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PRIIPs granted 12-month hiatus

The European Commission has bowed to pressure from its Parliament and Council and agreed to delay the regulation on key information documents (KID) for packaged retail and insurance-based investment products (PRIIPs) by 12 months.

According to the European Commission, the delay has been "proposed exceptionally", in order to ensure smooth implementation for consumers and "legal certainty for the sector".

It follows a recommendation from the European Council, which issued a letter calling for a delay to implementation in order to "clarify open questions and reach the goals of the PRIIPs Regulation".

In turn, the council's request followed the European Parliament's economic and monetary committee vote in favour of a revision to the regulatory technical standards (RTS) of the KID, citing concerns around the method of creating the document and the timeframe between publication of the RTS and the proposed PRIIPs implementation date of 31 December 2016.

It voted to send proposals for the legislation back to the European Commission for revision.

In a statement on the delay, the commission said: "While the European Commission believes that the PRIIPs Regulation is sufficiently clear as well as directly applicable on its own, its objectives would be better served by having the RTS on KIDs already in place."

"In particular, the RTS will be important in offering consumers the benefit of having KIDs that are more easily comparable and standardised. The delay gives issuers and distributors of PRIIPs products until 1 January 2018 to put the provisions in place."

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Preqin: Donald Trump presidency a positive for asset managers

Alternative asset managers are generally optimistic about the performance of their portfolios under the presidency of Donald Trump, according to a Preqin survey.

On 8 November, property magnate and reality TV star Trump defied expectations to become the 45th US president, throwing global markets into turmoil.

Stefan Kreuzkamp, chief investment officer at Deutsche Asset Management, said that President-Elect Trump's victory "definitely caught markets by surprise".

However, the Preqin survey of 125 fund managers found their reaction to be generally positive, with more than half, 53 percent, saying they believe the result will mean positive things for alternative assets in the US, and only 12 percent saying the effects will be negative.

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'Speedbumps' remain on road to China, says DTCC

Regulatory differences and a complex local settlement cycle are among the challenges still facing international firms looking to invest in the Chinese markets, according to a paper from DTCC and Celent.

The paper called for more coordinated efforts from industry participants and encouraged institutions to prepare for the long-term operational implications of China's continuing project for integration with global markets.

Challenges highlighted in the paper included issues around currency, the complex local infrastructure in China, an existing 'patchwork' of systems, translation issues, and the developing regulatory landscape.

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PRIIPs granted 12-month hiatus

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The European Fund and Asset Management Association (EFAMA) welcomed the delay. In a statement, the association said: “There is only one reason why we considered a delay absolutely essential, and this is because it is materially impossible and simply unrealistic for product manufacturers and distributors to meet the original 31 December 2016 deadline.”

The statement added that EFAMA remains committed to the PRIIPs project, and that the postponement allows more time for companies to find solutions to the revised RTS.

The European Commission will now work with supervisory authorities to revise the RTS in accordance with recommendations, while aiming to maintain the “balance previously achieved”.

The European supervisory authorities have six weeks to re-submit the revised standards to the commission. Once accepted, they will be passed to the European Parliament and Council for further assessment.

Preqin: Donald Trump presidency a positive for asset managers

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For non-US assets, however, the results were more varied, with 22 percent saying the effects of Trump’s victory will be positive, 25 percent saying they will be negative and 30 percent saying they will be neutral.

Of hedge fund managers surveyed, 53 percent said they expect their US-based assets to benefit from the election result before the end of 2016. Almost half, 46 percent, said they expect to see benefits over the next 12 months, and 35 percent said they expect positive effects in the longer term.

At the other end of the scale, 9 percent said they expect to see negative effects on their hedge fund performance both before the end of 2016, and within the next 12 months. In the longer term, 11 percent said they expect hedge fund performance to suffer.

Regarding Trump’s specific policies, 73 percent said a reduction in corporate tax would be beneficial for fund managers, while 62 percent said they feel positive about proposed spending on infrastructure.

Incentivised repatriation of corporate earnings held abroad was also considered to be a benefit to the industry by 57 percent.

However, 59 percent said that plans to renegotiate membership with, or withdraw entirely from, the North American Free Trade Agreement, would be a negative for fund managers, and 54 percent were concerned about the effect of withdrawal from the trans-Pacific partnership.

Some 55 percent also said changes to taxation of carried interest would be negative.

According to Preqin, managers generally suggested that uncertainty remains around the effects of Trump’s policy proposals.

However, the report said: “While some managers suggested that potential impacts on debt rates and securing investor capital might be negative, others felt that market volatility might serve to benefit alternative investments, and reduce recent correlation in returns between the industry and more conventional financial markets.”

It went on: “The result of these mainly pro-business policies has been that the majority of respondents believe their respective industries in the US—and the alternative assets industry more generally—will be positively affected by the Trump administration.”

The survey included respondents from the private equity, private real estate, infrastructure, private debt and natural resources sectors, plus 60 hedge fund managers.

‘Speedbumps’ remain on road to China, says DTCC

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The Chinese regulatory market is both complex and constantly changing. This means firms tend to have to adapt to new requirements quickly, leading to issues in translating them into concrete processes, and creating a need for significant documentation and record-keeping.

According to the report, China’s unusual ‘microstructure’ means shares acquired through the Shanghai-Hong Kong Stock Connect are not interchangeable with those acquired from the qualified foreign institutional investor (QFII) and Renminbi QFII schemes. There are also significant differences between the international and domestic trade processes.

These complexities mean firms have to have specific middle- and back-office systems to cope with the local market, and this operational structure means more processes have to be completed manually.

The report also noted that, without any standardisation, various different channels have been designed to facilitate international transactions. Institutions have to evaluate which best meets their needs, and they must then be prepared to evolve from their chosen path if another emerges as being more suitable in the future.

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There are also practical challenges around language and currency descriptors, the report said. Domestic processes generally rely on use of specific Chinese characters, scripts and terminology, none of which are easily translated into English.

This could make screening payments for compliance with know-your-client and anti-money laundering rules more difficult, and it also means firms are again likely to find themselves relying on manual processes.

Equally, there are additional complexities caused by differing currency codes, the report said, with CNH used for onshore trading and CNY used for offshore. As firms will have to use CNH in the front office and CNY in the back office, a failure to translate them effectively could lead to issues with accounting, valuation and compliance.

The report suggested that a lack of standardisation in the approach to investing in China means different practices are being employed across global and Chinese markets. It said: "There is a clear need for more coordinated efforts among market participants at an industry level, and active engagement and coordination with regulatory authorities to resolve them."

Operational and process differences make settling trades in Chinese securities more complex than when investing in other markets.

The report said: "Now [China] looks to integrate with foreign markets, there are differences between established domestic practices and internationally accepted standards and frameworks, which can be operationally difficult to reconcile."

The report called these issues "speedbumps", and suggested they "should not derail the overall process".

It noted, however, that international institutions generally like to use systems and processes that they already use globally. Many of these are not compatible with "local nuances and specificities" of the Chinese market.

"Automation in the mid-back office can improve efficiencies and reduce costs. But disparities between domestic and international practices and frequent changes in the policy environment make it difficult and risky to undertake major operational changes at a firm level," the report said.

"Establishing industry-wide standards and frameworks to strike a balance between global and local practices will be crucial in solving the operational challenges for capital market firms. There is a clear need for more concerted efforts among industry participants, and active engagement and coordination with regulatory authorities on current issues as well as future direction of changes."

"Resolving dual currency issues, language challenges, and trade lifecycle management disparities and other such measures would require everyone in the capital market ecosystem to work together as China advances to realise its aspirations of becoming a key global financial centre."

Asset managers prepared for industry challenges, says survey

Regulation, client demands and cost pressures are posing a challenge for asset managers, but they're confident in their ability to manage it, according to a survey by Osney Media and BackBay Communications.

In the survey, released at TSAM Boston, 64.5 percent said they perceive regulation as a driver of change in the industry. This was followed by pressure on margins and cost, named as a driver by 48.4 percent, and the increase of passive investing, named by 38.7 percent.

More than a quarter, 27.4 percent, said that meeting client demands will be a key driver of change over the next five years.

Regulatory change was also the most-named driver of operational change within organisations, with 30 percent selecting this.

A further 18.3 percent said the need to reduce costs will be the main driver of change, while increased competition and the need to enter new product areas were each considered the biggest driver of change by 11.7 percent.

Consequently, technology and operations projects were high on the agenda for the next 12 months. More than half, 52.5 percent, said they are planning on replacing legacy technology systems, 32.2 percent plan to introduce an online client reporting portal and 28.8 percent are looking to outsource some or all of their technology operations.

Generally, respondents said they are confident in their ability to meet the challenges facing both their own companies and the industry as a whole.

Regarding their own companies, 51.6 percent said they are fairly optimistic and almost a quarter said they are very optimistic. Only 1.6 percent said they are very pessimistic, while 6.5 percent are fairly pessimistic and 16.1 percent are indifferent.

Results were similar for the industry outlook. While only 11.3 percent said they are very optimistic that the industry will be able to meet its challenges, 66.1 percent indicated that they are fairly confident. While 9.7 percent said they are fairly pessimistic, the rest said they are indifferent.

Jonathan Wiser, director at Osney Media and organiser of TSAM Boston, commented: "The asset management industry faces a number of challenges: growth in passive investment is putting traditional fee structures and margins under pressure, expectations and behaviour of clients are evolving and of course the regulatory environment continues to change."

He added: "We are expecting to see an increase in organisational and technological change projects getting underway in the next 12 months as firms look to adapt to these shifting sands."

The survey was conducted online between 19 September and 31 October, and was completed by 74 senior decision makers at investment management companies.

OTC derivatives reform opens the door for sovereign wealth funds

Sovereign wealth funds (SWFs) are in a unique position to plug gaps in the securities lending and repo markets left by regulatory reform in the over-the-counter (OTC) derivatives space, according to BNY Mellon.

In its latest whitepaper, BNY Mellon, in collaboration with Judge Business School of the University of Cambridge, examined how SWFs' exemption from many of Basel III's restrictions presents an opportunity to delve further into these markets and answer the increased demand for collateral generated by OTC derivatives markets reform.

Many buy-side market participants are in need of access to collateral transformation transactions in order to submit eligible collateral to clearinghouses.

Furthermore, the European Market Infrastructure Regulation requires participants to centrally clear OTC derivatives, while SWFs are exempt and can continue to use bilateral clearing. SWFs are also exempted from the regulation's costly capital requirements.

"While sovereign wealth funds traditionally have taken a cautious approach to investing, they are grappling with a low-interest rate environment as they seek liquid investing opportunities," said Hani Kablawi, BNY Mellon's head of investment services for Europe, the Middle East and Africa (EMEA).

"This is especially true for commodity-dependent sovereigns. However there is an investment opportunity for sovereign wealth funds because their own bonds are exactly the type of high-quality liquid assets that are sought in the securities lending and repo markets."

Blockchain consortium turns focus to know-your-customer rules

R3 and ten of its consortium banks have developed proof-of-concept for a shared know-your-customer (KYC) service using distributed ledger technology to help manage identity controls.

The service is intended to place control of any identity with its owner. The project simulated establishing the identity of an individual and a legal entity using distributed ledger, or blockchain, technology.

Users will be able to permission other participants to access their identities for client onboarding and KYC purposes, and will be able to request authoritative participants to verify identities.

The service is also intended to address concerns around data privacy and security when sharing identity details, only allowing those that have a necessity to see data to access it.

According to R3, it demonstrated the way in which blockchain can be used to fulfil KYC requirements, while also improving transparency, security and cost efficiencies.

Offering a single interface for managing global identity, it could also serve to simplify and streamline the client onboarding process.

The development follows three months of work in R3's lab and research centre, with input from BBVA, CIBC, ING, Intesa Sanpaolo, Natixis, Nordea, Northern Trust, Societe Generale, UBS and US Bank.

David Rutter, CEO of R3, commented: "The growing complexity and cost of KYC compliance requirements presents a major challenge for banks onboarding new clients and is having a negative impact on those client relationships."

"Distributed ledger technology can provide a unified view of clients whilst also significantly reducing costs and time spent verifying identity."

ESMA issues EMIR phase-in delay for firms with lower volumes

The European Securities Markets Authority (ESMA) has offered respite to 'Category 3' firms struggling to comply with European Market Infrastructure Regulation (EMIR) implementation burdens.

The regulator has postponed the phase-in date for central clearing of over-the-counter (OTC) derivatives until 21 June 2019.

In ESMA's final EMIR report, in which it published its draft regulatory technical standards, the authority acknowledged that small, low-volume counterparties were struggling to establish clearing arrangements to meet the original compliance deadline, which was set for 21 June 2017.

The decision comes in response to feedback from ESMA's July consultation paper in which it asked for feedback on Category 3 phase-in progress.

"Not surprisingly, there appears to be a close link between the level of preparedness of the counterparties and their size, or the size of their derivative activity, as those claiming to have finalised their clearing arrangements are generally found to be large asset managers or insurance companies," ESMA said in the report.

The proposed amendments have been sent to the European Commission for comment, which is expected within the next three months.

Source code proposal is not up to scratch, says FIA

A regulatory proposal from the US Commodity Futures Trading Commission (CFTC) has drawn concerns from the Futures Industry Association (FIA) over the potential side effects for source code protection.

The supplemental proposal, which amends the 2015 Regulation AT, would give the CFTC the ability to obtain source codes through issuance of a subpoena or special call.

US regulators have long been worried about futures contracts traded algorithmically on exchanges and their potential to cause market disruptions such as the May 2010 flash crash, when prominent market indices collapsed and trillions of dollars in value were wiped in less than 40 minutes.

The CFTC brought in Regulation AT to codify existing market practices. But the subpoena or special call, included in the latest supplemental proposal to amend Regulation AT, goes a step further, as it would only need to be approved by the commission instead of a US federal court, which would usually act

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as a third party to ensure that any concerns beyond the CFTC's enforcement duties were taken into account.

FIA CEO Walt Lukken said, while the association supports the regulation of trading, and strengthening of risk controls, the association "cannot support the proposed source code provision".

He commented: "We're very disappointed that the commission ignored the view expressed by a wide range of market participants, as well as technology companies outside this industry, that access to source code should require a subpoena."

"Source code deserves the same protections under the law as any other form of IP."

"The proposed special call process simply does not meet that standard."

The FIA said it will submit formal feedback to the CFTC during its public comment period, which will begin on the date of the proposal's publication in the Federal Register.

Regs and tech and EMs, oh my

Regulatory change, technological development and emerging markets are affecting strategic thinking regarding global capital, according to a Deutsche Bank and FT Remark survey of 200 financial market participants.

Basel III and Solvency II were named as the regulations set to bring about the most benefits, named by 62 percent and 48 percent, respectively.

At the other end of the scale, just 2 percent said they saw benefit in the European Markets Infrastructure Regulation, and 1 percent said the Foreign Account Tax Compliance Act would be beneficial.

With regards to the changing regulatory environment, 43 percent said they are concerned about increasing costs of execution, while 31 percent cited concern around a reduction in liquidity and 26 percent noted increasing counterparty credit risk charges.

According to Deutsche Bank, the results show that, rather than viewing regulatory change as a threat, institutions are starting to see it as an opportunity to improve settlement, liquidity and collateral management.

When asked about blockchain, or distributed ledger, technology some 87 percent of respondents said this could change the settlement model for securities, improving efficiency and reducing costs.

A vast majority said they expect blockchain to reduce the overall cost of providing securities services, with 62 percent expecting savings of 11 to 25 percent, and 5 percent believing it will lead to savings of 30 percent or more.

Almost half, 48 percent, said they think blockchain will help the industry to cope with the risk of system failure and market disruption. The issues of increasing regulatory requirements, legacy IT infrastructure and inadvertent data disclosure were also named as areas that blockchain could help improve, with 36 percent apiece.

Some 75 percent said they believe the technology will be actively used by market participants within the next three to six years, and a further 21 percent said they think it will be widely used in seven to eight years. Only 1 percent said they expect to see the wide use of blockchain to emerge within the next decade.

When asked about emerging markets, 54 percent of respondents said they anticipate significant growth, with the India and South Asia region proving the most popular, named as attractive by 88 percent.

However, 76 percent noted that a lack of capital market infrastructure in these markets could deter them from operating or investing there.

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Further, 62 percent said they see regulatory hurdles as one of their biggest challenges when carrying out securities transactions in emerging markets, followed by political interference and instability, named as a challenge by 53 percent.

When asked which markets have seen the most improvement in capital markets infrastructure over the last five years, India came out on top, named by 40 percent, followed by China with 28 percent and Indonesia with 13 percent.

In the survey report, Satvinder Singh, Deutsche Bank's head of global securities services and head of global transaction banking for Europe, the Middle East and Africa, excluding Germany, said: "Regulatory change remains a burden for many, but the right regulations are being welcomed. Technology threatens to disrupt the market as a whole and—in the case of blockchain—that disruption may be coming sooner than many think. And emerging markets that have been the most active in developing their capital markets are expected to return to form."

"Overall, one message keeps coming through loud and clear in our research: the industry has to adapt its strategic thinking if it is going to cope with the pace of change in capital markets. And the results of our survey show that market participants understand the challenges they face and are prepared to adapt in their pursuit of opportunity."

T2S trio launches network platform

Target2-Securities (T2S) participants will soon be able to utilise a 'single point of access model' with enhanced collateral pooling and post-trade services, through a new collaborative network model set to launch in 2017.

The new platform is the result of a partnership between Clearstream, Citi and UBS and is aimed at allowing banks and broker-dealers to "reap the maximum benefit from T2S", according to a Clearstream statement on the launch.

T2S, the pan-European settlement platform, is operated by the eurozone's monetary authority, Eurosystem, and is currently heading toward the fourth phase of its implementation plan, which focuses on the large German market.

Clearstream will act as the central securities depository and cater for securities financing solutions and safekeeping, while Citi will provide clearing, settlement, and asset servicing.

UBS will spearhead the project by being the first bank to offer the system and, in turn, will benefit from its partners' economies of scale and scope, as well as cross-market netting opportunities.

"This model brings together the best that each institution has to offer, giving UBS a truly best-in-class service solution, whilst delivering meaningful commercial benefits," said Philip Brown, co-CEO of Clearstream Banking Luxembourg.

Colin Parry, head of securities, collateral and derivatives at UBS, added: "The launch of this solution comes after many years of collaboration and planning with our two partners Clearstream and Citi, around how best to position ourselves for T2S."

"We expect network and operational simplification benefits, and also improved management of liquidity and collateral."

"We believe that the model sets a new industry standard, will enhance our client value proposition and will unlock numerous front-to-back efficiency gains that allow us to play a part in hitting UBS's existing cost commitments."

Lower liquidity is the new normal

Almost half of surveyed institutions believe the current liquidity drought is here to stay, according to State Street.

Of 300 financial institutions questioned by State Street as part of its Let's Talk Liquidity: Opportunities in a New Market Environment study, 30 percent claimed the liquidity of their portfolio has decreased over the past three years, while 48 percent predicted the new environment to be permanent.

Furthermore, 90 percent of the survey's respondents, including 150 asset owners, 150 asset managers and 50 hedge funds, stated that the reduction in liquidity has affected their investment strategy.

According to State Street's analysis, this primarily involves upgrading liquidity risk measurement frameworks and reporting standards. At the same time, State Street noted that as banks step back from their traditional financing roles, other players are coming forward to fill the space.

Of the hedge funds surveyed, 43 percent stated they would consider becoming a market maker in certain securities.

The need for investment to tackle both the market's liquidity status and the new, enhanced reporting requirements featured heavily in the report.

On reporting, 42 percent admitted to facing a 'moderate to significant challenge' in reporting their liquidity position to their respective boards or regulators, while 47 percent are committed to tackling this issue through investment in external capabilities.

Deutsche Bank launches new asset servicing solution

Deutsche Bank has added its new Asset Servicing Only solution to its global securities services business.

The new service offers outsourced corporate actions processing, tax reclamations and safekeeping of assets, allowing clients to choose core functions tailored to their needs.

Graham Ray, global head of product management for investor services at Deutsche Bank, said: "Efforts to make corporate actions processing more efficient are crucial for our customers. As the number and complexity of corporate action events increases, the quality of information is key in reducing risk and costs."

The service is partially intended to support clients in their migration to the Target2-Securities (T2S) platform.

Ray said: "Financial services companies offering securities services in Europe require modular based products which help their customers to meet the requirements in the regulatory/T2S environment."

SIX collaborating against cyber crime

SIX has established a 12-year research cooperation agreement with the Swiss Federal Institute of Technology (ETH) Zurich Information Security and Privacy Center (ZISC), to work on data security.

Through the partnership, SIX intends to contribute to the future security and reliability of IT systems, and to help prevent undesired access to systems by third parties. In particular, the research will focus on cyber security and innovation in cloud technology.

SIX will be a sponsor of the ETH ZICS OpenLab, which promotes the exchange of ideas and information between ETH researchers and businesses.

Lino Guzzella, president of ETH Zurich, said: "We are pleased that we have managed to win such a strong partner in the field of finance."

"As our society and the business world become more digitally connected, we face an increased risk for the misuse of data and cybercrime."

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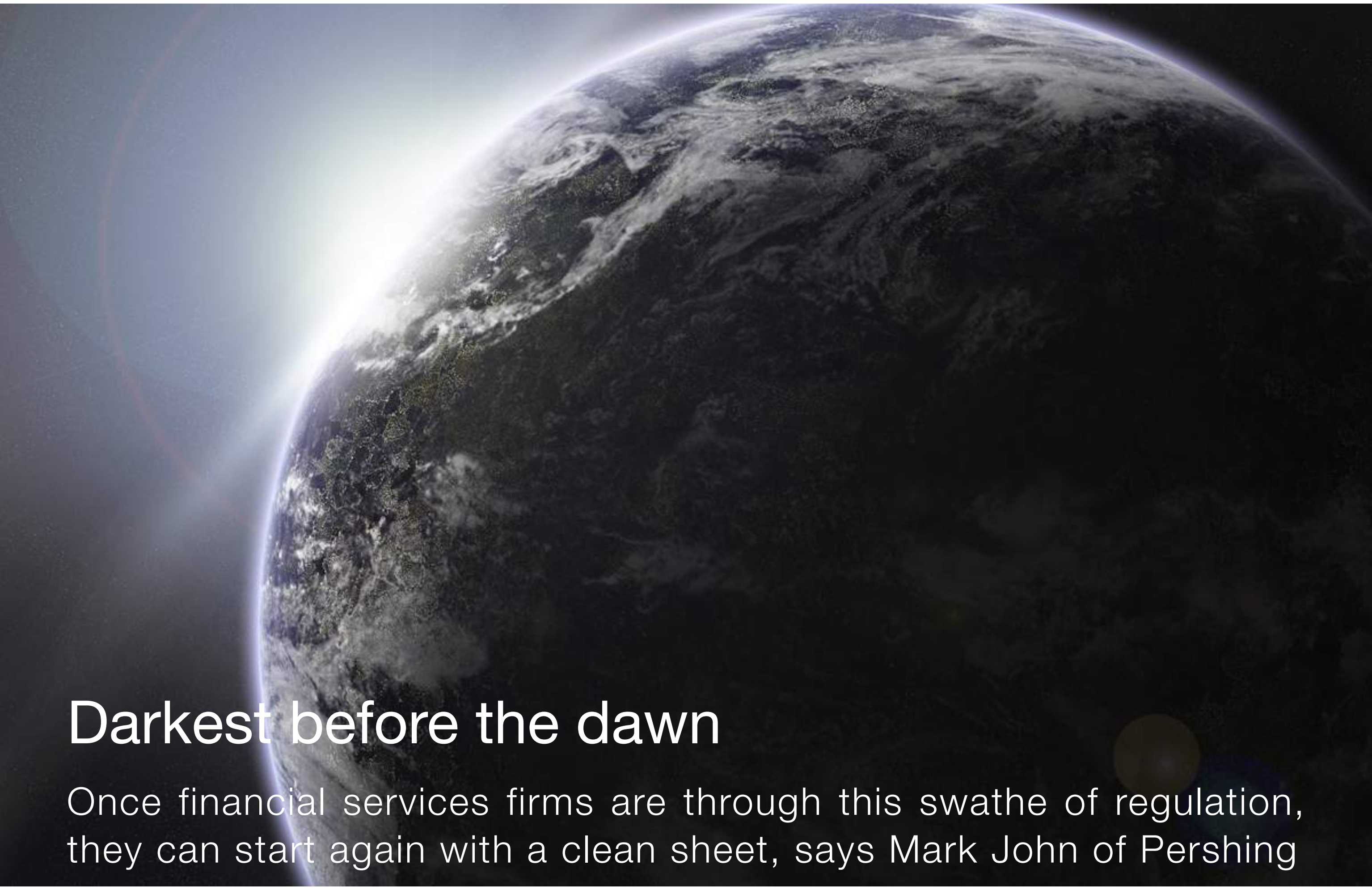


Darkest before the dawn

Once financial services firms are through this swathe of regulation, they can start again with a clean sheet, says Mark John of Pershing

What does Pershing bring to the table for financial services firms?

Pershing provides outsourced services, be it technological, back-office or middle-office support. Some of these services are synonymous with the outsourcing functionality, and it's a popular model, but over time the reasons for that popularity have changed. At times it has been because of pure variable cost models, because of pressure on balance sheets, or because of the improved ability to move into new markets or new asset classes. Depending on what the business is and the point in time, there is often a strong argument for employing an outsourced solution to get to the next stage of business.

Can this help firms to navigate the current complex regulatory environment?

At Pershing, we help our clients relieve the regulatory burden. To help our clients navigate through the regulatory landscape, we host quarterly compliance webcasts that provide updates on the regulatory impact on Pershing's business and its clients, as well as information about regulatory projects conducted by Pershing. One of the key recent items on the agenda is obviously the second Market in Financial Instruments Directive (MiFID II) and Regulation (MiFIR), and especially topics such as transaction reporting, best execution or unbundling. In addition, under the Model B, the regulatory responsibility for holding client assets remains with Pershing.

The services we offer our clients are regulatory compliant. We have to consider our regulatory conditions in terms of exposures, how much business we're actually processing, what the balance sheet value is, and how the regulatory environment looks in terms of the exposures we take on behalf of our clients.

It is important to remember that you can't outsource regulatory responsibilities, and that anyone providing services to a suite of accounts is regulated in providing those services, so we have to be mindful of it.

What kinds of challenges are your clients facing?

The 2008 financial crisis created a lot of opportunities—and we are still talking about the effects of that crisis today. We saw an explosion of new firms coming to the market at that time, and Pershing helped a large number of them. Now, we are still seeing new firms taking the opportunity to come to market. Because costs of regulation and capital are such a large part of every organisation, everyone is looking at how to better manage that transition.

Firms could use a partner to manage their capital regulation obligation, or to help them overcome nervousness around entering a new market. The market structure is changing, for example with the ongoing Target2-Securities (T2S) project, and firms are considering how services will be provided in that environment compared to in their current network.

The conversation is really turning to whether firms can continue to do these things by themselves, even if they've been doing for many years at a large and successful organisation. They're considering whether certain parts of the business are really core, and whether they want to continue to provide that service. Do they really want to be in that particular market or asset class? Do they really need the IT systems to support that part of the business?

This is where the Pershing model can be of some assistance. To remove a business line entirely today could mean an opportunity missed in the future, however, if a firm can simply take a step back, using a partner to take on that part of the business, it can retain the opportunity to stay involved in that business and to reap the rewards that might come from it in the future.

We can offer clients a way to stay involved in a manner that is more consistent with stability and with managing costs and exposures, that doesn't mean they have to fully remove themselves from the market.

One other key challenge is the issue of legacy systems that many firms operate on. As investment banks and brokers have adapted to different requirements, they have created many bespoke solutions that are difficult to break. Because our clients are so diverse, it places us in a fortunate position of holistic experience in helping them drive out stale technology.

To what extent are you seeing a culture-change towards cost-efficiency?

Cost efficiency is another thing that is driving a lot of the conversation at the moment. Previously, depending on what kind of regulated firm you were, outsourcing could have been considered by some as a dirty word. Nobody wanted to admit that there was a problem, and therefore outsourcing was just not on the agenda. It's very different now. People are focusing on cost efficiencies and looking at underlying revenues, and outsourcing is something that CFOs are starting to reignite as part of the agenda.

The culture is also moving generally towards more open ideas—whether that's cost efficiency in its purest form or simply maintaining a regulatory framework for compliance and for risk. Everything, from the regulatory environment to the IT infrastructure supporting it, is being reconsidered, and a lot of cuts have already been made across the board.

People have alternative views now as to what is good for the business, the clients and the stability of the organisation. If there is a way to maintain a model that supports all those aspects, that is worth considering.

Is there also more of a drive to benefit the end client?

Organisations are certainly concentrating resources on demonstrating that they're investing in their clients. They're focusing on keeping clients happy, on giving them a more direct and personalised service, and on generally putting them at the centre of everything they do. For any organisation that has an element of customer service, if it can demonstrate savings that help them maintain a client, or pass on cost savings, that's definitely something they're going to consider. Of course, they want to create efficiencies for the firm, but if that also translates to efficiencies for the client, that's even better.

That said, the industry has always been about providing a service. We are all consumers in one way or another, and when things don't go our way, our voices get louder and louder until they do—and that goes for both individuals and organisations. The responsibility has always been there to look after the clients, but client expectation is now becoming a much louder voice in that conversation.

In many ways, the actual products and services provided are not where firms make the difference. They add value through maintaining strong client relationships.

How do you see the industry developing in 2017 and beyond?

It will be interesting to see what is coming up in terms of the economic outlook. We are working towards the final waves T2S coming online, we have the capital markets union fast approaching, and we are still waiting for the second Markets in Financial Instruments Directive (MiFID II) to come into force in its fullest form.

With all of these things combined, along with external and political influences and with the markets behaving in the way they are, we are facing a very interesting time.

It feels as if a lot of these changes are unravelling in slow motion, as opposed to causing a shock to the market. Some of the post-crisis regulatory overhauls are starting to come to an end, and it's interesting to see how ideas and solutions are being formulated and discussed, and how outlooks and ideas are shifting.

The current run of regulatory change will take us up to 2019. Then, when—in theory—everything is implemented and in place, we can get a clear idea of what the unintended consequences are, and of what we could, or should, be doing better. That will be the next chapter in our progression as an industry.

There is a danger that if we try to influence the current regime of change now, we could destabilise the progress we have already made.

We need to stick to the plan, and then bring good ideas to the table for the next phase. It's about being patient, thoughtful and responsible, so that once we've got through this swathe of regulation, we can start again with a clean sheet. **AST**

Organisations are focusing on keeping clients happy

Mark John
Head of product and business development
Pershing

Key to the highway

Swinging between a high- and low-touch approach can put trade execution at risk, and finding a balance is key, says Steve Grob of Fidessa

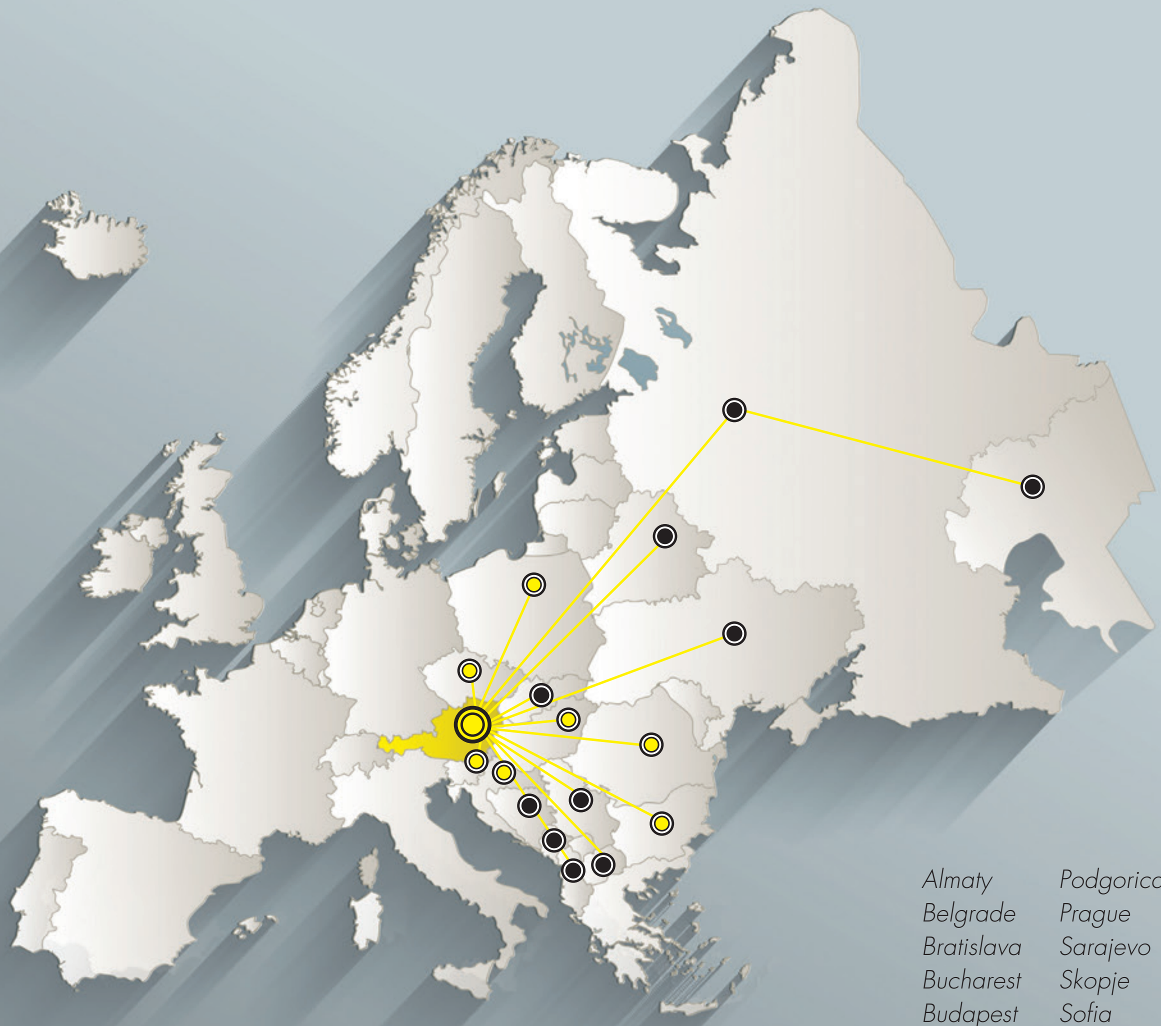
In the beginning there was high touch, where brokers provided a high-value, solution-based approach to finding the liquidity their buy-side clients were looking for. This worked in an era of high fees and low scrutiny of what end investor trading commissions were actually funding. But, as markets electronified, and buy-side operations tooled up, a new paradigm was born: low touch. This reflected the buy side's growing desire for cheaper execution, especially for trades that weren't that hard to execute, and it also offered a path that minimised information leakage.

The result? Two routes to market with very different price tags. The problem was that brokers had to duplicate their trading infrastructure despite receiving fewer net commission dollars. This spawned the short-lived concept of mid touch, which offered the worst of both worlds, and junior sales traders without the experience or the expertise to manage either. And so the industry muddled along, ignoring the operational overhead of running two technology stacks.

Today, however, the industry is at a crossroads. Regulation, combined with the global economic environment, means that the idea of providing separate high- and low-touch channels is more flawed than ever. A new approach is needed—one that converges technology stacks where appropriate and equips brokers to provide a blended service of premium (high touch) and standard (low touch) services. Most important is that they can be provided to the buy side in such a way that they switch seamlessly between the two, throughout the day and throughout the lifecycle of each order.

Hellhound on my trail

The determination of regulators to increase transparency and accountability remains unbowed. The most recent example is the European move to unbundle the relationship between research provision and trading execution fees. Soon, investment managers will be forced to either pay for research out of their own profit and loss balance, or ensure that execution commission payments are clearly not to the detriment of their end investors. The flip side of this regulatory coin will be a renewed focus on execution outcomes, and so providing the optimum combination of high- and low-touch services will be more important than ever. On top of this, the regulators are



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doubling down on their requirements over the transparency of the buy side-sell side relationship, which means further costs to keep both high- and low-touch platforms in line. And it's not as if finding liquidity is getting any easier, especially when firms wish to trade in size.

As a result, a number of initiatives such as intraday auctions, block crossing capabilities and other material, have all aimed to orchestrate the liquidity available. But, because they compete, the resulting cacophony just makes matters worse.

Change my ways

The good news is that the buy side is willing to pay to resolve this complexity, but it requires a completely different approach from the traditional high-low touch separation of old. The fragmented nature of equities trading means that even a relatively low-touch order in a liquid stock needs to visit tens of venues in order to be properly executed. Low-touch platforms therefore need to stretch across many different venues. The challenge to create a single market access fabric is considerable.

Furthermore, sophisticated low-touch algorithms are needed to nullify the effects of this fragmentation and provide good execution outcomes for clients.

Today's high-touch trader needs a range of technology too. This might be dark-seeking algorithms, smart routing or customer relationship management systems that track who is holding, or likely to be holding, liquidity. The high-touch desk will often look at the automation and tools employed by low-touch or programme-trading teams for inspiration, and, in some cases, borrow their technology directly.

So while the activities and business models of high and low touch are diverging, the underlying technologies are converging.

low-touch algorithms and a financial information exchange interface for receiving client order flow. But by then the high-touch desk was receiving the bulk of their orders electronically too and, of course, sending them out to market the same way.

The sensible approach, then, is to collapse all the technology supporting both business lines together. This allows more effort to be put into market and asset class coverage, performance, speed and resilience—benefitting both high- and low-touch service lines. It is something that can be extended to other desks too, such as programme trading, and even between asset classes or completely separate business units.

Crosscut saw

The premium zone is where the real differentiating technology can be found, but because it is now sitting on a converged stack, its operational costs are much lower. This frees up resource to deploy cool, high-touch tools that can quickly solve any liquidity problem.

Intelligent indicators of interest (IOIs) are one way to do this, but only if they can be underwritten by genuine merchandise. Another will be pulling together all the information held within a firm about a particular stock. Other decision support tools will form part of a more sophisticated, but above all technology-fuelled, high-touch service.

This then allows for some intriguing approaches to solving trading problems for clients. One example is that an investment manager may be using a low-touch channel for an order so as to minimise its execution cost. It may be, however, that a smart IOI has uncovered a large block in the same stock over on the high-touch desk. Because they both share the same technology, it's now easy to communicate the block opportunity to the client and execute it. In this way orders can navigate through high- and low-touch zones so as to achieve the optimum liquidity outcomes for clients.

> Truly effective trading is about allowing clients to combine services

Steve Grob
Director of group strategy
Fidessa

This requires careful management to avoid unnecessary duplication and cost while optimising the very different business service a high or low touch client receives. This then allows a standard (low-touch) and premium (high-touch) service to coexist and be interlinked. If architected correctly, the separation between these two can be viewed as a permeable membrane though which orders can travel in either direction, at the client's discretion, with a higher fee charged whenever the order is in the high-touch, or premium, zone.

Smokestack lightning

It is a simple fact that low-touch service lines were established after high-touch ones, and so made the creation of a second whole new technology stack inevitable. This led to a new set of market gateways, a super-lite order management system that could support

This is hip

The terms 'high-touch' and 'low-touch' seem clunky and outdated, as they are simply too crude a reflection of the practical realities of trading today. They may well be part of the lexicon of our industry, but they imply a separation of technology that simply doesn't have to be there, and this costs money and worsens execution outcomes for clients.

While it is true that the spectrum of trading challenges is getting broader, truly effective trading is about allowing clients to combine a range of different services. Firms that implement a blended approach will be able to dominate liquidity in their chosen areas. What's more, they will operate at lower costs whilst providing a more valuable service to clients. They really will have the key to the highway. **AST**

Industry Events

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

December 2016
08

RegTech London - Where Compliance Meets Technology
London

This concise and interactive conference will bring together the financial services community, RegTech solutions providers and thought leaders to discuss how to best utilise and implement RegTech solutions

Jan 2017
23-24

3rd Post Trade Forum
Vienna, Austria

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

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Comings and goings at the SEC, HSBC, Hazeltree, and more

US Securities and Exchange Commission (SEC) chair Mary Jo White has announced she will be stepping down at the end of the Obama administration.

After nearly four years as head of the regulatory agency, White will be one of the SEC's longest serving chairs.

"It has been a tremendous honour to work alongside the incredibly talented and dedicated SEC staff members who do so much every day to protect investors and our markets," said White.

"I am very proud of our three consecutive years of record enforcement actions, dozens of fundamental reforms through our rulemaking that have strengthened investor protections and market stability, and that the job satisfaction of our phenomenal staff has climbed in each of the last three years."

"I also want to express my appreciation for the engagement and dedication of my fellow commissioners and my financial regulator colleagues, past and present."

White was at the epicentre of the implementation of the Dodd-Frank Act, along with numerous other regulatory initiatives such as money market reform and adding additional safeguards to the swaps and equity markets. Prior to joining the commission, White spent decades as a federal prosecutor and securities lawyer.

As the US attorney for the Southern District of New York between 1993 and 2002, she prosecuted cases involving complex securities and financial institution frauds, other white-collar crime and international terrorism.

HSBC has appointed Gina Slotosch as head of securities services for Germany.

Slotosch, who is based in the bank's Dusseldorf office, will become a member of the securities services European management committee and will report to CEO of HSBC Germany Carola von Schmettow and Rafael Moral, head of securities services for HSBC in Europe.

She first joined HSBC in 2005 to lead the securities services sales and business development teams in Germany and later assumed the role of head of global custody product in London.

Prior to joining HSBC, Slotosch held a number of securities services positions at State Street, Deutsche Bank and BNY Mellon.

Urs Rüegsegger, group CEO of SIX Group, has been appointed as vice chairman of the World Federation of Exchanges.

The federation represents more than 200 market infrastructure providers, including exchanges and central counterparties. It provides exchange-traded statistics based on 40 years of data, and publishes market data indicators, as well as insight pieces.

Rüegsegger joined SIX in 1993 as head of accounting and risk management. He was appointed to the executive committee in 1997 and has been CEO of the group since 2008.

Hazeltree has appointed Ayman Sakr to the position of head of worldwide client services.

Sakr has more than 20 years of experience in professional services. He was previously global head of client services and product management at Paladyne, a company he co-founded, and which was acquired by Broadridge in 2011. In his new role, Sakr will be responsible for managing implementation for clients, as well as being involved in support and training.

His appointment comes shortly after Hazeltree hired J.P. Morgan's Sal Ventura, who joined as head of client relationship management earlier this month.

Sameer Shalaby, president and CEO of Hazeltree, said: "Our industry is focused on effectively managing their counterparties with efficient treasury solutions to ensure win-win relationships with their counterparties, while minimising risk and exposure."

Lombard Risk Management has reinforced its product and sales teams in the Asia Pacific with three new hires.

Nimoh Mohankumar and Nathan Li will contribute to the growth of Lombard Risk's market share in the region, leading the business development efforts and management of strategic accounts in the region.

Mohankumar, previously of Broadridge's Southeast and North Asia desk, was appointed as senior sales executive.

Li joins as sales executive from FIS, where he was responsible for the North Asia market.

In the product team, Jonathan Tsang joins as senior product consultant for regulation in Asia. He will provide pre-sales consultancy, implementation and support services to Lombard Risk's clients including banks, hedge funds, fund administrators and asset managers.

The collateral management firm explained it is reacting to increasing demand for global market solutions from the region's financial services firms.

"They [financial services firms] are demanding solutions that can support increasingly complex collateral management and regulatory reporting requirements that go hand in hand with growth," explained Lombard Risk.

State Street Global Advisors has appointed Malcolm Smith to the newly created role of global COO for the Standard & Poor's Depositary Receipts (SPDR) business.

Smith will be responsible for leading, managing and developing the operating infrastructure for the global SPDR exchange-traded funds (ETF) business.

Based in London, he will report to Rory Tobin, co-head of the Global SPDR business.

Previously, Smith was interim COO of distribution for Europe, the Middle East and Africa, a role he held for just over a year. Before this, he was interim global COO for Barclays Wealth and Investment Management, and COO of M&G Real Estate.

Tobin commented: "As our global SPDR ETF business grows and we strengthen our team, we want to ensure that we provide the highest quality investment products and solutions to our clients and partners."

Tobin added: "Malcolm Smith's considerable domain knowledge and experience in both asset management and exchange traded

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funds will be instrumental to developing and strengthening our SPDR ETF business."

Euroclear has appointed Marieke Bax to the board of its Euronext-Zone Securities (ESES) central securities depositories (CSDs), as a non-executive director.

Bax brings significant non-executive and boardroom experience to the role, and will work across the CSDs in Belgium, France and the Netherlands.

Previously, Bax was a strategic advisor to KPMG Netherlands. She is also currently interim executive director of the Enterprise Division Court of Appeal in the Netherlands, chair of the audit committee supervisory board at Vion Food, and a board member at Crédit Lyonnais Securities Asia.

She has also been named as one of the 100 most influential corporate women in the Netherlands, by Management Scope magazine.

Lieve Mostrey, chair of the ESES CSDs, commented: "Marieke Bax's significant international management and board-level experience, her focus on corporate governance and developing talent, will bring considerable value to the board."

AlfaSec Advisors co-founder Roger Harrold will become HornbyChapman's chief representative for Asia, the firms have announced.

AlfaSec and HornbyChapman formed a strategic alliance in 2014 to improve asset servicing firms' access to experienced industry practitioners in Asia.

Harrold, who was previously global head of direct securities services at Deutsche Bank, will act as HornbyChapman's chief scout in Asia, where the recruitment firm is planning to hire additional resources for its teams in both Hong Kong and Singapore.

Paul Chapman, managing director of HornbyChapman, said: "I'm truly delighted at Roger Harrold's appointment. His tremendous industry experience and reputation, especially in Asia, will be hugely complementary to our existing knowledge base and will allow us to further leverage our solid market share in our chosen markets." **AST**

Do you have an appointment that we should cover?
Let us know via:
stephaniepalmer@blackknightmedialtd.com

AssetServicingTimes

Group Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
+44 (0)203 750 6022

Deputy Editor: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Contributors: Becky Butcher and Drew Nicol

Associate Publisher: Joe Farrell
joefarrell@assetservicingtimes.com
+44 (0)203 750 6027

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
+44 (0)203 750 6028

Designer: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)203 750 6021

Recruitment Manager: Chris Lafferty
chris@assetservicingtimes.com
+44 (0)203 750 6024

Office Manager: Chelsea Bowles
accounts@securitieslendingtimes.com
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

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Hornby Chapman

Raising The Bar In Recruitment

Telephone: +44 (0) 20 3411 2759 I Email: enquiries@hornbychapman.com
Web: www. hornbychapman.com I Postal: The City Arc, 89 Worship Street, London EC2A 2BF