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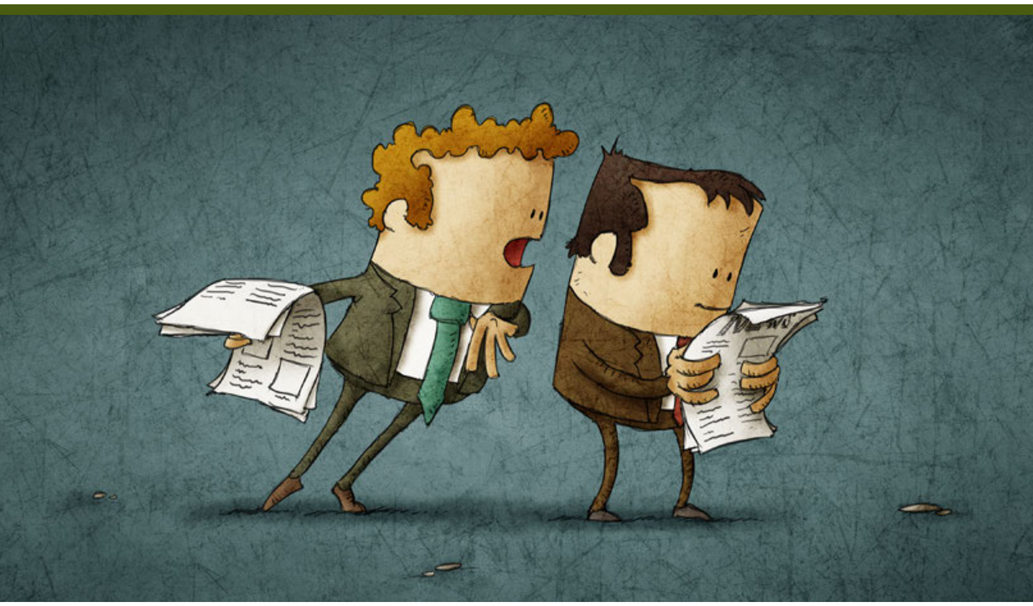

Hong Kong SFC considers new regulations for asset managers

The Hong Kong Securities and Futures Commission (SFC) has issued a consultation paper proposing extensions to regulations for the asset management industry.

The paper outlines proposed changes to the SFC's Code of Conduct for those licensed by, or registered with, the SFC and the Fund Manager Code of Conduct (FMCC), and are intended to better protect investors' interests and ensure market integrity.

Amendments to the FMCC included additions to existing requirements around custody of fund assets, liquidity risk management, leverage disclosure and securities lending and repurchase agreements.

The consultation said: "The SFC is mindful of the need to strike a proper balance between facilitating market development and competitiveness on the one hand, and ensuring protection of investors' interests and market integrity on the other hand."

The SFC suggested that fund assets should be segregated. If assets are held in an omnibus account, safeguards should be put in place to ensure assets belonging to each client are properly recorded with frequent reconciliations, the paper said.

Under the proposed rules, fund managers responsible for the overall operation of a fund should arrange the appointment of the custodian, and entrust the fund's assets to a custodian that is functionally separate from itself.

The changes would also add due diligence to existing rules around the selection, appointment and ongoing monitoring of a custodian. Safeguards would also be put in place to mitigate conflict of interest and ensure custody agreements are fully disclosed to investors.

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New Shenzhen-Hong Kong Stock Connect goes live

The new Shenzhen-Hong Kong Stock Connect went live on 5 December.

Hong Kong Exchanges and Clearing (HKEX) confirmed the news after the Hong Kong Securities and Futures Commission and the China Securities Regulatory Commission gave their backing to the market access project.

HKEX completed three rounds of connectivity testing and market rehearsals to ascertain technical readiness of the market infrastructure and operational readiness of market participants.

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Fintech funding feels the pinch

Venture capital-backed funding for financial technology fell almost a fifth in Q3 2016, a new report has found.

Quarterly report The Pulse of Fintech from KPMG International and CB Insights noted investors continue to take a more cautious approach to fintech investments, with funding down 17 percent in Q3 2016 to $2.4 billion. Deal activity fell 12 percent to 178 deals.

Overall global investment in fintech companies across both venture-backed and non-venture-backed companies totalled $2.9 billion in Q3 2016.

Anand Sanwal, CEO of CB Insights, commented: "While we continue to see significant investment into fintech companies globally, the euphoria for mega-deals that we saw into the latter half of 2015 has waned."

"Total investments to key areas like marketplace lending and blockchain technology have both seen declines heading into the tail-end of 2016."

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Hong Kong SFC considers new regulations for asset managers

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The introduction of the Shenzhen-Hong Kong Stock Connect follows the success of the Shanghai-Hong Kong Stock Connect, which launched at the end of 2014.

Regarding liquidity risk management, the SFC proposed that fund managers should implement procedures to monitor liquidity risk and ensure the effectiveness of these procedures are frequently reviewed and updated.

Managers should also conduct regular liquidity assessments in various scenarios—including stress scenarios—on all funds. However, the paper noted that the nature and frequency of these tests could vary depending on the profile of the fund in question.

The SFC also suggested that fund managers should disclose the maximum level of leverage that it can employ on behalf of each fund it manages.

Although the SFC did not prescribe a method for calculating leverage, it said: “We propose that the fund manager should take into account financial leverage arising from borrowings and synthetic leverage arising from the use of derivatives in calculating leverage and disclose the basis of calculation it has adopted, which should be reasonable and prudent, having due regard to international best practices.”

Changes to securities lending and repo agreements included the introduction mandatory policies for collateral valuation and management, as well as collateral and haircut eligibility, reinvestment of cash collateral and reporting to investors.

Additional proposals related to fund portfolio valuation, auditing financial statements, risk management, side pockets, reporting and house accounting, and the changes to the Code of Conduct include restrictions on use of the term ‘independent’ and enhancing disclosure requirements.

Ashley Alder, CEO of the SFC, said: “A robust and responsive regulatory regime is fundamental to the development and growth of an international asset management centre. As part of the SFC’s broader initiative to enhance Hong Kong’s position as a major international asset management centre, it is important to ensure that our regulations are properly benchmarked to evolving international standards.”

Market participants are invited to respond to the proposals by 22 February 2017.

New Shenzhen-Hong Kong Stock Connect goes lives

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Some 142 China connect exchange participants (CCEPs) are expected to be eligible to participate in the two Stock Connect programmes from 5 December, while other exchange participants can also apply to become CCEPs later upon satisfaction of relevant requirements.

“I want to thank everyone for their support to ensure a smooth launch of Shenzhen Connect,” said HKEX chief executive Charles Li.

“We’re ready for another milestone in our mutual market access initiative. Shenzhen Connect will open up another mainland market for international investors, give investors on both sides of the boundary more choices and enhance access to the mainland’s stock market through our market and to our market through the mainland market.”

Fintech funding feels the pinch

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Q3 2016 saw European fintech deals fall 17 percent quarter-over-quarter as funding in Europe dropped 43 percent over the same time period to $233 million.

Germany outpaced the UK in terms of fintech funding for the second consecutive quarter, with 35 percent more funding raised by Germany-based venture-backed fintech companies than those in a UK hit by the Brexit vote in June.

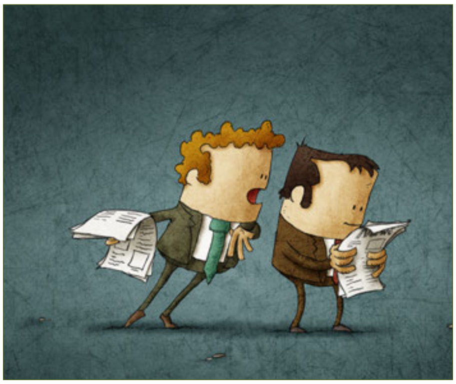
North America saw both fintech funding and the number of deals fall on a quarter-over-quarter basis, as venture-backed startups raised just $900 million across 96 deals, a drop of 5 percent in deals compared to Q2 2016.

Funding in Q3 2016 to venture-backed fintech companies in North America fell 68 percent compared to the same quarter last year.

The news was better in Asia, where, despite the number of venture-backed fintech deals dropping to a five-quarter low, funding increased 50 percent on a quarter-over-quarter basis to reach $1.2 billion.

Corporates continue to be highly active in Asia’s fintech investment environment, participating in more than half of all deals to venture-backed fintech startups in Q3 2016.

According to Warren Mead, global co-leader of fintech at KPMG International, Asia’s outpacing of the US in fintech funding is “a major shift from historical norms”.



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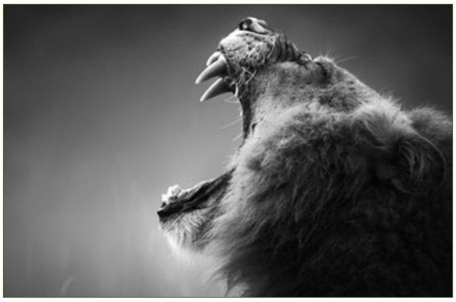


He said: "The question is whether Asia will continue to set the pace headed into 2017. With the diversity of investments and widespread support for the growth of fintech hubs in the region, it's a very distinct possibility."

SIX Securities Services to tackle tax

SIX Securities Services has partnered with tax consultancy and software developer Confinale to create a new Tax Reclaim Service, and secured Raiffeisen Switzerland as its first pilot client.

The service is intended to help banks and investors to manage double taxation on interests and dividends from shares in foreign companies.

These taxes are deducted at the source and transferred to the foreign tax authorities, however investors then have to pay income tax on the remaining amount, meaning dividends are taxed twice.

According to the Swiss Federal Tax Administration, of a CHF 29 billion (€27 billion) surplus in withholding tax paid in 2015, only CHF 22 billion (€20.5 billion) was reclaimed.

SIX attributed this disparity partly to the complexity of country-specific and opaque reclaim processes.

The new solution will launch on 1 January 2017, and is intended to provide an efficient, transparent and cost-effective solution for reclaiming withholding tax.

An additional new tax offering will also include an expanded database of tax information, automatic data enrichment, client- and country-specific tax reports and audit reporting.

Gabriela Ziltener, head of investment products at Raiffeisen Switzerland, said: "Using this new service we will enable our customers to reclaim tax efficiently and at no cost and thereby to optimise their income. The Tax Reclaim Service will be available to individuals and legal entities with their tax domicile in Switzerland or abroad."

Roland Staub, partner at Confinale, added: "The fact that one of the most respected providers of infrastructure and services in the Swiss financial sector has asked us to contribute our knowledge and our industry-leading software solution to its tax service offering makes us very happy and provides confirmation for the strategy we have chosen to pursue."

According to SIX, the launch is part of a strategic objective to improve cooperation infrastructure to help banks reduce their operating costs.

Valerio Roncone, head of markets and clients at SIX Securities Services, said: "In our function as Switzerland's central financial market infrastructure provider, we make a substantial contribution to the financial success of the Swiss financial centre. We take responsibility for laborious and often redundant back-office functions so that banks can focus more on their core businesses."

He added: "The aim of this new service is to generate sustainable cost savings for our clients and tap into additional potential for optimising returns."

Brickvest: Blockchain has potential to boost real estate industry

Institutional property investors can see a future for blockchain in the real estate investment industry, according to a survey by BrickVest.

More than half, 56 percent, of investors surveyed said they think the industry will adopt blockchain technology for property transactions, and 31 percent said they believe it will become common practice.

However, although 44 percent said they are familiar with the technology, only 2 percent said they are 'very familiar' with it.

According to BrickVest, respondents suggested that the most important benefit blockchain will have on the real estate sector will be the ability to speed up the process of buying and selling properties, allowing smart contracts to be exchanged automatically.

Other potential benefits included reducing transaction costs by disintermediating financial 'gatekeepers'; reducing risk of fraud through the ability to track transaction history; increased transparency; and encouraging growth in the secondary market by allowing smaller investment and volumes to be traded.

Emmanuel Lumineau, CEO of BrickVest, commented: "Property investors are becoming more familiar with blockchain and many can see the transformational power it will have on the sector by simplifying, de-risking and lowering the cost of buying and selling assets."

"Blockchain is capable of turning the entire financial system on its head as transactions can now be directly exchanged in a transparent, cost-effective and secure way between two parties. Given the speed of technological change and increased pressure from investors for greater transparency and reduced costs, it's likely that blockchain will be adopted earlier than many investors think."

"Blockchain technology has already made the online investment market more fluid whilst acting as an interesting tool for the secondary market, enabling smaller investments and trade volumes. These smaller investments were not possible before due to the cost of the middle man."

For the research, BrickVest surveyed 101 property investors in November 2016.

R3 and Calypso partner for post-trade blockchain

Blockchain consortium R3 is seeking to recapture investor confidence after a spate of high-profile banks withdrew their support for the project, by signing on Calypso Technology to develop a capital markets post-trade blockchain application.

Calypso has become the first firm to connect with R3's distributed ledger-based smart contract platform, Corda, to launch a multi-party trade confirmation solution.

Corda, which goes live on 30 November, is an open and inclusive smart contract platform that enables interoperability between users by allowing them to build and operate distributed ledger applications using common code and protocols, according to R3.

Counterparties will be able to see all trade tickets on the distributed ledger to ensure correct trade matching. The partnership represents the first real integration between a leading distributed ledger platform and a leading financial software vendor.

David Rutter, CEO of R3, said: "R3 is the largest collaborative consortium of its kind in financial markets, now comprising over 70 members from all corners of the industry. Calypso is the first capital markets application partner to engage with R3, which reflects the unique synergy between the two firms."

Pascal Xatart, CEO at Calypso, added: "We are thrilled to be working with R3 and honoured to be their first application partner."

"The alignment between the two firms is exceptional—our deep expertise in capital markets combined with their industry-leading distributed ledger technology will allow us to develop a range of innovative applications quickly and efficiently. Our current matching solution is only the beginning."

The partnership comes shortly after several large banking members, including founding member Goldman Sachs, left the R3 consortium in quick succession.

Goldman Sachs's exit on 21 November was immediately followed by Morgan Stanley's the following day and Santander's the day after that, throwing the viability of the project into question.

Goldman Sachs was one of nine founding members of R3 in 2014.

The departures indicate a reversal of fortune for the consortium, which had previously increased its membership with the addition of Brazil's BM&FBovespa as its first exchange, along with China Merchants Bank, earlier in the year.

HSBC works towards cash-free India

HSBC India has launched a new unified payments interface (UPI) solution for corporates in the country.

The new platform, managed by the National Payments Corporation of India is part of the Reserve Bank of India's strategy to migrate towards a 'cashless society'.

Allowing corporates to make and receive payments digitally, it is intended to give clients access to secure and efficient real-time payments.

Corporate customers will be able to efficiently collect payments made by consumers using mobile devices, in a bid to reduce dependence on cash and to offer a more convenient way of making payments.

It should also mean faster realisation of funds and reduced cost-in-transit for corporates.

Divyesh Dalal, head of global liquidity and cash management for India at HSBC, said: "The government's emphasis towards increased digitisation across platforms has paved the way for UPI-led payment solutions."

He added: "Given the enhanced coverage, interoperability and cost dynamics, we expect the acceptance of UPI-based payments to increase over time. Our UPI offering aims at providing a channel-agnostic collection solution to corporates, which will enable them to drive sales through increased digitisation of flows."

Umesh Revankar, CEO and managing director of India's Shriram Transport Finance Company, said the UPI could be a "game changer" that will "enable us to meet our strategic objective of migrating to electronic form, thereby gradually reducing the incidence of paper and cash".

Deutsche Börse in blockchain settlement collaboration

The Deutsche Bundesbank and Deutsche Börse have collaborated to launch a functioning blockchain prototype for settlement of securities.

The prototype currently provides technical functionality for settlement of securities in delivery-versus-payment mode for digital securities and centrally-issued digital coins, and for settling basic corporate actions such as coupon payments on securities and redemption of maturing securities.

It uses blockchain-enabled access rights to allow for a flexible and adaptable rights framework and to maintain confidentiality.

Based on a blockchain that came out of the Hyperledger project, the prototype also has the potential to simplify reconciliation processes and regulatory reporting, and observes existing regulatory requirements.

Deutsche Bundesbank and Deutsche Börse have called the service a conceptual study not ready for use on the market, however, they plan to develop it further over the next few months, analysing the technical performance and scalability of the prototype. It is the first prototype to come out of a collaborative research project between the organisations.

Carl-Ludwig Thiele, member of the Deutsche Bundesbank's executive board, said: "With the blockchain prototype, the Deutsche Bundesbank and Deutsche Börse want to work together to find out whether this technology can be used for financial transactions, and if so, how this can be achieved."

"The Deutsche Bundesbank hopes that this prototype will contribute to a better practical understanding of blockchain technology in order to assess its potential."

Carsten Kengeter, CEO of Deutsche Börse, added: "Along with the Deutsche Bundesbank we are innovatively and creatively addressing potentially radical technological opportunities for the financial sector."

"We will continue to do our utmost to leverage blockchain's efficiency potential and to better understand and minimise the associated risks of this technology."

FSB updates G-SIB list

The Financial Stability Board (FSB) has revised its ranking list of globally systemically important banks (G-SIBs) using year-end 2015 data.

The number and names of banks identified as G-SIBs remained the same (30 banks), but several banks were reclassified.

Four banks moved up a place. Citigroup rose to fourth, Bank of America moved up to third, and Industrial and Commercial Bank of China and Wells Fargo moved to second.

Meanwhile, three banks moved down a step. HSBC went from fourth to third, Barclays dropped to second, and Morgan Stanley moved down to first.

G-SIBs have been allocated to buckets corresponding to the higher capital buffers that they would be required to hold by national authorities since an update to Basel III's framework in November 2012.

The lowest level-one G-SIBS are required to hold an additional 1 percent of capital on their books, with each level adding a further 0.5 percent up to the highest level (five), which requires 3.5 percent extra capital.

The most recent assignment will determine the additional buffer requirements that will apply from 1 January 2018.

G-SIBs will also be required to meet the total loss-absorbing capacity standard from the start of 2018.

The changes, which come in consultation with the Basel Committee on Banking Supervision and national authorities, reflect the improvement of data quality and changes in underlying activity.

Deutsche Börse invests seven figures in start-up

DB1 Ventures, the corporate venture capital business of the Deutsche Börse group, has acquired a stake in German infrastructure start-up figo.

The investment formed part of figo's latest financing drive, which raised a total of around €6.8 million. DB1 Ventures put up a seven-figure sum for what it called a "significant minority stake".

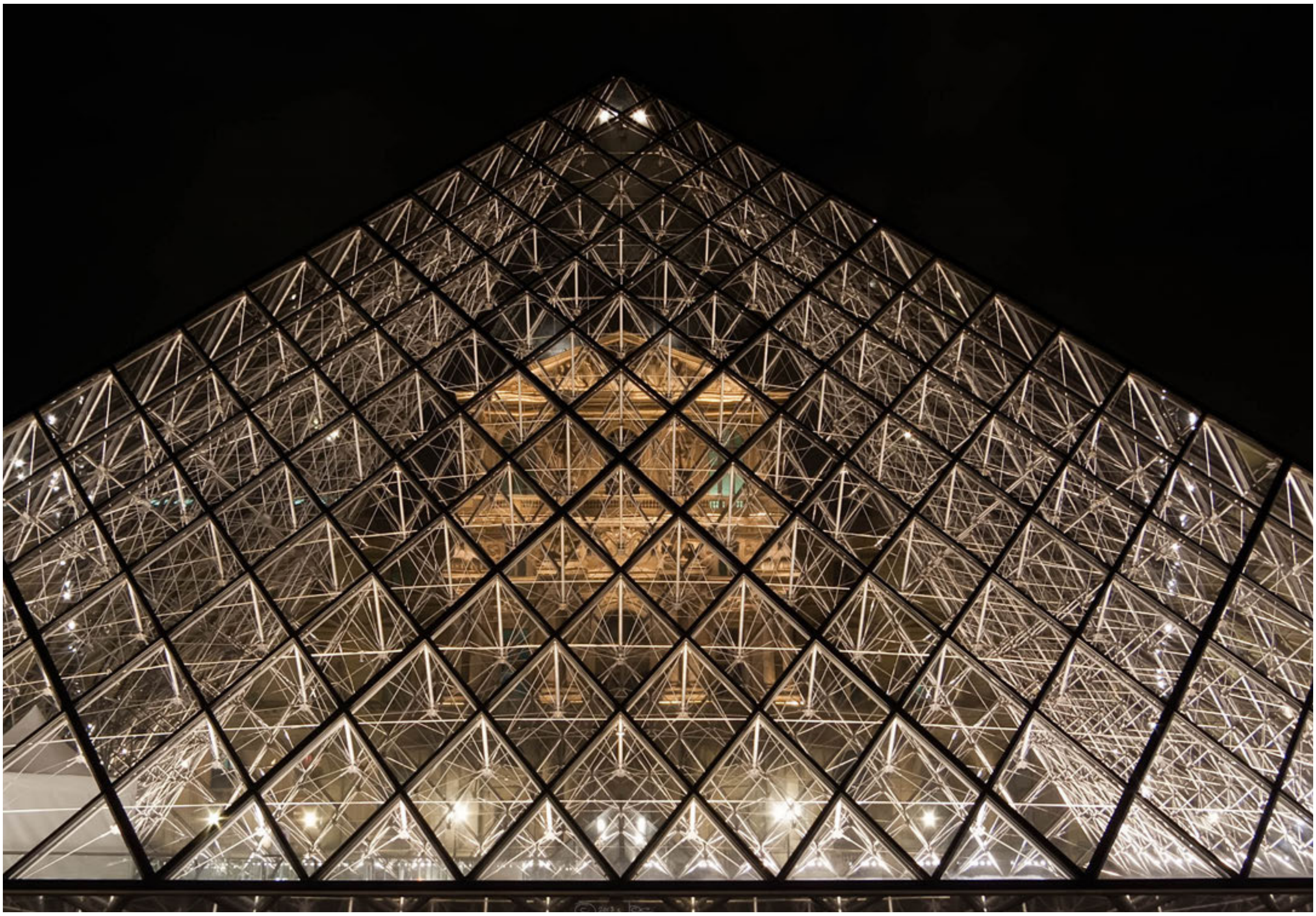
Based in Hamburg, figo is a banking service provider focused on infrastructure, offering application programming interfaces linking products and services to over 3,000 financial sources.

It also offers a banking-as-a-service platform for aggregating financial data, and services designed to help firms comply with Payment Services Directive 2 (PSD2) and Access to Account requirements.

With the funds raised in this round of financing, figo intends to increase its visibility globally and to expand its products around PSD2 and other regulatory requirements.

André Bajorat, CEO of figo, commented: "Deutsche Börse represents a perfect partner for figo—a financially involved investor that is at the same time a strategic partner."

He said: "With Deutsche Börse as a partner, figo will gain new enhanced visibility in the industry."



Ankur Kamalia, managing director and head of venture portfolio management and DB1 Ventures at Deutsche Börse, said: "The figo team, led by André Bajorat, has made clear the opportunities that exist for virtually every player in the financial sector and the enormous potential that PSD2 implementation offers to European industry."

He added: "In a changing financial landscape, figo has established itself as a reliable partner and has built up a fantastic fintech ecosystem around itself. We look forward to supporting their growth and also learning from the innovation they are driving."

Louvre fund chooses CACEIS

CACEIS has been appointed to provide custody and a range of other services to the Louvre Endowment Fund.

The fund is aimed at investors with a long-term focus, and will use CACEIS for custody, valuation, execution, clearing of listed derivatives, and financial report generation.

Created to support renovation work on the Louvre Palace and museum, and the adjacent Jardin des Tuileries, the Louvre Endowment Fund will also support preservation and study of art collections, projects to promote art and culture, and other educational projects.

Philippe Gaboriau, CEO of the Louvre Endowment Fund, said: "We were attracted by CACEIS's comprehensive offering and execution-to-custody model."

"We benefit from the group's expertise and sound financial standing, which ensures the safe custody of our assets. In addition, we greatly appreciate the close working relationship we have with the sales teams."

Joe Saliba, deputy CEO in charge of business development at CACEIS, added: "The assets of the Louvre Endowment Fund are crucial to achieve the objectives of this prestigious institution, which is duly demanding in terms of service quality."

DTCC's Global Trade Repository covers ground in Canada

Post-trade infrastructure DTCC has extended its Global Trade Repository (GTR) service to the Canadian province of Newfoundland and Labrador, meaning it now covers all provinces and territories in the country.

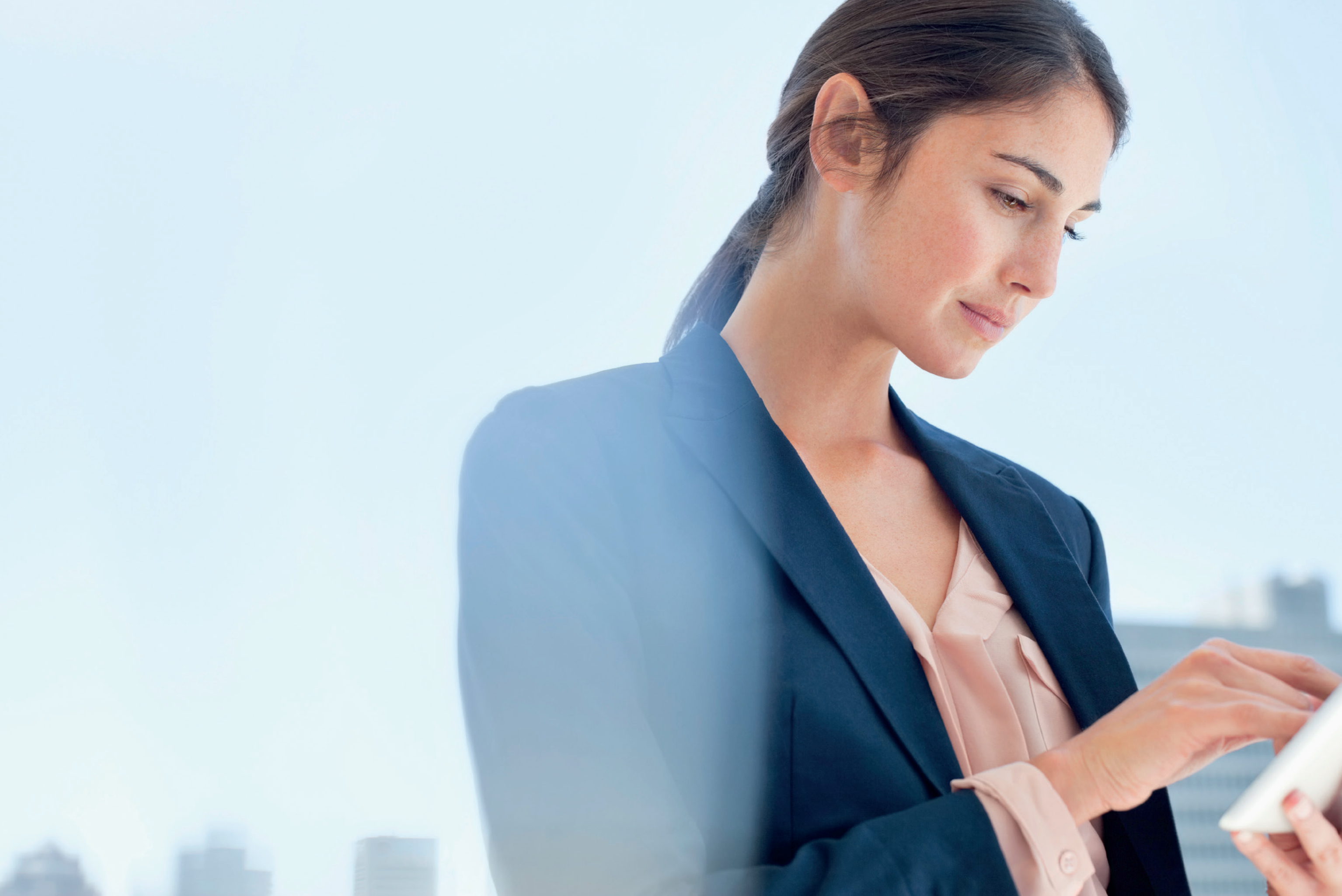
The service is designed to support derivatives and trade reporting under rules 91-507 and MI 96-101, which each require reporting for over-the-counter derivatives transactions including rate, credit, equity, foreign exchange and commodity derivatives. GTR is also expected to start providing support for public price dissemination across Canada in January 2017.

Marisol Collazo, CEO of GTR in the Americas at DTCC, said: "As the only global trade repository offering reporting services across all five asset classes, we continue to work with regulators, service providers and end users to facilitate reporting in Canada and other major jurisdictions."

"Our commitment is to continue to support our clients by offering a flexible platform which simplifies their reporting processes by enabling them to report all their trades once."

According to DTCC, 150 firms in Canada currently use the GTR service, managing a total of about 620 accounts.

Do you have a story we should cover? Let us know via: stephaniepalmer@blackknightmedialtd.com



Stephanie Palmer and Drew Nicol report

This time for Africa

Despite an economic slowdown, foreign interest in Africa is on the up, delegates heard at NeMa Africa and the Global Custody Forum in London

Descending on a London hotel in quick succession, NeMa Africa and Global Custody Forum each saw debate around remaining challenges in the financial services industry, both in Africa and globally.

However, they each also named Africa as a potential market of opportunity, rich in innovation and ripe for growth.

At Global Custody Forum, panellists deduced that neither investors nor counterparties are doing enough to challenge depository banks on their ability to weather so-called ‘black swan’ events.

A French banking speaker, who recently changed his focus to the Nordic region, expressed his surprise that regional Nordic players are not delving to sufficient depths in their due diligence of depositary banks they were considering working with.

An ex-rating agency speaker added that a number of depository banks do not have standalone ratings from major ratings agencies, suggesting this is another indicator that clients are not conducting thorough vetting processes.

Of two depository bank representatives in the hall, one declined to comment and another answered in the affirmative, saying banks are indeed doing enough to prepare for any significant market event. However, the speaker did not respond to questions relating to a lack of due diligence.

Another banking audience member summarised the risk that such an omission might represent, saying: “You can build all the market buffers for your own asset protection you want, but if you can’t trust the people you do business with to do the same, it’s all useless.”

Earlier in the week at NeMa Africa, the keynote speaker focused on the increasing role of custodians as trusted partners who are driving change in the capital markets in Africa.

Rajesh Ramsundhar, head of investor services for South Africa at Standard Bank, suggested that, in order to better influence change in the market, more collaboration is required between players.

The custodian business will no longer be driven by client needs, he argued. Rather, “they need to anticipate the needs of clients”, use that as a basis to drive change, and move “more into a trusted partner role”.

Ramsundhar suggested that the role of custodians in African capital markets has been gradually developing. Looking back over 20 years, he said that between 1997 and 2006, custodians were on the receiving end of change, getting to grips with “the basics of custody services” such as settling and paying dividends on time. Custodians weren’t actively involved in driving change, they simply reacted to it.

From 2006 to 2010, Ramsundhar said, custodians acted as enablers of change, with the focus shifting from pure settlement and safekeeping to how they could provide different products on the portfolio. They became more active in participating in the markets and in discussions about how to bring about change, rather than merely reacting.

Ramsundhar said: “We needed to be more than custody to service our customers and, honestly, to satisfy the funds within our business.”

Between 2010 and 2016, however, custodians in Africa have further evolved to actively initiate change, thereby improving in “relevance and contribution”.

This, Ramsundhar argued, is partly driven by regulatory needs, client requirements, and an increased emphasis on managing risk in the markets and diversifying business into new product capabilities.

For example, he cited securities lending in Nigeria as a process that “custodian banks have initiated into the market”, first floating the concept to regulators and institutional investors, and ultimately leading to the implementation of new regulation and the development of the new market.

He also cited pension reform projects, saying: “It’s been quite a long journey trying to convince the market to move towards independent asset management and custody.”

Custodian banks have been active in lobbying these changes, and have made significant progress.

In the future, Ramsundhar argued, custodians will only become more active in developing capital markets in Africa, as growth increases and clients and investors require more diversification.

The domestic markets are growing and conventional products will not be sufficient. “You need diversity,” he said.

In a NeMa Africa panel session, delegates discussed the role of the network management function in sub-Saharan Africa. One speaker, Bogart Miheaya of BNP Paribas Securities Services, suggested that managers are no longer expected simply to be market experts, they are also involved in credit risk and market compliance aspects.

David Margelisch of Bank Julius Baer noted that Africa is no different from any other frontier or developing market. The region is a frequently changing market where people want to see change, but slowly.

Market participants have to consider the upstream effects of change on foreign investors, he said. Change cannot be instant, as it will have an effect on balance sheet risk and sovereign risk.

However, Margelisch added that market infrastructure providers are interested in implementing changes, and that there are increasing opportunities for creating even significant change in “an acceptable and harmonised manner”.

Stuart Roy, vice president of network management at Northern Trust, pointed to slight variations in elements such as settlement cycle practices. He suggested that the issue of understanding the elements of risk, and being able to relay them to investors and clients, is a key challenge.

He said: “We’re very reliant on our sub-custody network … to support that education process and also to relay back into the market all the concerns and needs of the foreign investor and intermediary community as well.”

When asked whether they predict consolidation of sub-custody providers, The panellists were generally in agreement that they would like to see more competition in the markets, and more alternative service providers available.

While Roy suggested that increasing competition could “raise a larger voice on behalf of foreign investors” in those communities, Margelisch added that he would like to see more local banks stepping up to increase their sub-custody offerings in these markets. Before any consolidation can come about, more banks are required to offer that service in the first place, he said.

A panel discussion at Global Custody Forum also focused on the African market, with speakers suggesting that the rise of local institutional investors in Africa has allowed for capital markets on the continent to continue to develop, despite overall market slowdown.

One delegate from a global bank with significant African exposure explained: “The emergence of domestic institutional investors has been a big driver of growth.”

The panellist continued: “The economic impact has not stopped capital market developments.”

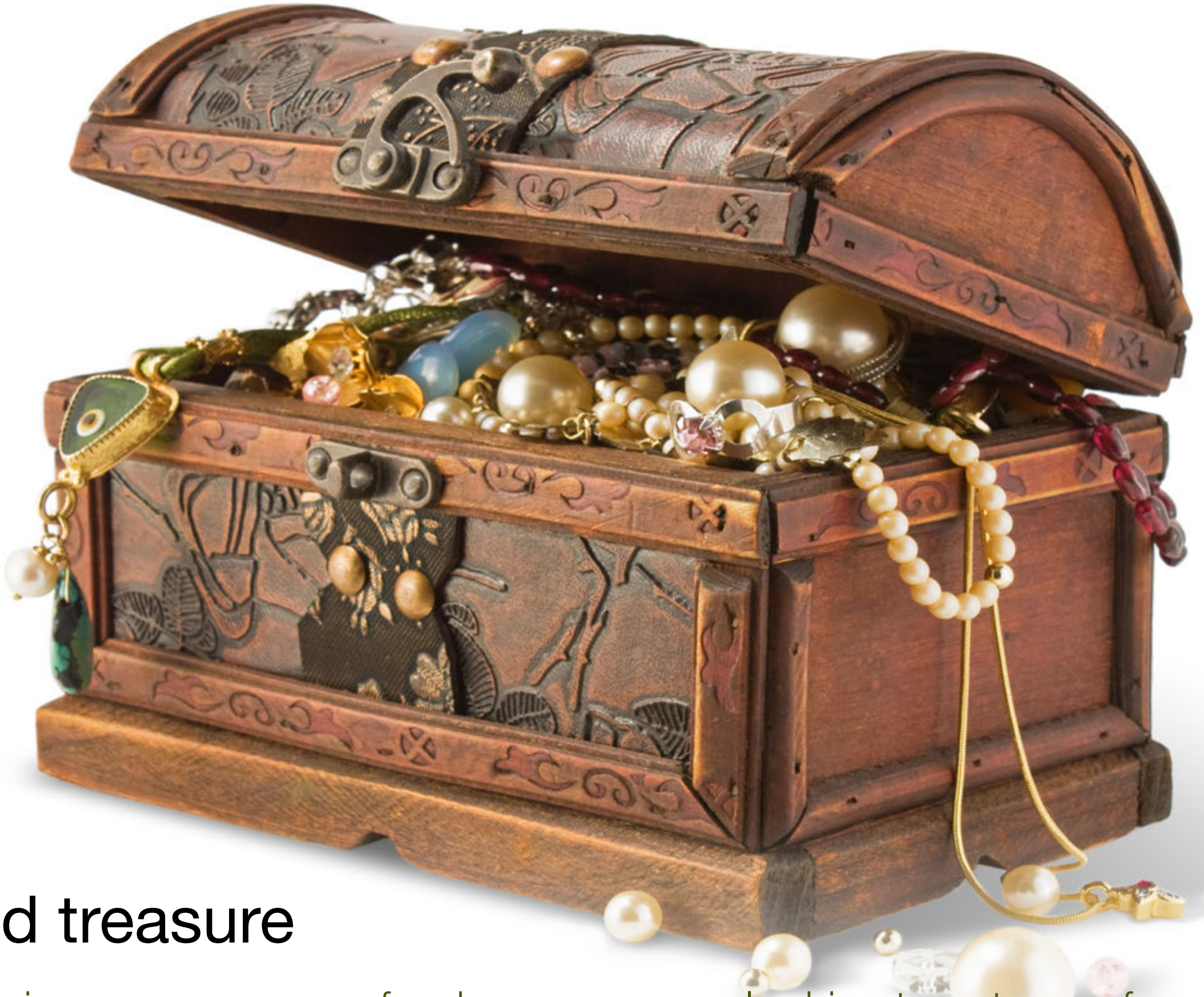
Of the 54 African nations, the speaker cited Nigeria, Kenya and Ghana as the fastest-developing economies, although South Africa still stands head and shoulders above all others.

Not including South Africa, the emergence of homegrown insurance companies and pension funds now accounts for $500 billion worth of assets in sub-Saharan Africa.

The African banking delegate acknowledged that, on the global stage, this is still a comparatively small sum but explained that it represents a significant step forward for the region.

Another major driver of growth in African capital markets is the commitment of regulators to reforming and updating governing frameworks to allow for new financial structures, and opening their respective markets up to foreign investors. Unsurprisingly, Nigeria and Kenya were again cited as being front-runners in market reform.

Of an audience of global banking and technology representatives, roughly a third said they are already active in at least one African market, showing that despite a comparative lack of airtime, interest is growing in the continent in general, and early movers may well be rewarded. **AST**



Buried treasure

Post-crisis pressure means fund managers are looking to get more from their treasury functions, according to Hazeltree CEO Sameer Shalaby

What kind of trends are you seeing in the treasury space today?

Over the last four or five years, the market segment of treasury has been evolving, maturing and expanding, and that's a direct result of the financial crisis in 2008. Pre-crisis, there was little to no focus on treasury in the buy-side and hedge fund community—it was all handled by their counterparties. For instance, unencumbered free cash that was held at, say, a prime broker, would have been earning interest on par with what they would get elsewhere, so no one cared much.

Prime brokers were happy to accumulate cash balances from their clients. Additionally, there were very few details on fee transparency, and clients were not very focused on optimising fees across their prime brokers, opting to focus on generating higher returns from their portfolios. Finally, no one had much concern about counterparty exposure—who would have ever imagined that having Lehman Brothers as a counterparty was too risky?

Fast forward to 2008 and beyond, and suddenly counterparty exposure and the health of the counterparty is now paramount for every fund manager and its investors. Questions around how a manager monitors counterparty exposure and keeps track of credit are now standard in due diligence, and managers must have a good response or they won't get any funding.

Additionally, with new regulations such as the Dodd-Frank Act, the European Markets Infrastructure Regulation and Basel III, balance sheet consumption has been a focus for all banks. As a result, prime brokers are telling clients to take their cash elsewhere—for small funds, they're imposing minimum monthly fees, or telling them to take their business elsewhere altogether.

What are the additional drivers of change, aside from regulation?

There are multiple catalysts driving this. There is the regulatory side to it, but also average hedge fund performance is not keeping pace with what we have been accustomed to seeing in the past, ranging from negative 4 percent to highs of 1 to 1.5 percent.

Managers are looking for any opportunity to reduce their cost structure, reduce the cost of borrowing and funding, and to generate any kind of yield they can. Whereas previously there wasn't a specific need for this, now it's important to add basis points (bps) wherever possible.

However, when yields are at 0 percent or even negative across the board, and prime brokers want that excess cash out of the account, for fund managers, moving the cash around is just an operational headache with no reward. We're starting to see more of a focused effort on managing cash—starting with managers aggregating cash balances

with the respective rates across all accounts globally, optimising debits and credits, hedging foreign exchange exposure, and ultimately sweeping excess cash out of prime broker accounts into custodian and money market funds, which aligns with prime brokers' demands.

The key objectives of any treasurer managing cash are: safety, liquidity and, to a lesser extent, yield. In an ideal world, a treasurer can have the tools to effectively manage cash, optimise all cash usage, then easily sweep unencumbered free cash to safe and liquid providers, like money market funds.

Today, this could add 20 to 30 bps of additional yield, while keeping prime brokers happy. But, in a rising interest rate environment, this could yield much higher return.

In addition to cash management, collateral management is another focus area for most treasurers. With the low interest rates we have today, cash is the main form of collateral. When a fund is dealing with a billion dollars of collateral across multiple positions it could be over-collateralised at any given time. Typically, their counterparties don't report excess collateral, indicating they can recall it, and historically this didn't matter too much. But today, treasurers are looking to closely track collateral and to recall any excess collateral so they can deploy it elsewhere, which could also easily yield another 20 to 30 bps with a basic cash sweep.

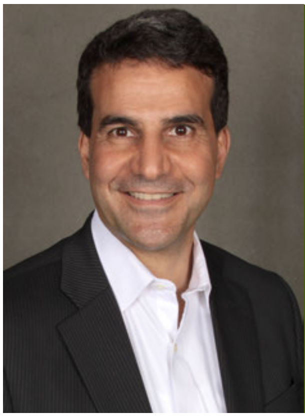
Additionally, fund managers want to understand the cost of funding and deconstruct their cost of borrowing, as well as understand any potential revenue opportunities that may exist in their long books. As such, with a tight treasury function, fund managers can effectively manage their counterparties when it comes to borrowing costs and the lending of their own portfolios.

One important note is that treasurers aren't necessarily looking to optimise and save every penny they can from their counterparty—doing so would only negatively impact their overall relationship with their prime brokers. Instead, they want to understand their overall costs so they can better manage the overall relationship.

Finally, investors are getting more diligent about understanding every aspect of their managers' operations, which includes effective cash management and controls, cost of funding, and counterparty exposure metrics. Over time, we expect to see investors demanding regular treasury reports with key metrics around managing this function.

Where does cash movement come into the treasury management function?

Physical cash movement is a big part of it—how do we actually move cash from one bank account to another or to a payee of some sort?



Sameer Shalaby
CEO
Hazeltree

> The bigger the fund, the more focus on treasury management

This is particularly relevant at the moment because of the concerns around cybersecurity.

Multi-billion dollar funds that have accounts in different countries can easily have hundreds of accounts. For each of these, every time a fund manager wants to access a bank's secure online portal, they have to use a token to log on to that account. Someone—a CFO or COO—has to keep track of those tokens.

At the same time, if you have to move a large sum of money from one account to another, they have to get internal approvals from multiple (typically two, but often three or four) people, who each have to manage their tokens as well.

All of this makes cash movement a big operational problem, and the COOs and CFOs in charge of the tokens face significant challenges tracking and managing tokens along with password expirations.

Hazeltree has integrated these security and audit trails into a centralised cash management platform, aggregating all of the tokens into one secure interface with all the counterparties, meaning each fund manager only needs one token.

Having one integrated platform for moving money around provides the same level of security but without having to log in to various different portals. With due diligence around physical cash movements and the focus on cyber security, this is emerging as a key interest. Everyone wants to have tight cyber defences, but if the process is too cumbersome, they just won't deal with it.

Do the challenges differ, depending on jurisdiction?

It's a tough environment for everybody. We have clients in New York and around the US generally, in Europe—predominantly London, but also Zurich and Geneva, as well as in Hong Kong and Singapore.

If there is any difference, it's around the size of fund managers. Those that are of size and scale have a much tighter focus on treasury management, while smaller funds, even if their counterparties are pushing them a little bit, don't necessarily have the flexibility to push back.

In general, the bigger the fund, the more focus on treasury management and the more return on investment they're likely to get. The US market typically has large funds, followed by London and then Switzerland. About 40 percent of our clients are US-based, 35 percent are in Europe and the rest are in Asia, where there aren't many big funds.

Still, regulations are more or less consistent globally. Some regulators may have enforced certain parts of it earlier than others, but we see everything converging to pretty much the same landscape. **AST**

Industry **Events**

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, which will be held in February 2017 in the Trend Hotel Savoyen Vienna, Austria

Feb 2017
13-15

TradeTech FX US 2017

Miami

Regulatory transformation. Rising trading costs. Decreasing liquidity. As heads of trading and portfolio management, these are just some of the challenges you're currently grappling with

May 2017
15-17

European Pensions & Investments Summit 2017

Switzerland

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Industry Recruitment

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Movers and shakers at Raiffeisen Bank, BNY Mellon, ICAP, and more

The supervisory board of Raiffeisen Bank International (RBI) has named Johann Strobl as the new CEO of Raiffeisen Zentralbank Österreich (RZB) and RBI, following their merger.

The appointment will become effective once the merger of RZB and RBI has been entered in the commercial register.

Strobal, who previously served as deputy CEO of RBI, will replace Karl Sevelda, current CEO, who will step down once the merger takes effect.

The merger is set to be decided at an RBI extraordinary general meeting on 24 January 2017, which will require 75 percent majority of the share capital present.

Other appointments to follow after the merger include Klemens Breuer as deputy CEO and Martin Grüll as CFO. Andreas Gschwenter will take on the role of COO, Peter Lennkh will join the corporate banking team and Hannes Mösenbacher will become chief risk officer.

Walter Rothensteiner, chairman of RBI's supervisory board and CEO of RZB, commented: "Johann Strobl enjoys an excellent reputation in Austria and internationally, knows and understands both Raiffeisen as well as our home market Austria and Central and Eastern Europe, and is experienced in communicating with the financial community and the supervisory authorities. I am glad that he accepts the challenge and I know that RBI is in good hands with him."

Global Prime Partners (GPP) has made a spate of new hires, including Mike Ward as head of new business development, ahead of the launch of its new structured products business.

With Ward heading up the new business, Matt Robinson will join the firm as head of structured sales, and Ross Trotman will be the new head of structuring.

Ward joins GPP from Nomura, where he was co-head of equities for Europe, the Middle East and Africa (EMEA). Before this, he was head of equity sales for EMEA at Bank of America Merrill Lynch.

The new division, scheduled to launch for UK onshore clients in 2017, is intended to give users access to better issuers of structured products, using tailored technology and customer service.

Robinson brings more than 25 years of experience in working with UK onshore clients in derivatives-based structures securities and funds, most recently working at Catley Lakeman.

Trotman joins from Hartmoor, a structured product provider. In his new role, he will work on building GPP's product suite, processes and proprietary technology.

GPP CEO Julian Parker said: "We have seen record growth this year and are well positioned to broaden our product lines and customer base."

"Structured products complement our existing execution, clearing, custody and prime brokerage businesses and will leverage off our client service infrastructure. We are delighted that individuals of the calibre of Mike Ward, Matt Robinson and Ross Trotman have been attracted to the exciting opportunities offered at GPP."

Paxos, the financial technology company focused on blockchain solutions, has appointed Duncan Niederauer, former CEO of the New York Stock Exchange (NYSE), to its board of directors.

Niederauer was CEO of NYSE between 2007 and 2014. Before this he was a partner at Goldman Sachs, where he worked for over 20 years.

Charles Cascarilla, CEO of Paxos, said: "Duncan Niederauer has been at the forefront of innovation and transformation in capital markets and will be instrumental as we continue to grow."

The appointment follows Paxos's pairing with Euroclear to collaborate on Bankchain, a blockchain settlement service for the gold market. Paxos has also partnered with EY to work on similar blockchain settlement initiatives.

Niederauer said: "Blockchain technology promises to revolutionise post-trade clearing infrastructure and Paxos's Bankchain platform is poised to offer unique market efficiencies and automation for the benefit of all investors."

BNY Mellon has named Christopher Mager as head of its new innovation group within the treasury services business.

Previously head of market segments for BNY Mellon Treasury Services, Mager was also a managing director of the business—a title he will retain in his new position. The new innovation group was designed to help BNY Mellon to incorporate new ideas and technologies, and to improve client services.

Mager is responsible for driving innovation projects, identifying new business concepts and technologies and assessing new financial technology company. He will also work on thought leadership around new payment technologies such as blockchain.

He has been with BNY Mellon's treasury services team for more than 20 years, holding several leadership positions in global product management and sales.

In his new position, Mager reports to Anthony Brady, managing director and global head of product management.

Brady said: "Innovation is vital to our ability to deliver market-leading solutions to clients so that we can continue to grow existing relationships and build new ones. Innovation also is critical to growing client satisfaction and the treasury services business."

ICAP has appointed Stuart Connolly to the newly created role of head of client product development for the post-trade risk and information (PTRI) business, effective immediately.

Based in London, Connolly will focus on using data to develop client services and building new data services to work with the existing PTRI business.

He joins from Goldman Sachs, where he was head of derivatives clearing services for EMEA, responsible for the over-the-counter credit and rates franchise.

He has also worked in various leadership roles in the derivatives clearing and prime brokerage businesses at Goldman Sachs.

In his new role, Connolly reports to Jenny Knott, CEO of the PTRI business at ICAP.

Knott said: "Across the PTRI portfolio we have a tremendous amount of enriched data that could provide significant value to our clients."

"I am delighted to have Stuart Connolly join the team, and with his experience and deep understanding of the transaction lifecycle and post-trade landscape, I strongly believe he will play a pivotal role in identifying the growth opportunities across PTRI." **AST**

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

AST 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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