of Russia’s post-trade infrastructure into the global financial system.”

“Together with Chinese colleagues and under the support of the Bank of Russia and the People’s Bank of China we work on providing investors with mutual access to our countries’ markets.”

State Street sees 7 percent rise in custody fees

Revenue from State Street’s assets under custody increased by 7 percent in Q3 2016.

The bank collected $29.18 billion in fees in Q3 2016, up from $27.27 billion in Q3 2015. Revenue was also up 5 percent sequentially. State Street secured new asset servicing mandates in Q3 2016 worth $212 billion.

The bank now boasts $29 trillion in assets under custody and administration and $2 trillion in assets under management.

Securities finance revenue, meanwhile, reached $136 million in Q3 2016, up from $113 million in 2015.

The bank put the improved figures down to “increased revenue from enhanced custody and agency lending”.

State Street’s securities finance revenue for Q3 2016 was down sequentially by 12.8 percent. The bank earned $156 million in Q2 2015 due to what the bank described as “quarter seasonality”.

This point is reinforced by State Street’s 2015 data, which shows that Q2 figures outperformed all others for the year.

Joseph Hooley, chair and CEO of State Street, said: “Our Q3 2016 results reflect continued momentum in fee revenue and our ongoing commitment to expense management.”

“Consistent with the breadth and depth of our client relationships, our new business results remain strong with $1.2 trillion in new asset servicing commitments year-to-date, including $212 billion in Q3.”

Bravura’s Rufus signs up self-admin platform Castle Trust

Castle Trust Capital Management is rolling out the Bravura Solutions Rufus Software as a Service product, a self-administration operations platform, for its business.

The new agreement makes Castle Trust the third group to implement the service. Smith & Williamson Fund Administration signed up to the service in October, and Margetts began using it in June.

The new deal will allow Castle Trust to insource its administration operations, and includes the adoption of Bravura’s automated end-to-end straight-through processing messaging technology solution ‘Babel’ and front-end web application platform ‘taWeb’.

Barry Searle, COO at Castle Trust, commented: “The group’s base of loyal retail investors has grown rapidly during the last two years—these customers are pivotal to our future success and we are committed to providing a great experience combined with service which is both consistent and responsive.”

Andy Chesterton, COO of global funds administration at Bravura, added: “We’re thrilled that Castle Trust have chosen to partner with Bravura, using our technology to insource their back office operations, giving them the control and flexibility they require to drive their business forward.”

Do you have a story we should over?

Let us know via:

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Following footsteps

The Middle East is on the cusp of a securities services success story, but this plot is not necessarily a new one, says HSBC's Kapil Seth

What kind of trends are you seeing in the Middle Eastern markets?

I came into this market fairly recently, and it strikes me that the direction of movement seems similar to that of other developing markets. The thematic movement is there, but the stage of progress for each market is different.

We are seeing a drive towards segregating the roles of the exchanges, central counterparties (CCPs) and depositories with regards to client assets, towards realigning markets to a common settlement standard, and towards trying to get the role of custodian asset protection more embedded in the market. The similarities are beneficial, as generally there are no surprises. You can see how the markets are moving and predict how they might start to shape up.

This would be even better if we could quantify it. Looking back at other markets as they went through the same stages of development, the pace hasn't been consistent. There are trigger events that increase the pace of change at various points in time, but these are, of course, different in every market.

In the Middle East at the moment, the movement in oil prices has been one such trigger event. There is a sense of urgency now around managing that change, which is interesting to review and track from an investor point of view. These markets have historically been largely oil-dependent, and the way oil prices have moved over the last few years hasn't helped the larger macro picture, or the fiscal picture. This has led to liquidity challenges, contributing to a greater emphasis on foreign capital.

That is the direction in which the market is evolving. The reforms are all trending towards making markets more stable and more secure for investors—more aligned to their needs.

Previously, you worked in the Indian market, what parallels can you draw there?

When looking at market growth, you have to consider two aspects of it. One is the macro story, which is the one that drives the thought process, draws in investors and encourages foreign capital investment. Then there is the infrastructure story. Here, we have to consider how easy it is for investors to capture the opportunities that arise from the macro story.

The macro environment is not something we can control, however some of the markets in the Middle East have a very strong macro story. For example, Saudi Arabia is arguably the largest market in the Middle East, in terms of population and market capitalisation, and there is a transformation underway there at the moment, with a drive towards greater economic diversification. That is a similar growth path to the one India saw.

With regards to the infrastructure side, in India, the market opened up in 1993 and grew and developed over a good 20 years. The Middle Eastern market is still relatively new, developing over the last 10 years or so. It is at a different stage of its development, but the model is, again, pretty similar to what we saw in India.

I don't see any material differences. In both the Saudi and Indian markets we have seen a process of registration introduced for investors, guidance on asset segregation, and the requirement for investors to have a certain track record to invest in the markets. In India, however, the role of the custodian is absolutely established for investors—all clearing must happen through a custodian. This is something that the Middle Eastern markets are still working towards.

How does the role of the custodian differ between different Middle Eastern markets?

In the Middle East, the concept of the custodian stepping in to clear the trade is there in some markets, such as Qatar and the UAE, but not in others, including Saudi Arabia, one of the biggest markets.

That is a big change that the market can bring about that will excite investors. At HSBC we are actively working with the authorities in Saudi to move from a pre-funding T+0 clearing cycle structure, which doesn't lend itself to a very wide variety of investors, to the T+2 model. This change has actually been announced by the Saudi regulators and is scheduled to be rolled out in the first half of next year.

For investors and for our clients this is very exciting and it relaxes the rules for investors coming in.

At HSBC, we have been active in the Middle East ever since the markets have been established and open to foreign investors, and we have seen some of these markets change materially. We are partnering with various markets in the long term, and we are very involved in making some of those changes happen. There is a lot of potential to provide exactly what the investors are asking for.

Are major initiatives aimed at attracting foreign investment?

The aim is to attract institutional partners at a broader level, but that institutional investorship is both domestic and foreign. The Saudi market is currently very retail-driven, so the idea is to improve the infrastructure to attract more institutional partnerships.

Within Saudi, there are also a lot of changes underway on the domestic side of things—a drive towards independent custodian models and towards appointing independent fund accountants, and developing models for domestic asset managers—as well as the changes in the foreign investment space.

Which are the other Middle Eastern markets to watch?

Saudi is really the big story of the moment, but Kuwait is also very much in the picture. Kuwait is one of those markets where the role of the custodian in clearing is not defined at the moment, but it's moving towards a unified T+3 model, and that's the kind of change that shows movement towards custodian clearing and confirmation.

The UAE is also moving towards the central bank taking over the clearing of cash from the exchange, a move designed to help make institutions more robust. There is a similar dialogue in Qatar around segregating all the rules for the CCP, the exchange and the depository. As all of these markets continue to evolve, that's the kind of direction they're likely to take, making risk management a bit cleaner and easier for institutional investors.

There is always a question around whether markets are developing at the correct pace, but my sense is that the Middle East is heading in the right direction and we should start to see things moving faster. **AST**

Kuwait is moving towards a unified T+3 model

Kapil Seth
Regional director for the Middle East and North Africa
HSBC Securities Services

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Two steps forward, one step back

With asset managers under pressure from all angles, doing more with data can help them to thrive, says BNY Mellon's Daron Pearce

Many asset managers are running to stand still at the moment, and their margins are being squeezed. Since the financial crisis we have seen a number of trends in the institutional space: the rise of alternative investments; a move from active to passive investment; the digitisation of the market; and a surge in regulation. This is taking its toll on the industry.

To meet this challenge, it is imperative that asset managers develop robust solutions and maintain a variable cost model to adapt to changing market conditions. This is why many of them are turning to organisations such as BNY Mellon for outsourcing and data analytics solutions. These solutions offer asset managers more efficient and effective distribution strategies, help them streamline business management and also enable them to make more informed investment decisions.

The pace of change

The flood of new regulations is putting pressure on discretionary spending that could otherwise be invested in innovation, technology and digitisation, which is encouraging institutions to streamline functions through outsourcing. Regulation has created more demand for outsourcing and has been an additional catalyst for the likes of BNY Mellon and other service providers to invest in its regulatory and compliance infrastructure.

The role of the service provider is to provide scalable solutions, and those doing this for multiple clients have sharpened their focus and invested in technology. It is more cost effective and efficient for investment services companies to help ensure multiple institutions are compliant than it is for each of them to do so on their own. In turn, investment services companies need to make sure they understand what regulation means for their clients and their underlying clients.

Managing the risks

The main risks that institutions outsourcing operations face are operational, client and regulatory.

From an operational perspective, institutions outsource the function but not the risk, because they are still accountable to the regulator for outsourcing functions. Institutions need to ensure they create a good oversight structure and understand the processes and the control environment of the organisation they have outsourced to. From BNY Mellon's perspective, we aim to ensure that we give our clients the tools they need so they can see how we are performing. We continue to invest in our dashboards to ensure that our clients can track their underlying portfolios and services across multiple asset classes and time zones.

Sometimes the outsourcing provider will work directly for their client's underlying clients. For example, the outsourcer could be working at the request of an asset manager to service a pension fund. If the outsourcer is providing a white-label service to the pension fund and provides them with inaccurate data, this puts the asset manager's reputation at risk. Outsourcing providers must have a clear understanding of their client institutions' risk appetite and the systems in place to address this.

Institutions must also ensure they have a good handle on regulatory risk. In particular, they must understand how their outsourcing partner is managing its own business. Institutions need to ensure the outsourcer's approach to audit control and legal risk does not leave them exposed.

Compliance responsibility

More and more of the provision of information in terms of control reports, data and dashboards is being outsourced, but the oversight of compliance stays with the institution.

A client can outsource a function but the client remains in control of that function and cannot ask the service provider to make it aware of compliance breaches. The regulator is clear on this. The outsourcing partner must ensure it provides as much information as possible in terms of dashboards and data reporting to make it easier for the asset manager or institution to be compliant.

Strategic partnerships

BNY Mellon's competitive advantage is that we have built a single integrated global platform for asset managers and institutions to manage their money. We are focused on investing in technology and innovation to help our clients access the data they need to manage their business. BNY Mellon has also been astute in the strategic choices it has made on who to partner with to build its global capabilities.

Some of BNY Mellon's recent strategic outsourcing agreements provide a blueprint for the asset management industry. Last year, BNY Mellon agreed to provide the asset management firm T. Rowe Price with a range of fund accounting and middle-office services, including portfolio accounting services through our Eagle/OnCore platform. OnCore is a data-centric solution that combines back-office functions with middle-office servicing across multiple books of business via a single platform. It has the capability to support T. Rowe Price's clients wherever they are in the world.

BNY Mellon has also entered a landmark agreement with Deutsche Asset Management. Deutsche has outsourced its real estate and infrastructure fund accounting and parts of its reporting functions to BNY Mellon, with members of Deutsche Asset Management's team transferring to BNY Mellon's alternative investment services business.

Both of the above transactions represent a new level of partnership between asset managers and their service providers, leveraging the strengths and capabilities of both to meet the expectations of regulators and institutional investors.

Data analytics

Advanced service provider partnerships are now providing asset managers with far greater control over one of their most important assets—their data. Good data analysis adds value for asset managers because it can inform their investment decision-making, their product design and their distribution priorities.

BNY Mellon is pioneering a number of new developments in investment decision-making, most notably a sentiment analysis solution available through NEXEN, our open-source, cloud-based technology platform. This is an excellent example of how BNY Mellon is using its global innovative centres to work with fintechs and clients to help shape the investment decisions of asset managers. BNY Mellon has eight innovations centres around the world. The solution is offered from Heckyl Technologies, a London-based fintech. Heckyl scans social media and the internet, covering more than 120,000 information sources, to enable asset managers to assess sentiments towards the companies in their portfolios. The app provides a sentiment score on each company and this is shared with clients in real-time through NEXEN.

BNY Mellon is also using data to transform product design and distribution by partnering with Albridge, a company that provides enterprise data management solutions and is an affiliate of Pershing. Albridge enables asset managers to analyse the different products investors are buying, and from where.

This is particularly relevant in the US, where you may have a dedicated sales force in every major city or state. An asset manager's sales force in Chicago may be hugely successful in selling fixed income funds while its Boston team, which has a similar client reach and profile, is not selling many fixed income funds but is selling a high amount of equity funds.

Asset managers can use this data and talk to their teams in each city or state to determine which funds are selling successfully and why. This in turn will influence how asset managers market their products and help to ensure that they are not missing a selling opportunity.

Prioritising big data

Asset managers may face challenges when deciding which data streams to prioritise, particularly in the age of 'big data'.

The relevance of certain data streams will depend on whether asset managers are analysing distribution, investment performance or business management. If they are looking at the latter in a scenario where investment operations are outsourced, organisations such as BNY Mellon can use their investment book of record capabilities to provide a holistic view of investment portfolios across an investment manager's whole book of assets. This helps them to quickly ascertain their investment exposures. For example, if a single security requires attention an asset manager can review its global exposure to identify that security and take action to mitigate any risk.

Outsourcing can also help with cost management. For example, BNY Mellon's Digital Pulse analytics platform gives managers data-driven insights that ensure evidence-based decisions are made in an efficient manner, as opposed to using manual processes, which are often slow and prone to more errors.

There is always a role for big data, whether it relates to distribution, investment performance or business management. Asset managers need to ensure they prioritise expenditure to minimise weaknesses and maximise returns. If an institution has excellent investment performance but poor distribution, data analytics resources should be channelled towards assessing this strategy. For institutions with excellent distribution and great investment performance but a very high cost base, analytics can help address business management challenges.

Doing more with data

All asset managers can enhance their businesses by doing more with data.

There is always a role for big data

Daron Pearce
CEO of asset servicing for EMEA
BNY Mellon

Some asset managers are advanced and have sophisticated distribution and performance analytics that already deliver real value. Others are behind. BNY Mellon is particularly effective in business management analytics, and we are developing our solutions to help our clients with investment performance and product distribution.

Asset managers may be running to stand still but there are ways they can keep ahead of the competition. The key to success is early adoption of new technologies, ensuring best practice, and maintaining a high rate of investment in technology either internally or through a third party such as BNY Mellon. **AST**

Fancy a DLT?

The CSD space is crying out for innovation and, as usual, distributed ledger technology has a part to play. Rob Palatnick of DTCC explains

How can distributed ledger technology be leveraged to enhance central securities depositories and potentially change core services such as transaction settlement and issuance?

As a starting point, distributed ledger technology (DLT) could provide an improvement to several existing technology platforms. The really interesting thing about DLT is that it creates a shared database that has security built in. The database is updated in near-real time, allowing access only to those parties that have permission to access the data. With DLT, firms can simplify a lot of the processes and systems that exist today. In the current US clearing model: firms submit trades; the trades go through layers of the firms' own technologies; they then get translated and sent over to the Depository Trust and Clearing Corporation (DTCC), to the Fixed Income Clearing Corporation (FICC) or to the National Securities Clearing Corporation (NSCC) if it's a clearing message, or to the Depository Trust Corporation (DTC) if it's a delivery order or a settlement message.

DTCC runs these messages through our own systems, sending the output back to the firm in the form of a translated message, which they then add into their own database. If we could all leverage a common database, with a common set of business rules, data schema and business logic, we could eliminate translation layers that are required today, along with layers of code that interpret business logic. Participants would benefit from a common understanding of what a trade and a transaction looks like, greatly simplifying processing for all firms participating in the process.

However, that doesn't mean that DLT is going to turn off or replace all aspects of the existing technology used in settlement processes today. While the core elements of the technology allow information to be shared, it doesn't necessarily mean that every transaction has to settle, which is similar to what happens in the public bitcoin network. In the US equity markets, 100 million daily trades would require settling a hundred million transactions instead of the two million that come out of netting.

This trading activity typically includes trading strategies and brokered trades, which are offset through netting and result in a reduced net funding requirement. DLT could potentially be leveraged to enhance and improve processing and risk management in this space.

There are aspects of DLT that enable significant cost savings, simplify processing and remove complexity, but one size doesn't fit all. The technology must be tailored to the appropriate business case.

How could the technology affect the growing demands of the regulators towards market infrastructures?

DLT could simplify the way regulators access information. The DLT model is based on the concept of 'permissioned network members' having nodes, with each node taking on a different function and capability. For example, one node could be an active market participant entering trades. Other nodes could govern the ledger and administer who's allowed to form part of the ledger. There could also be nodes purely for 'read' permissions.

A regulator could, for example, obtain a read permission node that would allow them to see all of the trading activity they are entitled to see within their specific jurisdiction.

While the solution could be global in nature, the trades that are not in their jurisdiction would not be visible to them.

Based on discussions with industry participants and particularly from Sibos, what are some of the main conclusions around DLT that you can share?

It has become apparent that today, there is a much more realistic view of the state of this technology and how fast it is going to develop, in comparison to last year when expectations for its near term use and application were far greater. The industry is gradually starting to realise that existing processes and practices are not going to be transformed in a matter of months and that this will be a long journey with opportunities and benefits that will take time to be realised. The technology itself needs to evolve. It needs to mature and undergo proper security and capacity testing and incorporate appropriate governance procedures. It also has to be proven in an industry-scale production application, which has yet to be achieved.

Ultimately, however the industry chooses to implement and adopt DLT, it must be consistent with the long-standing industry goals of mitigating risk, enhancing efficiencies and reducing costs for market participants. **AST**

The technology itself needs to evovle

Robert Palatnick
Managing director and chief technology architect
DTCC

November 2016
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2nd Annual Midwest Credit & Hedge Fund Investor Forum
Chicago

The Midwest Credit & Hedge Fund Investor Forum is a one day meeting of family offices, pension funds, endowments, foundations, consultants and fund of funds in Illinois, Michigan, Wisconsin, Indiana and Minnesota

November 2016
20-22

FundForum Middle East
Dubai

FundForum Middle East brings together the key stakeholders in the Middle Eastern asset management community

November 2016
28

NeMa Africa 2016
London

Only at NeMa Africa can you take part in candid discussion with senior practitioners focused on network management for the African securities industry

Nov/Dec 2016
28-02

Global Custody Forum
London

The Global Custody Forum is the only event in Europe that brings together all players from the asset management, pension fund and asset servicing space to listen to frank and open discussions with representatives from more than 20 countries

Dec 2016
01-02

Custody APAC 2016
Shanghai

Custody APAC 2016 invites participants from across the value chain to discuss asset custody policy, as well as the current market and regulatory environment

Jan 2017
23-24

3rd Post Trade Forum
Vienna, Austria

Following the great success of our 2nd Annual Post Trade Forum with more than a 100 participants, we are happy to invite you to our 3rd Annual Post Trade Forum, which will be held in February 2017 in the Trend Hotel Savoyen Vienna, Austria

Industry **Recruitment**

Project/Change Managers

Recruiter: HornbyChapman Ltd
Location: London

Our client, a major asset manager, is looking for experienced project/change managers to work in their City office

Fund Risk Manager

Recruiter: Alexander Ash
Location: London

My client a leading investment bank in Dublin is currently searching for a fund risk Manager to join their teams on a permanent basis

Fund Accountant

Recruiter: Bruin
Location: Canary Wharf

We are currently looking to speak to any accountants who have experience in OEIC unit trusts and financial reporting on behalf of a top-tier client.

Compliance Manager I Trust Company

Recruiter: Selby Jennings
Location: Singapore

A stable and listed trust company that has been in this business for more than a century is seeking a high-calibre individual to join their expanding business in Asia as a compliance Manager based in Singapore

Comings and goings at Euroclear, DTCC, J.P. Morgan and more

Euroclear Group's board of directors has settled on Lieve Mostrey to become the post-trade provider's new CEO, effective 1 January 2017, following the departure of Tim Howell, who has chosen to step down after six years as CEO.

Mostrey joined Euroclear in 2010 as executive director and chief technology and services officer.

She has also served as a member of the group's management committee, executive director of the board, and chair of several of the group's central securities depositories.

Previously, Mostrey gained experience as a non-executive director of SWIFT, Euronext and RealDolmen.

Marc Antoine Autheman, chair of Euroclear Group, said: "The board congratulates Lieve Mostrey on her appointment to CEO. Lieve brings to the role vast experience both within Euroclear as well as from earlier roles in financial services and non-executive board directorships."

"The board also thanks Tim Howell for Euroclear's success achieved during his tenure; building its business, forging new business partnerships, growing shareholder returns and strengthening the organisation's resilience as a key financial market infrastructure."

Treasury management solution provider Hazeltree has hired J.P. Morgan's Sal Ventura as head of client relationship management.

Ventura brings 25 years of experience in the prime brokerage, product development and operations space, most recently as managing director and global head of client services for the J.P. Morgan custody and fund services business.

Before this, he was global head of the Citigroup investment banking and private banking operations, and the middle office.

At Hazeltree, Ventura will focus on managing client relationships, encouraging senior-level sponsorship and improving connectivity between the company and clients.

Ventura said: "From supporting fund managers for many years, I am fully aware of the significant challenges they face daily."

He added: "I joined Hazeltree because it was clear we could make a difference and I am committed to working with our clients to understand their specific needs and harnessing the power of Hazeltree to address them head on."

The Depository Trust & Clearing Corporation (DTCC) has recruited Jim Hraska as managing director and general manager of the Fixed Income Clearing Corporation (FICC).

Hraska joins DTCC from Barclays, where he most recently served as global director of product management, specialising in financing and structural reform.

At DTCC, Hraska will lead FICC's efforts to continue to reduce risks and costs in the US fixed income markets.

Murray Pozmanter, head of clearing agency services at DTCC, said: "Jim Hraska joins DTCC at a critical time, as the industry looks to further reduce risks and costs across asset classes while retaining the safety and soundness that are paramount to the functioning of the global markets."

"His extensive experience will be a significant asset to the firm, and we look forward to having him spearhead new initiatives at FICC that provide even greater value to our clients and the broader industry."

Northern Trust has appointed Caroline Higgins as head of its global fund services business in Asia.

In her new role, Higgins will support Northern Trust's fund servicing business in Asia, bringing a range of solutions to investment managers based in the region.

Continuing to be based in Hong Kong, she will work on expanding the range of Asia-specific solutions, help clients in distributing their products in the region, and offer local time-zone support.

Higgins joins from Brown Brothers Harriman in Hong Kong, where she was head of transfer agency for Asia. She has 25 years of experience in the fund services industry, and has previously worked in Ireland and Australia.

William Mak, head of Northern Trust in the Asia Pacific (APAC) region, said: "APAC is the fastest growing region for Northern Trust and we see increasing opportunity to expand our fund servicing business in Asia."

Peter Jordan, head of the global fund services business in APAC, said: "We see an increasing demand from our clients in Asia for tailored fund servicing solutions that support their unique requirements. Appointing Caroline Higgins to focus on Asia and our cross-border business underlines our commitment to continuing to support our clients with fund administration solutions that meet their unique and regionally-specific requirements."

State Street has enticed Aisling Keane to return to the bank as head of alternative investment solutions for the Asia Pacific.

Keane, who will work out of Hong Kong, will lead the hedge fund, private equity and real estate servicing business for the region.

She replaces Bob Keogh, who recently returned to Dublin to lead State Street's alternative investment solutions activity in Europe, the Middle East and Africa.

Keane previously worked at State Street for 16 years, in Dublin and Hong Kong, holding a number of roles including head of international fund services for the Asia Pacific region.

Following this, she moved on to hold senior management positions at BNP Paribas Securities Services and Credit Suisse, before returning to State Street.

Ian Martin, head of State Street's global services and global exchange business for the Asia Pacific, said: "We see the long-term institutional appetite for alternatives assets continuing, as institutional investors seek to improve risk-adjusted returns in today's low growth environment."

AXA Investment Managers (IM) has promoted Franz Wenzel to the position of institutional solutions strategist within its multi-asset client solutions investment platform.

Previously, Wenzel was chief strategist in the AXA IM research and investment team. He joined the company in 1997.

In his new role, he will focus on development of dedicated multi-asset solutions for institutional clients in central Europe, covering Germany, Switzerland and Austria.

He will report to Mathilde Sauvé, head of institutional solutions at AXA Investment Managers.

Sauvé said: "Franz Wenzel's deep understanding of markets, combined with his experience of working with highly sophisticated clients makes him a natural choice for this position. I am excited to have him join the team to cover these important markets for AXA IM."

Laurence Boone, head of research and investment strategy at AXA IM, added: "Franz Wenzel has been instrumental in establishing the research and investment strategy team as a valued partner to the investment and sales teams and also to clients globally."

"We would like to thank him for his faultless commitment and wish him well in this exciting new role." **AST**

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