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UK's clearing business will not pass to the EU following Brexit

Although the UK will likely lose its ability to clear euro-denominated transactions when it exits the EU, the economic benefits will probably not be passed to Europe, according to a report from the House of Lords.

The EU financial affairs sub-committee report considered what leaving the EU could mean for financial institutions and service providers.

It called London the world's leading financial services centre, followed by New York, and suggested that other European cities are not at a comparable level.

A statement on the report said: "Any attempt to unpick London's highly developed financial services ecosystem could result in much of the business lost by the UK relocating to New York or other financial centres outside the EU, rather than the EU."

There is a concern that the UK is likely to lose the ability to clear euro-denominated transactions if and when it leaves the EU.

However, the report suggested that, in fact, relocating clearing services to the eurozone will not bring the same benefits to the EU that clearing in the UK provides at the moment.

Relocating clearing to somewhere like New York would provide more like-for-like benefits, however, clearing there would not allow the EU to benefit from repatriation of business.

Baroness Falkner, chair of the EU financial affairs sub-committee, commented: "The EU should also carefully consider the findings of this report."

"EU firms rely on the services provided in the UK, and pain caused to the UK's financial sector will not be the EU's gain, but New York's."

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UK and Hong Kong collaborate on financial innovation

The UK's Financial Conduct Authority (FCA) has entered into a cooperation agreement with the Hong Kong Monetary Authority (HKMA) to collaborate on promoting financial innovation.

The two regulatory bodies will work together on initiatives including referral of innovative firms, joint innovation projects, and sharing of information and experiences.

Through the partnership, they intend to reduce barriers for FCA-authorised firms looking to expand overseas, and to help non-UK investors to enter the UK market.

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New sub-custodian questionnaire promises harmonisation

The Association for Financial Markets in Europe (AFME) has published a new due diligence questionnaire in a bid to standardise and simplify the process for sub-custodians.

Consensus was built to simplify the process of evaluating sub-custodians at the Network Managers (NeMa) Conference last year, prompting the AFME post-trade board to create a taskforce, comprising 20 network managers, to produce a new harmonised questionnaire.

Using a Thomas Murray questionnaire as a baseline, AFME's goal was to harmonise 80 percent of members' questions. That percentage proved to be significantly higher when the association recently piloted the document.

Firms that participated in the development of the questionnaire included Bank of America Merrill Lynch, BNP Paribas, BNY Mellon, J.P. Morgan, Northern Trust, Standard Chartered, Societe Generale, Standard Bank and UniCredit.

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UK's clearing business will not pass to the EU after Brexit

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"We are in danger of a lose-lose scenario if pragmatism does not prevail," Baroness Falkner said.

The report went on to say that some firms do not appear to be aware of their own reliance on current passporting arrangements. It stressed that it would be in the interest of these firms, and in the national interest, for them to work with the government and regulators to determine the actual extent of this reliance.

Baroness Falkner said: "[The government] should go into negotiations with the strongest possible evidence base."

"It needs to determine as precisely as possible which firms currently rely on passporting and the degree to which equivalence provisions might provide a substitute."

"We found those provisions to be patchy, unreliable and vulnerable to political influence: the government should seek to bolster them wherever possible."

The report also noted that the UK's financial sector employs approximately 1.1 million people, many of whom are not EU nationals.

Accessing high-quality staff and transferring them between the UK and the EU is an ongoing issue for the financial services industry, particularly in the financial technology sector, which, according to the report, relies heavily on sourcing talent from overseas.

Finally, the report highlighted the importance of an agreed 'transitional period', both when the UK issues Article 50, and as the UK negotiates relationships with the EU.

Falkner said: "The government has a lot of work to do. First of all, it must, early in the negotiation process, agree a transitional period so as to prevent UK-based financial services firms from restructuring or relocating on the basis of a 'worst-case' scenario."

The report is the fourth of six to come from the House of Lords EU committee on the potential impact of Brexit in various areas.

UK and Hong Kong collaborate on financial innovation

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Signed at the London-Hong Kong Financial Services Forum in London, the agreement is the fifth of its kind for the FCA. The UK regulator already has similar agreements in place with authorities in Australia, Singapore, South Korea and China.

Christopher Woolard, executive director of strategy and competition at the FCA, said: "Alongside promoting innovation in UK businesses, we also want to see the best firms from around the world coming to the UK. Both consumers and the wider UK economy benefit from this transfer of ideas and innovation."

"The agreement signed today with the HKMA is a good example of this type of international cooperation and we look forward to working to promote innovation and reduce barriers to entry for firms both here in the UK and in Hong Kong."

Shu-Pui Li, executive director for financial infrastructure at HKMA, said: "Both Hong Kong and the UK are well positioned as global financial centres and premier locations for financial innovation. Many fintech firms and financial institutions in the two markets have already gained a solid local footing."

"Collaboration between the HKMA and the FCA will create significant synergy for the two markets by enabling fintech firms and financial institutions to extend their global reach and learn from their foreign counterparts. It will also help to enhance services delivered by financial institutions."

New sub-custodian questionnaire promises harmonisation

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Alan Cameron, global solutions sponsor for clearing and custody services at BNP Paribas Securities Services and chair of the AFME due diligence questionnaire taskforce, commented: "Our industry is delighted that AFME took the lead in addressing this long-running and increasingly burdensome issue."

"We are grateful to all the banks that contributed to this project and look forward to working with them to ensure the maximum usage in 2017 and the years ahead. Whilst getting the questions agreed amongst ourselves is important, the success of this project will be measured by usage across our industry."

The document, which is available now, will be reviewed by AFME in Q3 2017 to reflect any regulatory changes or major themes that develop over the coming year.

Irish funds industry sees growth

Ireland's funds industry has seen growth of 4.2 percent in 2016, according to a Monterey Insight report.

The report, released at the end of November, noted that, as of June 2016, the industry was worth $2.71 trillion, up from $2.61 trillion at the same time in 2015.

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The total number of sub funds increased from 7,283 to 7,969. The number of sub funds domiciled in Ireland saw a 7.7 percent increase from 4,304 to 4,637.

For fund administration services, State Street Fund Services maintained the largest market share by a significant proportion, with $741.7 billion under administration.

This was followed by BNY Mellon, which has $462.7 billion in assets under administration, and Northern Trust, which has $354.9 billion.

State Street also emerged as having the largest market share for assets under custody, with $666.3 billion. Again, BNY Mellon and Northern Trust were in second and third place with $408 billion and $341.9 billion, respectively.

Tadhg Young, head of global services for Ireland at State Street, commented: "In a constantly changing environment, asset managers are looking for new opportunities."

He added: "We are very proud to maintain and further strengthen our position as the leading provider of fund administration and custody services in Ireland."

For the first time, Monterey included management companies and alternative investment fund managers of Ireland-domiciled schemes, including Irish UCITS and non-UCITS.

In this area, Blackrock Asset Management in Ireland holds a significant portion of the market share, with total net assets of $426.4 billion.

The next largest players were PIMCO Global Advisors, Ireland, with $108 billion, and then Goldman Sachs Asset Management Global Services, based in the UK, with $95.8 billion in Irish-domiciled schemes.

The most popular asset class emerged as money market funds, which saw total investment of $533.5 billion, 2.8 percent more than at the same period as 2015.

Despite seeing a dip compared to 2015, equities remained the second-most popular investment—they dropped from $381.7 billion in 2015 to $346.3 billion.

Monterey also highlighted exchange-traded bonds and alternative investment, which saw increases of 28 and 20 percent, respectively.

Karine Pacary, managing director of Monterey Insight, commented: "[The] Irish funds industry shows a very healthy growth in 2016. All indicators are up despite a year of unexpected and uncertain events and, at times, very volatile markets."

She added: "Ireland managed to attract over $19.8 billion in newly launched Irish funds, which again proves the attractiveness and dynamism of its fund industry."

Hong Kong brokers choose Fidessa for Stock Connect

Fidessa's Shenzhen-Hong Kong Stock Connect solution has been in use for 17 Hong Kong-based brokers since the link went live on 5 December.

The solution is intended to address the complexities faced by brokers that want to use Stock Connect, providing tools and processes across the middle and back offices to help brokers take advantage of the connection.

It includes Financial Information Exchange order capture capabilities, monitoring of client order performance, trade analytics and pre- and post-trade risk management.

According to Fidessa, the new mandates follow the success of its Shanghai-Hong Kong Stock Connect solution, which launched to support the programme in 2014.

A total of 50 brokers are now using the Stock Connect solution.

The announcement comes, however, after the new stock connect recorded lacklustre volumes in its first three days of trading.

The programme allows international investors to trade 881 stocks listed on the Shenzhen exchange, trading Northbound.

Chinese investors can also trade southbound on 417 Hong Kong shares.

However, on Shenzhen-Hong Kong Stock Connect's first day, on 5 December, it saw a turnover of RMB 2.7 billion ($392.1 million) in northbound trades, just 21 percent of its RBM 13 billion ($1.9 billion) daily quota.

The second day's turnover dropped to RMB 2.2 billion ($319.5 million), and 7 December saw a turnover of RMB 1.9 billion ($276 million).

By comparison, on the launch date of the Shanghai-Hong Kong Stock Connect, international investors used the entire RMB 13 billion quota before the day's trading closed.

Eva Fu, product marketing manager at Fidessa, said, however: "There's an understanding that Shenzhen Connect is a must-have, and high expectations about the potential to trade small-cap, mid-cap and 'innovation' stocks."

She added: "Connecting to Shenzhen is a natural step, particularly for those already connected to Shanghai."

SS&C snaps up Wells Fargo GFS

SS&C Technologies has acquired Wells Fargo's global fund services (GFS) business.

The GFS business offers administration, middle-office, operations and collateral management services for $42 billion in alternative assets.

It will be integrated into SS&C's alternative assets business group and will be managed by Chris Kundro, head of Wells Fargo GFS.

SS&C will add more than 250 employees and 130 fund relationships in Hong Kong, London, New York, Minneapolis and Singapore to its books.

Bill Stone, chair and CEO of SS&C Technologies, said: "SS&C continues to enhance its position as the single source for our clients' entire middle- and back-office needs, bringing significant new hedge, private equity and real estate capabilities."

Chris Kundro, managing director at SS&C GlobeOp, added: "We are delighted to have found a good home for our customers and staff and look forward to bringing them even more products, services and value through the SS&C offering."

"We plan to further accelerate our growth by leveraging SS&C's technology and global footprint to increase our capabilities and expand our market reach."

SEK selects OneSumX for reporting

The Swedish Export Credit Corporation (SEK) has opted for the Wolters Kluwer OneSumX solution for compliance with the International Financial Reporting Standards (IFRS) 9 implementation and reporting requirements.

The OneSumX IFRS solution addresses the specific methodologies and calculations for compliance with IFRS9, providing a framework for the accounting and disclosure requirements under the new standards.

The solution is designed to be flexible, allowing it to be tailored to specific firms and situations.

IFRS9 is due to be implemented by all financial institutions by January 2018.

SEK already uses OneSumX for Financial Reporting requirements under the Capital Requirements Directive IV.

Kris Van Bavel, managing director for finance, risk and reporting in Europe, the Middle East and Africa at Wolters Kluwer, said: "Wolters Kluwer is delighted that SEK has extended its use of our market leading suite of products."

He added: "IFRS9 will have a multi-department impact, across finance, risk and compliance functions, and teams at all financial institutions should prepare to work collaboratively. Our integrated modular solution will better enable firms to fulfil the complete IFRS9 requirements by the 2018 implementation date."

Linedata Global Hedge gets an upgrade

Linedata has launched a new version of its portfolio management system, Linedata Global Hedge.

The updated system is intended to give clients more control of their portfolios and transactions, from settlement through to custody. It will also help hedge funds and asset managers to adapt to and exceed increasing regulatory reporting requirements.

It includes features to manage bank debt, repurchase agreements, swaps and fixed income, and supports clients seeking different means of generating income in a low-growth environment. The platform is intended to improve operational efficiency, ease of use and scalability, through the addition of the new features.

It is aimed at meeting the changing needs of hedge funds and institutional investors, while also serving investment managers and wealth advisers across Europe, North America and Asia.

Gary Brackenridge, global head of asset management at Linedata, commented: "Alternative and institutional managers are facing a number of major challenges in their quest for alpha against the backdrop of an evolving regulatory landscape and a challenging economic environment."

He added: "Linedata's portfolio management system equips hedge funds and institutional managers of all sizes with the means to meet these challenges head on, while simultaneously ensuring operational efficiency and total accuracy in reporting thanks to automated processing, an intuitive user interface and powerful customisation options."

Lombard's Colline heads to Germany

Lombard Risk's flagship cloud-based collateral management solution Colline will be introduced to the German market in early 2017.

The launch is being assisted by a new partnership with Atos, a digital services provider with an established German client base with collateral management needs.

Colline will be implemented across the Atos infrastructure and is intended to help Atos's clients to move away from managing collateral in business line silos, by supporting multiple asset types on a single platform.

Tina Wilkinson, global head of product and marketing at Lombard Risk, said: "Financial services firms in Germany, like the rest of the world, are under increasing pressure to cut costs while upgrading their legacy systems and ensuring compliance. They need to be more nimble in response to the changing regulatory environment, but the complexities of implementing new technology are vast."

Markus Schwind, head of sales for Atos Germany, added: "The partnership will help us fulfil our strategy of expanding into the asset servicing industry, as we will have a leading collateral management solution to offer. We also see long-term potential of working with Lombard Risk on other service areas, such as regulatory reporting."

QIC renews Northern Trust deal

Northern Trust has been reappointed to provide global custody, fund accounting, taxation and investment operations outsourcing services for Australian fund manager QIC Limited.

The appointment has been extended for a further seven-year term, and applies to QIC's range of fund products and discrete mandates.

QIC first started using Northern Trust for investment operations outsourcing in November 2011, and appointed it to provide global custody services in July 2015.

Northern Trust now provides asset servicing solutions for QIC products in Australia, Ireland and the US.

Mark McDonald, executive director of operations and technology at QIC, commented: "As QIC expands its global footprint, choosing a partner with a global reach, consistent client service approach and robust operating platform will enable QIC to focus on delivering innovative solutions to our clients worldwide."

Silverfinch updates Solvency II solution

Silverfinch has added new regulatory reporting capabilities to its data solution for Solvency II.

The solution will now also support reporting for the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) and the German Insurance Subervision Act and Large Exposures Regulation.

It is intended to help asset managers more easily conduct business across Europe, providing all the necessary look-through facilities in a single location.

The existing Silverfinch data-sharing model allows asset managers to more efficiently distribute data to clients throughout Europe.

John Dowdall, managing director of Silverfinch, said: "Recent pronouncements from the Financial Conduct Authority along with the latest refinements to PRIIPS, show the direction of travel for regulation; asset managers need to be able to provide more information, more rapidly and more accurately than ever before in order to stay in business."

"Many of our asset manager clients have requested a complete solution to meet all their reporting needs across different jurisdictions and regulations. Our four-in-one approach not only cuts costs for our clients but also improves reliability and provides a more streamlined process."

BNY Mellon wins £5 billion mandate

BNY Mellon has been appointed to provide fund accounting, transfer agency, custody, trust and depository services to the Local Pensions Partnership (LPP) £5 billion global equity fund in the UK.

The fund is comprised of pooled equity assets of the Lancashire County Pension Fund and London Pensions Fund Authority, both primary clients and shareholders of LPP.

It was launched under the LPP's Authorized Contractual Scheme (ACS), a type of tax-transparent fund, following reforms to the UK's local government pension fund assets.

Bruce Carnaby, head of investment operations at LPP, said: "We launched the LPP as we believed funds must manage all services together to enable them to benefit from superior governance and to achieve lower costs and above average returns. BNY Mellon's depository oversight and performance reporting capabilities, and its robust approach to managing the transition of assets to the global equity fund, made them our preferred custodian when launching our first tax-transparent pooling vehicle."

Paul Traynor, international head of pensions and insurance segments at BNY Mellon, said: "In supporting this fund structure, BNY Mellon is providing a range of solutions that can help pension schemes maintain their beneficial tax status and transition their assets into efficient pooling vehicles."

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Two worlds collide

The two ever-present forces of regulation and technology have inevitably combined, and attendees at RegTech London heard how they could change financial services for the better

With the regulatory agenda showing no signs of abating and financial technology dominating headlines and conference schedules alike, it's hardly a surprise that the two have clubbed together to create a whole new beast: regulatory technology, or 'regtech'.

In London, asset managers, compliance experts and tech providers gathered to tackle the challenges and opportunities that regtech has in store, and how to manage them from here.

In the first session of the day, moderator and conference chairman Adrian Shedden, head of fintech at Burges Salmon, asked panelists to define 'regtech'. One said it's just "a handy label".

The speaker said: "Large institutions are building new solutions in response to regulation all the time—for us, regtech is just another day at the bank."

With regards to the challenges the banks are facing, the speaker noted that regulatory compliance is expensive, saying it is not unusual for large institutions to spend in the region of £1 billion on it each year.

"The rules are complicated. the volume of data you have to absorb and monitor is vast."

There is also a challenge around managing change in regulations, which can involve tracking 600 regulators and regulatory bodies around the world. While large changes are difficult to miss, "it's the smaller ones where there is a change to interpretation or refinement to a rule" that are more difficult to manage, the speaker said.

In a later session, a blockchain expert and founding member of the UK Digital Currency Association discussed the ways in which blockchain could be of use in regulation. First, the speaker said, the transparency that the technology affords allows participants in a blockchain to see exactly what is going on, while it's going on.

"The regulators are being inundated with more and more data that they're struggling to trace transactions through."

In some cases, "the regulator will be a participant in the network", not necessarily monitoring, but perhaps viewing activity in more detail that the other participants.

Transparency also means the flow of funds is almost instantly available, offering a means of searching every participants' transactions and following the flow of each transaction, effectively "seeing its history". It could allow audit processes to be carried out from a computer, in a very short space of time.

Second, the speaker highlighted the use of blockchain in the supply chain, for provenance of goods and high-value items. Ensuring certification of goods is "a real challenge in the traditional world". For example, it can be difficult to ensure that the pills inside a box actually come from the manufacturer named on that box. The same principle applies to the financial supply chain.

Third, blockchain could improve current know-your-client (KYC) and onboarding processes, which the speaker called "primitive and complicated".

Banking clients typically have to produce passports and certified proof of identity over and over again, and "this is neither efficient nor particularly safe".

Blockchain could potentially allow people to have an "identity that can be trusted", that could be viewed by all participants of a blockchain, making KYC processes easier for clients and banks.

Finally, blockchain could potentially reduce settlement risk, according to the speaker. In a conventional payments system, a message is being exchanged, and there is credit risk in the delay of settlement.

Blockchain could be considered as both the payment system and the thing of value. It is both a digital representation of the information and the access to that piece of information, and that is where the value lies.

Another panel discussion focused on the ways in which technology could be of help with regards to regulatory reporting. Panel moderator Nirvana Farhadi, a senior partner of Divergent Advisors and CEO of FFS-RegTech, noted that firms have to manage risk exposure and reporting for multiple different regulations.

Referring to the second iteration of the Markets in Financial Infrastructure Directive (MiFID II) in particular, she said: "MiFID II is very large, however, the reporting aspect of it is a beast."

She added that the estimated spend in the UK for reporting under MiFID II alone is £2.2 billion. The cost breakdown of that figure across the industry is extremely challenging for firms that are already managing reporting obligations for up to 160 regulations across multiple jurisdictions, and this will lead to huge compliance and operational costs, putting a strain on different departments and business lines.

Farhadi added that firms will need a new "super breed" of compliance officers who have both regulatory and technical knowledge.

Compliance officers should be able to understand and implement the technology they're using, addressing the actual problems the industry is facing. Rather than being disruptive, she said, this technology can help provide the solutions for financial institutions while leveraging existing systems.

Robin Smith, technical director at Actiance, suggested that any business operating in a compliant manner is already using regtech in one way or another, however, many are still using legacy applications and systems.

He said: "These systems were never built to handle the data volumes or data types that we're using today."

Some organisations are struggling with the requirements, and specifically with the quality of data required, he said.

Each organisation has a lot of data in a lot of different places, and they have to maintain all of those systems, keeping risk and compliance teams in the loop and also educating IT managers and other staff.

Equally, Smith said: "The regulators say they want banks to declare any relevant electronic content, however new messaging applications can be difficult to monitor so the tendency is for companies to block the use of newer applications with clients and internally. This is an issue that should be addressed not only for the good of future employees but also future customers."

If they can't communicate in a manner they are comfortable with they'll become someone else's customer, he said. If this type of messaging culture is not made to be compliant, that behaviour will be driven underground.

Focusing on the human aspect of regtech, Subas Roy, a director at EY, suggested: "The issue the financial services industry has got is trust." It seems that smaller 'challenger' banks and fintech start-ups can offer customers better-value deals, and at the same time, customers have limited trust in, and loyalty to, the older and larger institutions.

Service providers that are innovative and have the trust of the customer will have added advantage, he said, and regtech poses an opportunity for financial services providers to adapt to become more trustworthy.

Regtech could improve monitoring for market abuse, as well as surveillance and reporting on financial crime, allowing firms to implement more pro-active solutions, and also helping them to centralise their compliance functions.

Data analytics can help firms better understand the customer, leading to improved and more profitable solutions that will "benefit the business as well".

Roy suggested that institutions should focus on "bringing compliance into day-to-day functions", ensuring that compliance departments are involved in the development of new products before they're brought to market, rather than judging products on completion.

He pointed to "compliance by design", taking a step back and making an effort to understand the risks, not regulation-by-regulation, but by themes. However, he conceded: "There are complexities and there is no easy win."

Roy pointed out that client demographics have changed, and that the way people perceive financial services is changing, including their demands.

Shedden added to this, suggesting that firms must bear in mind the fact that they're developing solutions for a new generation, not considering financial services as a standalone industry, but in a modern context.

The industry is likely to see an emergence of more human-led design, with solution providers striving to understand clients' pain points and looking for answers to those issues, rather than creating "technology for technology's sake".

The focus should be on introversion, sharing and collaboration, Shedden said, "and technology follows". **AST**

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Playing in the sandbox

The Financial Conduct Authority's sandbox initiative is well underway, but in 2017, fintech providers may have to come up with something more concrete, lest their consumers lose interest, says Sam Pearse of Pillsbury Law

It has been 12 months since the UK Financial Conduct Authority (FCA) announced it was opening a 'regulatory sandbox' to allow businesses to test new products and services in an environment that has lighter regulatory obligations.

The sandbox is intended to bring regulators and innovators together, to promote development and enhance competition. No doubt the FCA hopes it will help it keep up to speed with latest developments and be a more switched on regulator.

The FCA selected a first cohort of 24 firms from 69 applicants, basing its decision on the selection criteria that it had previously published. At the time of launch, the FCA announced that it wanted to support both the established financial services firms and the start-ups. The selection is consistent with that statement as two of the successful applicants for the first cohort were large banks, namely HSBC and Lloyds Banking Group.

There were smaller companies included in the cohort and, overall, there was variety in the areas of fintech being explored, from applications for managing personal finances to borrowing services, insurance, and payment firms basing their products on distributed ledgers.

Many of the businesses are consumer-facing, although there are some technologies aimed at corporates.

At this early stage it is difficult to assess the sandbox. We will not be able to properly measure it against its stated aims until the firms within it have come to the end of their time there, and the outcome of the sandbox will be determined by a number of factors. Chief among them are the quality of the applicants and the reaction of the FCA to the cohorts and their products.

Regarding the first factor, the FCA did spend considerable time creating the entry criteria, and it seemed to have struck the right opening chord. In attracting 69 applicants, the FCA certainly generated interest, and the fact that over a third were accepted was also a signal of intent on the part of the FCA. Indeed, the FCA increased the size of its team to cope with the demand. It has not found the need to amend the eligibility criteria for applicants for the second cohort, and theoretically, that should mean we can expect there to be a similar spread in both the size of the applicants and where on the fintech spectrum they sit.

Once businesses in the sandbox complete their testing, the challenge for the FCA is to react accordingly. The sandbox exists in part to enable those businesses at the fringes of regulation to properly determine which side of the line they fall. If the prevailing regulatory framework is not adequate, the FCA should act. In doing so, the FCA must resist temptation to overregulate and instead remain faithful to striving to promote competition. Overbearing or poorly conceived regulation will be very damaging to the viability of the sandbox and the reputation of the UK as an innovation-friendly jurisdiction.

After a year that has seen considerable debate about fintech, cryptocurrencies and distributed ledger technology, in 2017 the hype and spending is expected to generate genuinely usable products. Banks will continue to develop products on a multiple track; some to reduce compliance costs and increase back-office efficiencies, and others to enhance the customer experience. We should not expect the banks to break the ice into speculative waters. Instead, it may be the smaller businesses placing more adventurous bets with technologies that will grab public attention. That said, it will not be easy to prise consumers away from the established banks. Consumers are still, in the main, loyal to the big institutions. They are not presently sufficiently motivated by a desire to decentralise control, or by a distrust of the banks.

Sam Pearse
Partner
Pillsbury Winthrop Shaw Pittman

> There is a sense that the pioneers are at risk of losing their audience

Hopes remain high for a breakthrough in take-up of digital currencies and blockchain-based applications in 2017. However, there is a sense that the pioneers are at risk of losing their audience. The exclusivity of something new creates interest and lends desirability.

That interest quickly wanes if the hot new technology remains impenetrable, with arcane language and opaque explanations of why this is something they should trust and use. We need the innovators to recognise that undertaking a highly sophisticated enterprise is at risk of becoming an academic exercise as the consumer loses interest.

I am not sure that we are that much closer to your average citizen being able to explain the basic differences digital currencies and distributed ledgers. And soon they will not care. **AST**

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Bridge over troubled waters

Testy relationships can lead to damaged reputations and lost revenue, so it’s important to promptly repair the cracks, says John O’Hara of Taskize

What defines a relationship? Commercial or personal, we’d all agree on the importance of factors like trust, forgiveness, willingness to give and take, and a long-term commitment to mutually beneficial outcomes. These are hard for two people to maintain over time. Different—but no less difficult—challenges arise when building a long-term business relationship between two large organisations, due to the number of people, products and processes involved.

In a commercial context, it is always tempting for staff to focus on short-term wins such as the lowest price, the next sale or the latest

technology innovation, rather than the less tangible, harder-to-quantify activities that add value for the long term. And if it's hard to provide a high-quality, multi-faceted service over a long period, it's just as hard to monitor and measure the value added, or benchmark it against alternatives. But without the transparency that metrics provide, abstract concepts remain just that, leaving relationships to fail to fulfil their potential at best, or to dissolve in acrimony and disillusionment at worst.

In today's uncertain business environment, few can afford to take relationships for granted. Regulatory reforms have closed off certain high-margin product areas, while increasing the cost of delivering other services. Simultaneously, macro-economic conditions are reducing appetite for risk as well as lowering rate-based income streams.

In short, corporate and investment banking is becoming a lower-margin business.

As such, it is increasingly important for banks and brokers to understand the profitability of client relationships at a very granular level, as well as the value the client derives from any new investment in service provision.

Similarly, buy-side firms benefit from a clear understanding of the costs of servicing them, in part to help them improve their own internal processes and eliminate inefficiencies. The buy side is all too aware of the evolving post-crisis economics of service provision for banks and brokers. And no one wants to share the fate of those mid-tier and small hedge funds whose prime brokers have decided their relationships are no longer viable.

As major corporate and investment banks revert to total relationship management coverage models, both sell- and buy-side firms appreciate that every tactical point of contact can have a critical impact on the wider strategic relationship.

The ultimate costs of failure to recognise or escalate a fault in service provision can be extremely high for both parties. Declining profitability for the sell side and plummeting service and satisfaction levels can lead to a downward spiral in which relationships and reputations are damaged. A key problem is the absence of a common mechanism that simplifies the collation of client satisfaction data. Relationship managers might be involved in ensuring clients participate in broker votes or industry surveys, but they are too often bypassed when it comes to flagging or resolving issues that really drive client satisfaction. It is simply too labour-intensive for a relationship manager to check in with every person or process the client touches, but technology innovation is easing the monitoring and measuring burden.

Collaborative platforms that enable buy-side clients and sell-side service providers (as well as other parties, if required) to work together to fix operational problems can not only address issues as they arise (rather than allowing them to remain unresolved and thus repeated), but also provide an enterprise-wide digital record of the resolution process. This helps to provide users with timely transparency on the costs of servicing client relationships, both individually and collectively, as well as metrics and insights into client satisfaction levels and recurring operational problems.

At one level, the service provider is better able to identify client service problems and costs per individual client, thus helping to quantify profitability and customer satisfaction. At another, the information could be compared across product areas, client segments and geographies to gain a consolidated view of operational issues, which would potentially uncover common causes, leading to new efficiencies. And if buy-side firms also had access to data across service providers, they would be better placed to benchmark not only provider quality and value, but also internal capabilities against peer performance. Relationship managers could also use such timely intelligence to drive meaningful, data-driven discussion and reclaim their role as agents of change on behalf of the client.

John O'Hara
CEO
Taskize

> Buy-side firms benefit from a clear understanding of the costs of servicing them

Measurement of costs, service levels and relationship profitability may be increasingly important, but the tools and processes are still lacking. Current evaluation or ranking mechanisms are deeply flawed, providing only subjective or stale input; focused on a subset of the overall service, such as front-office metrics on quality of research or performance of execution algorithms; and not reflecting realities of service provision.

The impact of a back-office glitch that delays settlement of a securities trade, perhaps resulting in a manually intensive buy-in, is rarely costed, nor is its impact on the broader relationship tracked.

As such, the underlying cause is not resolved—especially if it requires further discussion with a third-party provider or infrastructure operator—thus potentially storing up future problems.

Over time, with widening use, such tools can provide analytics on operational issues across the industry, helping to share best practice and eliminate common causes of trade fails and other back-office glitches across instruments and asset classes.

A key characteristic of this reformed, lower margin commercial and investment banking market is a shift in how and where value is added. Technology innovation is being exploited in this sector on a communal, collaborative basis, with standardisation and interoperability being built in to automation. Rather than leveraging technology on a purely proprietary basis, banks and brokers are using it to refine and improve existing services collectively and develop new ones. Solutions that support higher client satisfaction levels and lower servicing costs will play a key role in maintaining collaborative relationships over the long term. **AST**

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Europe and Asia
9 Devonshire Square
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Office +44 (0) 2031 782970

North America
Harborside 5, 185 Hudson Street
Jersey City, NJ 07311
Office +1 201-258-3788

Latin America
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Comings and goings at Deutsche Bank, OCC, Standard Chartered and more

Deutsche Bank has bolstered its innovation team with the appointments of a new head of innovation and CTO.

Elly Hardwick will become head of innovation, while Philip Milne has joined as CTO for innovation.

Hardwick joined Deutsche Bank in early December to lead the bank's innovation activities and manage the Deutsche Bank Labs globally.

Previously, she was CEO of Credit Benchmark, and before this she was global head of strategy, investment and advisory at Thomson Reuters.

Milne joined Deutsche Bank in November, and will provide an interface between Deutsche Bank Labs and its wider technology organisation.

Prior to joining Deutsche Bank, Milne was CEO and founder of a virtual reality start-up in Silicon Valley.

He was previously also part of the original creative team behind the Android platform at Google and the Java platform at Sun Microsystems.

Hardwick will be based in London while Milne will be based in Palo Alto.

Both will report to JP Rangaswami, chief data officer and head of strategy and innovation for the chief operating office at Deutsche Bank.

OCC has brought on former Optiver US CFO Amy Shelly as senior vice president and CFO.

Shelly, who replaces Kim McGarry, is now responsible for finance, accounting, strategic sourcing and facilities, as well as for a new treasury function.

Prior to joining OCC, Shelly was the interim CFO for a private equity portfolio company.

From 2015 to 2016, she was a project manager for CF Industries, where she worked with the company's corporate controller to manage the integration of a large acquisition.

Additionally, James Pribel, formerly executive director and treasurer at CME Group, has been named as first vice president of treasury, a new position, at OCC.

OCC's current first vice president and deputy general counsel, Joe Adamczyk, has moved up a rung to become senior vice president and chief compliance officer, replacing Richard Wallace.

Craig Donohue, executive chair and CEO of OCC, said: "OCC's evolution from a market utility to industry influencer is moving forward, and these leadership enhancements position our company well for future success."

Standard Chartered has appointed Roberto Hoornweg as global head of financial markets.

Hoornweg will begin working at the Singapore office at the end of January 2017. Previously, he worked as a partner at Brevan Howard Asset Management, where he is credited with building the liquid portfolio strategies funds business.

Before this, Hoornweg spent three years at UBS Investment Bank in London, where he was co-head of the global fixed income, currencies and commodities division. He also worked at Morgan Stanley for 17 years, where he held various senior roles in fixed-income derivatives.

In his new role, he will manage Standard Chartered's financial markets business globally, including capital markets, commodities, and foreign exchange, rates and credit.

He will report to Simon Cooper, CEO for corporate and institutional banking at Standard Chartered.

Cooper commented: "While we are already leading in a number of financial markets products, we also recognise that clients' needs are becoming increasingly sophisticated."

"Roberto Hoornweg's experience and insight will give us an edge to better meet these client needs, and I look forward to his contribution to grow our business."

U.S. Bank has appointed Gunjan Kedia as vice chairman of its wealth management and securities services division.

Kedia has 20 years of experience in financial services. Most recently, she was executive vice president and a management committee member at State Street, a position she left in May.

Previously, she was executive vice president at BNY Mellon and a partner at McKinsey & Company.

In her new role, Kedia will report to Andy Cecere, president and COO of U.S. Bank.

Cecere commented: "Our wealth management and securities services businesses are important components of our diversified business model. Wealth management is steadily growing as Americans focus on their retirement readiness. In addition, we have leadership positions in all of our securities services market segments, giving us a competitive stronghold."

He added: "[Kedia] is a forward-thinking leader with a deep understanding of the banking and asset management industries. We are confident that she will lead us into the next generation of growth with these businesses."

Kedia said: “U.S. Bank is a purpose-driven organisation that invests in its customers, communities, and each other every day. I look forward to connecting with the team and being part of its long-term growth story.”

Barings Real Estate Advisors has strengthened its European real estate debt platform, hiring Lars Røgeberg and Henry Marlow, while John Bryant Gerber has relocated to the London office from California.

Røgeberg has been appointed as director of asset management for the real estate debt team.

He joins from Deutsche Pfandbriefbank, where he was an associate director, and brings 12 years of experience in the real estate sector.

In his new role, he will be involved in portfolio management and will assist in the research, analysis and underwriting of new real estate debt opportunities.

Marlow joins as an analyst in the real estate finance team. Previously, he worked in the banking and capital markets team at Ernst & Young, specialising in the real estate sector.

At Barings, he will be responsible for underwriting and due diligence of new investments, plus the development and maintenance of financial models for underwriting new deals and monitoring performance.

John Bryant Gerber, previously vice president of alternative investments at Barings in Newport Beach, California, is relocating to London to join the European team as vice president of real estate investment.

In his new role, he will be responsible for opening new structured real estate debt investments.

Røgeberg and Marlow will both report to Chris Bates, head of the Barings European debt business.

Bates said: “The continued build-out of our European debt platform will further enable us to meet both investor and borrower requirements across both senior and structured debt in the European markets.”

Charles Weeks, head of real estate for Europe at Barings Real Estate Advisors, added: “We continue to grow the size and scope of our European real estate investment and asset management platform, with these appointments further underlining the strength of our ambition for Barings Real Estate Advisers in Europe.”

The Barings European debt business was established in September 2013, and is now worth around £1 billion. **AST**

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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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