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International CSDs find new ally for blockchain collateral scheme

Four international central securities depositories (CSDs) are collaborating with Deutsche Börse to build a blockchain-based prototype for cross-border collateral transfer.

The Canadian Depository for Securities Limited (CDS), Clearstream in Luxembourg, South Africa's Strate and Norway's VPS are all members of the Liquidity Alliance, an international consortium of CSDs focused on collateral management.

They are partnering with Deutsche Börse to create the LA Ledger solution, intended to provide faster and more efficient mobilisation of security collateral and to overcome some of the challenges of moving collateral across jurisdictions.

Under the US Dodd-Frank Act and the European Markets Infrastructure Regulation, there is demand for high-quality collateral and limited access. Moving such collateral around is a regulatory requirement for mitigating risk in the financial system.

LA Ledger will use decentralised distributed ledger technology, allowing for direct interaction between participants and thereby simplifying the collateral mobilisation process.

In theory, fragmented security positions will be allocated more quickly and efficiently, covering participants' financial obligations in different jurisdictions.

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AIFMD can go after Brexit, says AIC

The Association of Investment Companies (AIC) has said the UK government should scrap the Alternative Investment Fund Managers Directive (AIFMD) following the country's exit from the EU.

Urging a "layered approach" to funds regulation following Brexit, the AIC said it "recommends that consideration be given to abolishing AIFMD in its entirety for providers not marketing funds into the EU".

Although EU laws are likely to remain in place throughout the transition period in order to ensure regulatory stability and consumer protection, the association urged the UK government to avoid implementing a 'one-size-fits-all' approach to regulating the funds industry once the exit is complete.

UK regulators should have an opportunity to set UK-specific rules for those funds and providers of asset management that service solely non-EU customers.

According to the AIC, these providers make up some 80 percent of the UK's asset management activity.

In a report written in November 2016 and released in January 2017, the AIC said: "Applying AIFMD to UK providers after Brexit will mean that the UK manager of a non-EU, non-UK fund which is entirely held by non-EU investors, would potentially have to comply with the full EU rulebook."

"The justification for applying the rules in this way, rather than complying with the regulatory obligations imposed according to UK requirements and in the jurisdiction of the fund, is unclear."

The association made recommendations to streamline UK funds regulation, with a focus on AIFMD.

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The solution will initially be implemented as a prototype, based on the Hyperledger Fabric blockchain. Validation from market participants and regulatory authorities is scheduled to begin in Q2 2017.

VPS CEO John-Arne Haugerud said: "LA Ledger is designed to simplify cross-border collateralisation away from using multiple complex and non-standardised links towards smooth movement across various jurisdictions."

Glenn Goucher, president and chief clearing officer at CDS, added: "With this initiative, we pursue an innovative partnership approach that will allow us to jointly embark on distributed ledger technology with a use case that is highly relevant to the wider industry."

Monica Singer, CEO of Strate, said: "We look forward to engaging with regulators and market participants to validate the proposed solution."

She added: "We are convinced that integrating this new technology into a permissioned environment of neutral regulated entities is the right way forward."

AIFMD can go after Brexit, says AIC

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Reforms to the directive could be made to abolish private equity requirements, reform depositories and change the scope of exemptions that apply. The AIC recommended "a more ambitious approach", abolishing AIFMD altogether, saying it does not provide "any material regulatory benefits".

"The UK would then be free to introduce specific, targeted measures, following consultation, if any were considered necessary," the report said.

"Radically reforming or abolishing the AIFM Directive would reduce unnecessary costs, help deliver keener product pricing for investors and increase the global competitiveness of the UK as a location for funds and asset management."

The recommendation to scrap AIFMD comes amid calls from the AIC to change UK rules to better meet domestic consumer, regulatory and political objectives.

Currently, UK fund managers have to comply with EU obligations, whether or not they market to other member states. Many UK investment companies have no non-UK investors.

Companies that provide services to EU investors could then opt in to comply with EU rules, taking a commercial decision on an individual basis.

Smaller businesses based in the UK may conclude that the costs of compliance with EU rules do not "provide compensating benefits".

The report said: "The opt-in approach will ensure the UK's regulatory framework matches costs with benefits and will make the market more competitive."

UK service providers already have to comply with various regulatory obligations, with each item creating the need for separate structures and systems. An opt-in model would keep these structures separate, "except that it offers the opportunity for a streamlined, more proportionate approach for providers not servicing EU investors".

Ian Sayers, chief executive of AIC, said: "Brexit should allow UK policymakers to deliver better targeted and more proportionate regulation. Ultimately, this will mean lower costs and greater competition for the funds sector: a 'Brexit dividend' delivering long-term consumer benefits."

Sayers explained: "If the government takes this approach they will be able to maintain investor protection standards while also taking steps to maximise the competitiveness of the funds sector. As well as benefiting investors this will support the long-term future of UK fund management and its capacity to create jobs, invest in UK business and contribute to tax revenues."

EBA Clearing and SIA begin testing instant payments system

Initial testing has gone live for EBA Clearing's pan-European instant payment infrastructure, before its scheduled go-live date in November.

The testing phase for the infrastructure launched following a Milan meeting of 28 of the involved funding institutions, which included a demonstration of the new system in a test environment.

The test environment is run by SIA, an Italy-based payment processing company, and the technical solution provider for the infrastructure project.

EBA Clearing and SIA first signed a letter of intent to provide a pan-European infrastructure solution for instant payments in February last year, with the aim of launching the solution by Q4 2017. Both have hailed the launch of the testing phase as "timely".

Hays Littlejohn, CEO of EBA Clearing, said: "The timely delivery of our instant payment system in the test environment is a key

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milestone on our journey towards the go-live of the service in November 2017."

He added: "We now look forward to engaging the growing community of early movers and their trusted service providers in the pilot user tests that will follow our acceptance testing with SIA."

Massimo Arrighetti, CEO of SIA, added: "We are delighted to support EBA Clearing as well as banks and other payment service providers across the single euro payments area in this major pan-European cooperative endeavour with our international expertise and experience in delivering highly resilient, secure, scalable and flexible payment infrastructure and with our wide range of innovative solutions."

The new infrastructure platform is a real-time payment processing facility intended to be available 24/7, 365 days a year.

If successful, it will allow European account-servicing payment service providers to make any euro-denominated payment that is compliant with the instant payment scheme of the European Payments Council, and in line with ISO 20022 messaging standards.

Morgan Stanley in SEC settlement over custody rule violation

Morgan Stanley has agreed to pay $13 million to settle charges from the Securities and Exchange Commission (SEC) that it overbilled investment advisory clients and violated the custody rule relating to annual surprise examinations.

The SEC found that Morgan Stanley did not comply with requirements for surprise custody examinations for two consecutive years, failing to provide its private accountant with an accurate and complete list of client funds and securities for examination.

According to the SEC, Morgan Stanley also failed to properly maintain and preserve client contracts.

Sanjay Wadhwa, senior associate director of the SEC's New York office, commented: "The custody rule's surprise examination requirement is designed to provide clients protection against assets being misappropriated or misused. Morgan Stanley failed in consecutive years to do what was required of it to give investment advisory accounts that important protection."

The SEC's order also found that Morgan Stanley overcharged more than 149,000 advisory clients through coding and other system errors. The bank did not adopt and implement compliance policies or procedures

SIX x-clear extends to Nordics

SIX x-clear, the clearing arm of SIX Securities Services, has extended its services to the Nasdaq Nordic cash markets, offering an interoperable clearing solution for Denmark, Finland and Sweden.

As of 20 February, following final regulatory and operational arrangements, Nasdaq Nordic will confirm SIX x-clear as a third interoperating central securities depository.

The new clearing services will apply to trades executed in Nasdaq Nordic trading markets: Copenhagen, Helsinki, Stockholm and First North Sweden, the latter of which is operated by Nasdaq Stockholm. Settlement will take place in the home market of the securities.

SIX x-clear will allow for one net settlement for all trades across all of these platforms. Cross-platform netting and cross-margining of risk, plus a tiered pricing structure, are intended to provide tailored solutions for clients based on individual needs in terms of scale, pricing, risk and liquidity.

Valerio Roncone, head of markets and clients at SIX Securities Services, said: "We are delighted to be able to provide comprehensive clearing services in the Nordic region."

"This is an important step which offers clients an opportunity to extend their clearing consolidation with SIX x-clear and further optimise their post-trade processing."

to make sure clients were billed accurately and according to the terms of their advisory agreements, the SEC alleged.

Morgan Stanley received more than $16 million in excess fees between 2002 and 2016, and has already reimbursed this to affected clients, plus interest.

Andrew Calamari, director of the SEC's New York regional office, said: "Investors must be able to trust that their investment advisers have put appropriate safeguards in place to ensure accurate billing."

Morgan Stanley did not confirm or deny the findings, but consented to the SEC's cease-and-desist order and agreed to the $13 million penalty and a censure.

A statement from the bank said: "Morgan Stanley Wealth Management is pleased to settle this matter, which included inadvertent billing errors in certain managed accounts.

All affected clients have been reimbursed and the firm has enhanced its policies and procedures, including discontinuing the use of certain legacy systems."

Blockchain banking consortium starts work on SMEs

Seven banks have joined forces to develop a blockchain-based platform designed to simplify domestic and cross-border commerce for small- and medium-sized enterprises (SMEs).

Representatives from the banks—Deutsche Bank, HSBC, KBC, Natixis, Rabobank, Societe Generale and UniCredit—met in Brussels to sign a memorandum of understanding, agreeing to collaborate on the development and commercialisation of the new Digital Trade Chain (DTC).

The DTC product is based on a prototype trade finance and supply chain solution, created by KBC, which has been tested to proof-of-concept stages.

It is intended to connect the parties involved in a trade transaction, online and through mobile technology, thereby making the managing, tracking and securing of trade transactions easier.

Using distributed ledger technology, DTC will store secure records and speed up the order-to-settlement process, while also reducing the administrative burden of transactions. At the same time, the transparency that blockchain technology affords is intended to give SMEs additional confidence to trade with new partners.

The consortium members will work together to further develop and scale up DTC, and will initially focus on building a consumer base in Belgium, Luxembourg, France, Germany, Italy, the Netherlands and the UK.

Finextra pushes fintech for KYC

Embracing new technology developments for know-your-client (KYC) processes can help the financial services industry to tackle financial crime and terrorist financing without interrupting user experience, according to a whitepaper from Finextra and Mitek.

The whitepaper, Digitising KYC: A Win-Win For Financial Institutions and Regulators, suggested that moving towards digital solutions for KYC and anti-money laundering (AML) due diligence can also make for more secure identity verification. It noted that regulators increasingly consider the financial industry as important in fighting terrorist financing, and therefore KYC and AML requirements are becoming more stringent.

The whitepaper said: "A sound financial system, with proper scrutiny and analytical tools in place, may help to uncover anomalous transaction patterns, thus contributing to a better understanding of terrorist and criminal connections, networks and threats."

Unintended consequences of AML and KYC due diligence processes should not prevent clients from accessing services, nor prevent fintech firms from providing those services, the report said.

Appropriate technology should aim to streamline customer due diligence checks, improve anti-impersonation checks, allow for sharing of due diligence data between institutions, and monitor transactions for suspicious activity. This would, in turn, free up resources currently spent on AML and KYC compliance.

The report said: "AML processes should be simpler, slicker and more cost-effective for both firms and consumers."

"Commercially available tools, government-backed identification initiatives, and technology developed by firms in-house will all play a part."

Regulators are starting to encourage this kind of digitisation, the report suggested. It pointed in particular to Article 30 of the European Commission's fourth Anti-Money Laundering Directive (4AMLD), which comes into effect in June.

According to the report, 4AMLD puts pressure on banks to conduct due diligence quickly, and also encourages digitisation of

SWIFT tests blockchain for cross-border payments

SWIFT is exploring whether banks can use distributed ledger technology to improve the reconciliation of their nostro databases in real time, to optimise their liquidity globally.

A proof of concept seeks to replace the current correspondent banking model of monitoring funds in overseas accounts via debit and credit updates and end-of-day statements.

Blockchain technology could alleviate the operational burden this represents, according to SWIFT, with distributed ledgers having the potential to reconcile nostro accounts more efficiently and in real time, lowering the costs of, and operational risks in, cross-border payments.

Open-source Hyperledger technology will be combined with key SWIFT assets to bring the concept in line with financial services requirements.

Testing of the proof of concept will be conducted on a private blockchain in a closed user group environment, with specific user profiles and strong data controls.

User privileges and data access will be strictly governed, according to SWIFT.

Wim Raymaekers, head of banking market at SWIFT, commented: "Whilst existing distributed ledger technologies are not currently mature enough for cross-border payments, this technology, bolstered by some additional features from SWIFT, may be interesting for the associated account reconciliation."

"This proof of concept gives us the opportunity to test distributed ledger technology and determine if it can be applied to this particular use case."

The proof of concept comes as part of SWIFT's global payments innovation initiative, which seeks to deliver a new standard in cross-border payments.

SWIFT global payments innovation initiative member banks can apply to participate in this proof of concept.

It is set to launch in early 2017.

New AI tool launched to keep track of trades

OTAS Technologies, a provider of artificial intelligence-powered trader intelligence and market analytics, has extended its Lingo natural language reporting technology with the launch of Intraday Lingo.

The new function pairs Lingo's automated natural language capabilities with microstructure charts to document intraday moves both in real time and historically, providing analysis for the full trade lifecycle.

Designed to offer additional insights to traders and compliance departments, Intraday Lingo provides an alert-driven timeline of events, building a narrative of the trading day.

It also provides verification options, allowing for viewing entries more closely.

According to OTAS Technologies, it addresses best execution post-trade analysis requirements under the second Markets in Financial Instruments Directive, tracking every decision made in a trade and providing a comprehensive audit trail.

Real-time alerts are intended to make traders more aware of risks.

Both traders and risk officers will be able to access reports and review trades in a matter of seconds.

Intraday Lingo also provides cost analysis metrics, including market dynamics throughout the trade lifecycle, designed to help traders to understand the environment surrounding their orders, and to better understand out-of-the-ordinary circumstances.

Tom Doris, CEO of OTAS Technologies, said of the technology: "In a rapidly changing regulatory environment, we are committed to helping clients maximise efficiency while being compliant to new regulatory requirements.

He added: "Today's traders are already faced with an immense amount of data to sift through while making trading decisions. Traders make hundreds, if not thousands of trades daily, sometimes with only a fraction of a second to make those decisions."

identity checking, ownership validation and background checks.

It said: "4AMLD accepts that electronic means of ID verification are as valid and trustworthy as in-person methods. Moreover, it points out that electronic ID documents also have advantages in terms of account opening, record keeping and the monitoring of high-value transactions."

ID documentation of verification solutions that can allow enterprises to verify a user's identity during a mobile transaction, and 'data prefill' tools for reducing friction in user experience are already available, the report said.

Also, Smart Origination, a customer onboarding tool developed by Mitek, Fujitsu, ImageWare Systems, InAuth, Intelligent Environments and Trunomi, claims to allow financial institutions to gather, process and verify documents on the identity of new applicant in less than five minutes, reducing the cost of onboarding and reducing identity fraud and 'application abandonment'.

Regulators are encouraging fintech solutions in KYC and AML processes, and financial institutions should embrace this, as well.

The report said: "The 'digital first' attitude of today's tech-savvy consumers and financial services users mean that cumbersome onboarding processes may lose an institution potential new customers."

It concluded that digital solutions that are emerging can meet the needs of both consumers and regulators in the environment, saying: "A seamless mobile user experience and strong and secure identity verification are not mutually exclusive."

DTCC advances DLT post-trade platform with IBM

The Depository Trust & Clearing Corporation (DTCC) has partnered with IBM to develop a "watershed moment" in the use of distributed ledger technology (DLT) for derivatives post-trade processing.

DTCC, which is also partnered with Axoni and the R3 blockchain consortium, aims to use IMB's DLT to re-platform its Trade Information Warehouse (TIW) to further automate and reduce the cost of derivatives processing. This is intended to eliminate the need for disjointed and redundant processing capabilities, and to reduce the associated reconciliation costs.

The TIW service currently automates the record keeping, lifecycle events, and payment management for more than $11 trillion of cleared and bilateral credit derivatives.

The new TIW platform, which begins development in January and is predicted to go live in early 2018, will be built on Axoni's AxCore distributed ledger protocol and submitted to Hyperledger upon completion.

Hyperledger is an open source collaboration project hosted by the Linux Foundation.

IBM will lead the initiative, provide programme management, DLT expertise, and integration services, and offer the solution-as-a-service, with R3 acting as a solution adviser.

This new project follows the completion of a proof-of-concept for North American single name credit default swaps (CDS) last year by DTCC, Axoni, IHS Markit, and other market participants. The proof of concept demonstrated that complex post-trade events inherent to CDS can be managed efficiently with distributed ledger technology in a permissioned, distributed, peer-to-peer network.

Chris Childs, CEO of DTCC Deriv/SERV, said: "IBM, Axoni and R3 offer valued DLT expertise as well as a strong commitment to the Hyperledger community and industry standards."

"We are pleased that they have chosen to leverage their collective expertise and collaborate with us on this initiative, which will allow us to build the best solution for the marketplace while minimising cost to the industry and expediting our speed to market."

Greg Schvey, CEO of Axoni, added: "Deploying distributed ledger technology in production at this scale is a watershed moment for the industry."

"The combination of technology and business expertise being contributed to this project from across the participating firms is unparalleled and the benefits are clear. We look forward to working with DTCC and the project partners to bring those benefits to the market."

Hong Kong and US reaffirm data deal

The US Securities and Exchange Commission has renewed its ties with the Hong Kong Securities and Futures Commission to further strengthen oversight of entities operating in both markets.

The new agreement builds on a deal signed in 1995 and will allow for easier data sharing on the activities of their market's constituents, such as investment advisers, broker-dealers, securities exchanges, vendors, and credit rating agencies.

The original agreement was limited to investment managers.

MiFID II research rules could hurt investment banks

New research payment unbundling rules under the second Markets in Financial Instruments Directive (MiFID II) could mean large investment banks will miss out on research budgets, according to a survey from RSRCHXchange.

When shown a list of the nine largest investment banks, 24.5 percent of 234 respondents from 200 asset managers, representing a total of about $15 trillion in assets under management, said they do not plan to pay for a research offering from any of them.

A further 24.5 percent said they will use between one and three of the banks, and only 12.9 percent said they intend to use all nine.

The majority, 66.5 percent, said they will allocate less than 60 percent of their research budget to the nine investment banks.

Under MiFID II, investment research must be bespoke to each institution, and asset managers must pay for research either with their own funds or through a separate designated account, which is charged to the client.

Research fees must also be separated from execution and trading fees under MiFID II.

The new rules are designed to improve transparency, and to stop research costs being unfairly passed on to clients.

RSRCHXchange's survey found that 50 percent of asset managers are still uncertain as to how they will pay for research under the new directive.

Of those that do have a plan, 38 percent said they will pay out of their own profit and loss figures, and 26 percent said they plan to use a commission-sharing agreement-type structure.

While 18 percent said they will charge the client directly, a further 18 percent said they simply will not pay for research.

The biggest challenge with regards to the new research payment rules emerged as setting and regularly assessing the research budget, named as an issue by 37 percent.

This was followed by assessing the quality of research, considered a challenge by 23 percent.

Generally, respondents were not concerned about the effect of the new rules on their research budgets.

Only 14 percent said they expect their budgets to increase sharply, and 12 percent anticipate a slight increase.

Some 42 percent said they expect their budgets to remain about the same, and 32 percent said they expect their budgets to decrease.

When asked about their readiness to comply with the new rules, 23.9 percent said they are compliant already, and a further 9 percent said they will be compliant in early 2017.

While 16.4 percent said they will be compliant by mid-2017, 37.3 percent are leaving it a little later, saying they will be compliant in either mid or late 2017.

A relatively large number, 29.9 percent, are pushing it even further, saying they expect to be compliant in January 2018, when the directive comes into effect.

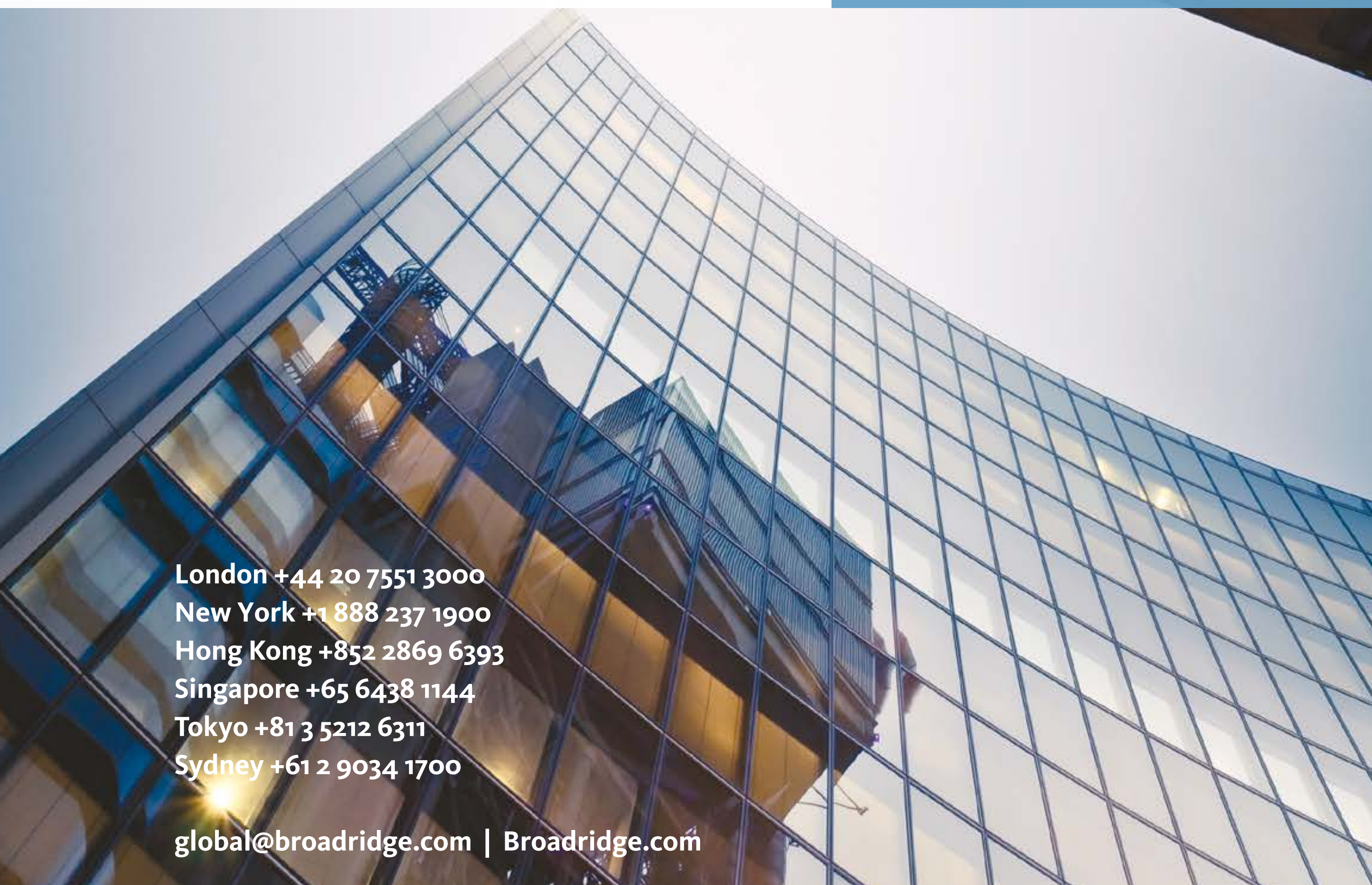
Co-founder of RSRCHXchange, Jeremy Davies, said: "The landscape of institutional research is shifting and asset managers are reviewing and adjusting their working practices to keep pace. Some of the results of this survey will come as a surprise to the industry, especially the decline in research spend with the big banks."

An ITG survey recently revealed that 82 percent of North American asset managers plan to fully unbundle all of their brokers globally, despite many not expecting the EU's MiFID II to directly affect them. MiFID II will not directly affect 43 percent of North American asset managers, the survey of 100 buy-side professionals said.

The directive requires asset managers to explicitly separate their trading commissions from investment research payments, prompting 82 percent of survey respondents to say they would unbundle their broker relationships globally, despite many not expecting a direct MiFID II impact on their businesses. Some 59 percent of respondents said they plan to continue paying for research using commission-sharing arrangements.

Neil Scarth, principal at Frost Consulting, speaking last summer, described the institutional investment research market as, historically, "very opaque".

In reference to MiFID II, he said: "Regulators clearly believe that the efficiency of research spending can be significantly improved."

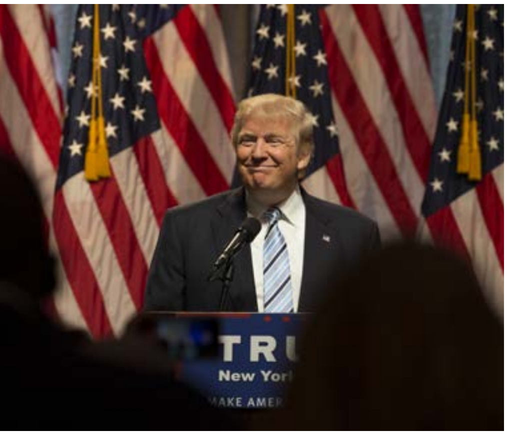


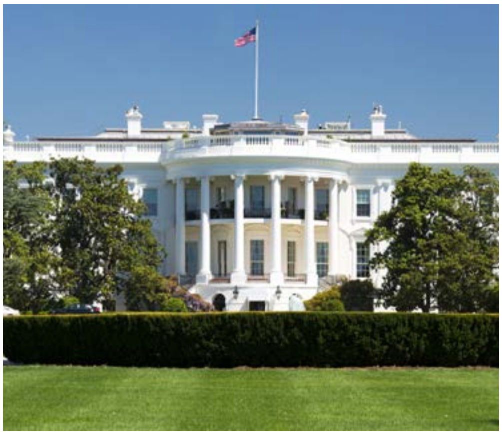
Don’t hate the players

Donald Trump is finally in the White House. But, as far as financial regulation is concerned, the new president might still struggle to change the game

In his presidential inauguration on 20 January, as he swore to preserve, protect and defend the US Constitution, President Donald Trump also claimed that the ceremony was “not merely transferring power from one administration to another, or from one party to another—but … transferring power from Washington DC and giving it back to you, the American people”.

His claim drew cheers from supporters, but, like much else in the new president’s campaign, it has left players in the financial markets scratching their heads. Before his success at the polls, Trump claimed he would transfer the balance of power back to Wall Street. And, significantly, following his shock victory he continued to be vocal in his scorn for the Dodd-Frank Wall Street Reform and Consumer Protection Act.





In fact, shortly after the vote on 9 November, Trump’s transition website, greatagain.gov, listed repealing the act as one if the administration’s primary objectives. The post described the act as “a sprawling and complex piece of legislation that has unleashed hundreds of new rules and several new bureaucratic agencies”.

It went on: “The proponents of Dodd-Frank promised that it would lift our economy. Yet now, six years later, the American people remain stuck in the slowest, weakest, most tepid recovery since the Great Depression.”

A replacement for Dodd-Frank has already been proposed by Jeb Hensarling, the Texan Republican representative and chair of the House financial services committee.

Hensarling’s Financial CHOICE Act is intended to end bailouts for large financial institutions and provide regulatory relief for highly capitalised, smaller, banks. The act would effectively hand the reins back to Wall Street, introducing a threat of three-fold penalties for wrongdoing in return for more freedom for institutions to lend and do business with each other.

The bill was approved by the financial services committee in September, and is widely expected to pass the US House of Representatives within the next few months. If it comes into effect, it will mean certain repeals for parts of Dodd-Frank. However, in the Senate, the CHOICE Act is likely to meet some opposition.

According to Robert Taylor, CEO of the Louisiana Bankers Association, the political make-up of the Senate means negotiations around the effect the new bill will have on Dodd-Frank will be tentative. As of yet, the outcome is difficult to predict. The Senate requires 60 votes of support in order to cut off debate and move to a vote on the legislation.

Taylor explains: “This 60 vote margin means at least eight Democrats will need to support the bill, along with all Republicans. The negotiations will be driven by the need to get these democratic votes.”

He adds: “Yes, Dodd-Frank will be changed. What is unclear now is how much it will be changed.”

There is a sense that Trump’s contempt for Dodd-Frank may have abated in the months between his win and his inauguration. Bhawana Khurana, vice president for client solutions at The Smart Cube, a research and analytics provider, suggests that: “As the time has drawn closer for [Trump] to take office there is a growing consensus that Dodd-Frank only needs modifications and rollback of certain provisions.”

Khurana continues: “Changes to this act aren’t among the top priorities of the Trump administration, but many market experts believe that there will be an action in 2017 on this, since it may be easier to tackle than the tax reforms or the Affordable Care Act.”

Jim Myers, senior manager of business consulting, trading and risk management at Sapient Global Markets, has a similar sentiment. If all of Trump’s hype were to be believed, he says, it would be fair to assume that Dodd-Frank is in for some significant upheaval.

He says, however: “I believe that the legislative willpower does not exist at this time to make wholesale changes to Dodd-Frank, and that the healthcare debate will dominate the legislative agenda in 2017.”

Myers adds: “That being said, any action in 2017 with respect to Dodd-Frank will come from the agencies themselves, the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC).”

“I would not be surprised if we see no-action relief granted or pro-business rule changes in some areas. These rule changes will take time and would have to go through the established CFTC or SEC rule-making process.”

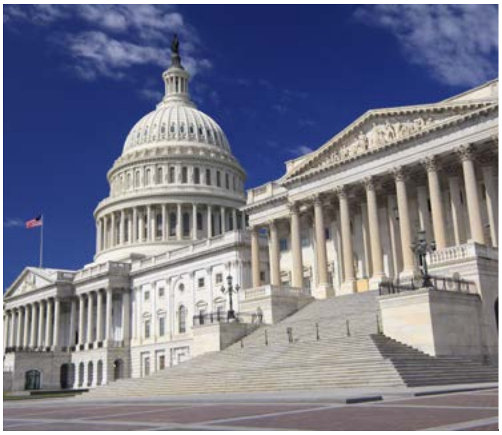
“By the end of the year, we should have a much better understanding of where the Trump administration is heading from a regulatory perspective, but it is difficult at this stage to think that wholesale changes are in store for calendar year 2017.”

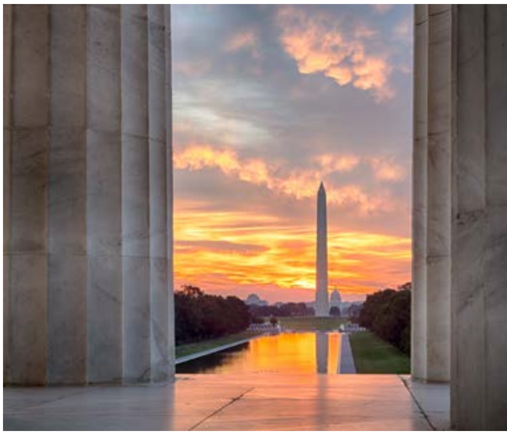
among them—are becoming increasingly specific, and far more prescriptive of the SEC’s actions and those of other independent bodies than any other time previously.

There is a noticeable trend towards “legislative proposals from Congress seeking to remake our rulemaking process”, she said.

“It is very eye-opening to contrast the broad directives of the 1975 Securities Acts Amendments with the highly detailed requirements set forth in Dodd-Frank and the JOBS Act.”

White highlighted the SEC Accountability Act, passed in the House on 12 January, which is intended to “improve the consideration by the SEC of the costs and benefits of its regulations and orders”.





Myers may believe that the SEC will be involved in such significant rule changes, however, the commission itself is, at the time of writing, in a state of upheaval itself.

In her final speech as chair of the SEC, Mary Jo White expressed concern about the way the regulatory landscape may be headed—and about the powers the SEC will have to change that.

Speaking at the Economic Club of New York on 17 January, White said: “There is a lot of discussion about how the new administration may weaken or even reverse many of the reforms that the commission and our fellow financial regulators have implemented since the financial crisis … this is a concern that I very much share.”

Jay Clayton, partner at Sullivan & Cromwell LLP, is Trump’s nominee to replace White in the chair position. Commenting on the nomination, and hinting at the direction the SEC could move in if confirmed, Trump said: “We need to undo many regulations which have stifled investment in American businesses, and restore oversight of the financial industry in a way that does not harm American workers.”

In her speech, however, White fiercely defended the independence of the SEC, saying that government mandates—and Dodd-Frank

According to White, if implemented this bill would “impose conflicting, burdensome, and needlessly detailed requirements regarding economic matters in commission rulemaking that would provide no benefit to investors beyond the exhaustive economic analysis we already undertake.”

She also argued that the Financial CHOICE Act would “similarly undermine agency rulemaking as well as cripple our enforcement capabilities”. Such decisions would be best left to non-political agencies, which should, in turn, be allowed to be independent.

White said: “The strength and utility of the agency’s structure depends on an environment that rewards expertise and frank dialogue, not partisan affiliation and political games.”

“If the ability and resolve of commissioners to act independently diminishes, so too will the opportunity for solutions that, while politically unpopular, best serve investors and markets.”

While White advocates keeping politics separate from financial regulation, Trump’s commitment to a “government controlled by the people” perhaps calls for closer oversight. Indeed, while Dodd-Frank does retain dedicated supporters, they tend to concede that the act is imperfect.

Speaking out in defence of Dodd-Frank in November, Rick Fleming, an SEC investor advocate, said the industry should consider regulations “not as a burden to be repealed or picked apart haphazardly, but as the essential nutrient for flourishing capital markets for a growing economy”.

While he praised the elements of transparency and regulatory oversight that the act has made commonplace, Fleming questioned its overall impact. He said: “I think it is legitimate to question, six years after its adoption, whether the other pieces of the act have done more harm than good.”

Was Dodd-Frank a necessary measure to restore stability to the US markets following the financial crisis?

He adds: “Having a process in place that is credible, meaning markets believe bank regulators will in fact not bail out institutions and resolve them in an orderly manner, continues to be a part of the unfinished business mandated by Dodd-Frank.”

A theme that seems to be continuing into the New Year is one of uncertainty. Whatever changes are in store for Dodd-Frank, the very state of not knowing could mean a reluctance to invest and therefore a stagnation in the US markets. However, there is positivity to be found, too. Myers says: “Essentially, firms want to keep their ‘powder dry’ until they know what they are shooting at. However in this instance, we may see a departure from that trend because firms will believe that any changes to Dodd-Frank will be pro-industry.”

According to Myers: “There will be doctoral theses written on this topic for the next two decades.”

“Arguments can be made that post-crisis recovery was slow because the industry had to recalibrate to understand what went wrong with their pre-crisis worldviews and operating models. To be sure, capital that was invested in regulatory compliance was diverted from other areas of firms.”

Khurana adds: “The act has been largely successful in meeting its objective of stabilising the financial markets. However, like any major reform, the act was not a perfect solution and needs further fine-tuning.”

She names simplification to parts of the act, and greater regulatory consolidation as “desired fine-tunes”, and suspects that at least some of these changes may be on the agenda for 2017. Taylor focuses on the public concern about the use of public money to bail out some of the largest US institutions.

Such institutions are deemed to be systemically critical, and a threat to the economy and markets both in the US and elsewhere, he says, however “the framework to resolve an institution remains a work in progress”.

Trump’s pro-jobs, power-to-the-masses rhetoric could in fact bring some relief to the smaller banks—those that, as Taylor notes, “did not cause the financial panic in 2008, were nonetheless included in Dodd-Frank, and have had imposed on them regulations that have been onerous and counterproductive”.

Even so, any regulatory change will be a challenge. While Taylor predicts that “relief for ‘Wall Street’ could be a source of resistance by both republicans and democrats”, we know from experience that in matters of money and markets, pleasing all players is impossible.

White poignantly noted in her final speech as chair of the SEC: “My tenure has certainly been marked by hard decisions that have attracted criticism from both political parties.”

“We have been accused of both gutting regulation and suffocating the market with too much of it. A few have attacked us for letting the crooks off with a slap on the wrist, while others say we are too tough or have targeted others simply to pump up our numbers.”

“In short, the environment necessary for independent agencies to be able to do the jobs you all want us to do is not getting better.” **AST**

Stephanie Palmer reports

What lies beneath

While clients and regulators focus on counterparty risk, they could be blind to bigger issues. Thomas Zeeb of SIX Securities Services explains

What are the most prominent risks in the market at the moment? What are clients concerned about?

Risk is a broad term, and you have to be careful to differentiate what we are specifically talking about—counterparty risks, operational risks or systemic risks? Each of these has different measures, and different aspects that need to be addressed.

Typically, however, we are seeing that our clients are focused on counterparty risk, and I find that surprising. With all the regulatory work that has been done, and the focus on central counterparties, I would actually be more concerned that systemic risk is increasing. Equally, with regards to the operational side of things, the scope for error is much larger there.

I'm not by any means belittling the importance of counterparty risk—it is critical, and the focus that the regulators have put on it is legitimate. However, when considering the most pressing issues, I would be more inclined to focus on operational risk and liquidity risk.

There is such a stringent requirement for high-quality collateral for almost everything our clients do. Several different regulations require a certain level of collateral, and if it's not available when it's required, we will see a liquidity crunch that could potentially generate the next crisis.

I see that as a systemic issue, but so far, that is the way that the regulators are going. We are struggling to find the best ways to optimise collateral, and to optimise liquidity, but it's becoming increasingly difficult and it will eventually cause problems. To me, that's a bigger risk than counterparty risk.

Why do you think your clients are more focused on the counterparty side of things?

Infrastructures such as SIX are regulated differently to banks, and therefore have a lower risk premium attached to them. The issue of segregating assets is very relevant to our clients, as they are also dealing with agent banks. However, we have had asset segregation at a sub-custody level for many years, and a client that is, for example, an investment bank, is already required to segregate its own proprietary assets from those it holds on behalf of clients.

So assets are generally safe. What is not safe is cash. But still, there are mechanisms to place cash tactically, or to convert it into securities, in order to make it as safe as possible. While you may inadvertently end up sitting on cash, and that cash is exposed if something was to happen to the bank overnight, all of this is against a background of relatively few failures. This doesn't happen often.

We're creating solutions for scenarios that are possible, but unlikely. In a crisis, you can't know what is going to happen, so you have to plan for the worst and hope for the best. But, with clever cash management on the part of the clients and ourselves, we can mitigate those risks to quite a high level.

What I struggle to mitigate is the systemic risks arising from the concentration of liquidity. There are problems around this on the horizon, and they are only going to get worse.

Were the regulations put in place after the financial crisis over-zealous? Have they caused as much harm as good?

They're focused on transparency, and that is fundamentally a good thing. Requiring collateralisation of transactions is also a good thing. However, it's important to consider how the various regulations interact with each other and what the cumulative effect is. Regulations may be generally good in isolation, but when you put them together you often find concentrations that you hadn't anticipated.

I just don't believe that you can systemically automate crisis response. In the case of the last global financial crisis, elements of it were dealt with well, even without any regulation in place. That happened because market participants—competitors, clients and traders—picked up the phone over the weekend and matched transactions themselves. This ran between Europe and North America, and by Monday morning we were in relatively good shape.

There is a lot to be said for a common-sense approach and for professionals getting together to ensure stability. You can create codes and triggers and reports, but all that is going to do is automate a process that is not the right process for the problem. It's not going to work.

You can't automate the wealth of experience of people who have been in the market and dealt with these kinds of issues for the last 20 years. Sometimes you just need to get those people talking to each other, that's what works, and the benefits of that apply to everyone.

Whatever the next global issue is, it will certainly be different to what we have planned for. We need a system that is flexible enough that when an unknown problem comes along we can figure out who the right people are to address it properly. We are fortunate that, in the post-trade industry, those people are there.

What other challenges is the industry facing with regards to regulation?

I think the biggest challenge we have as far as regulation goes is selective and individual interpretation of the implementation. In some cases, there are different jurisdictional interpretations, which increase costs and don't necessarily reduce the likelihood of a major fail if there is another crisis.

Different national regulators will implement different timelines and accept different solutions to manage the same thing. That can't be good. If the regulation applies on a pan-European level, there should be one level of collateral that's acceptable and one timeline in place. Different implementation models create inconsistencies—the regulation itself isn't the biggest problem, it's the way in which it's implemented.

Inconsistency creates huge costs for the industry, because each institution has to get a legal opinion on every market it works in.

Each institution has to gain access and force through its rights in the event of a counterparty failing in each particular country, which is difficult, because insolvency laws are different in each country.

If you're going to put regulation in place, do it once and do it right. Consult with people who know what they're talking about and can give a pragmatic view on things, and implement something that makes sense. That would make it cheaper, easier and safer for the industry as a whole. **AST**

> Whatever the next issue is, it will certainly not be what we planned for

Thomas Zeeb
CEO
SIX Securities Services

Comings and goings at AIMA, DTCC, Raiffeisen Bank and more

The Alternative Investment Management Association (AIMA) has further strengthened its team in the Asia Pacific (APAC) region with the appointment of Lilian Lee as director and general manager for Singapore.

Lee joins from GIC Private Limited, where she was senior vice president and portfolio manager in the external managers department. Her appointment follows that of Michael Bugel, who was made co-head of APAC in June 2016.

CEO of AIMA Jack Inglis said: "I am delighted to welcome people of the calibre and experience of Michael Bugel and Lilian Lee to AIMA's expanding APAC operations."

He added: "We now have branches in Hong Kong, China, Singapore, Japan and Australia. Lilian Lee joins a strong team and brings additional experience that will be key to supporting our members across the APAC region."

The Depository Trust & Clearing Corporation (DTCC) has bolstered its senior leadership team with the appointment of Derek West as chief compliance officer for its European global trade repository (GTR) business.

West will focus on ensuring DTCC's compliance with the European Market Infrastructure Regulation (EMIR), along with all other relevant regulatory regimes.

He will also coordinate EMIR supervisory activities and examinations, as well as work closely with GTR senior management and the European Securities and Markets Authority.

West was previously senior director of derivatives oversight at the Quebec Autorité des marchés financiers, the Canadian province's financial services regulator, where he was responsible for drafting and implementing Quebec's Derivatives Act and regulations.

He also managed eight national regulatory projects, including trade repository recognition and reporting rules and mandatory central counterparty clearing rules.

Andrew Douglas, CEO of GTR Europe at DTCC, said: "Derek West brings a wealth of compliance knowledge and regulatory experience to DTCC."

"As the global regulatory environment continues to evolve, he will be a key asset to the firm, our community and the GTR Europe compliance programme."

Tim Wood is to leave RBC Investor and Treasury Services (I&TS), the bank has confirmed.

Currently managing director for business management, Wood is leaving RBC I&TS to pursue an opportunity elsewhere, according to an RBC spokesperson.

In his 14 years at RBC, Wood has held several positions including head of client solutions for RBC Investor Services, head of global network management at RBC Dexia, and head of operations and fund services at RBC Dexia Investor Services. Before this, he was director of client services at Investco, a role he held for more than five years.

George Zolnai has been appointed as the new CEO of Raiffeisen Bank in Hungary, subject to approval from the supervisory board and regulatory authorities.

Zolnai will replace Heinz Wiedner, who is set to retire on 1 May after six years in the CEO position.

According to Raiffeisen Bank, Zolnai was selected for his significant experience as a senior banker in Hungary and elsewhere. He is currently CEO of Budapest Bank.

Karl Sevelda, CEO of Raiffeisen Bank International, said: "I would like to thank Heinz Wiedner for his excellent performance and for managing the bank in turbulent times, and wish George Zolnai all the best for his future position."

"I am convinced that he will continue the successful path of our Hungarian bank, which has turned profitable again after several difficult years."

CIBC Mellon has appointed Darlene Claes-McKinnon to its relationship management team as relationship executive.

Claes-McKinnon will be responsible for client relationship management for Canadian institutional investors in the Atlantic region, including pension, fund, insurance and corporate investors.

She brings 20 years of experience working with institutional investors, and joins from Northern Trust, where she was vice president for relationship management.

Before this, she held positions at McInnes Cooper and RBC Investor & Treasury Services.

In her new role, Claes-McKinnon will report to Tim Rourke, pension practice lead and vice president of relationship management at CIBC Mellon.

Steven Wolff, president and CEO of CIBC Mellon, commented: "I am confident that Darlene Claes-McKinnon's appointment will help deliver on CIBC Mellon's commitment to the region, and her extensive experience will reinforce the strong client service we deliver."

Claes-McKinnon added: "I am excited to join the company and work collaboratively with clients, providing a client-centric service experience for CIBC Mellon clients in the Atlantic region."

The California Public Employees' Retirement System (CalPERS) has re-elected Rob Feckner as board president for a thirteenth term.

Feckner represents school members on the CalPERS board, which he joined in 1999. He currently serves on the governance, investment, and pension and health benefits board committees.

Feckner commented: "This vote of confidence from my peers is very humbling."

He added: "Together we will continue our efforts to ensure a sustainable pension and access to quality health care for our members now and into the future."

"We have much to be proud of in the way of accomplishments over the past year, but we have much more we need to achieve for California's dedicated public employees."

CalPERS also confirmed Henry Jones as vice president for a third term. Jones represents retired CalPERS members and was first elected to the board in 2008.

He chairs the investment committee and also sits on the board governance, finance and administration, and pension and health benefits committees.

"I am honoured to again be elected vice president of the board," Jones said. "I look forward to working with my board colleagues, CalPERS staff, and our constituents on the important business of serving our members who serve this great state."

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Law firm Ogier has appointed Anne-Gaëlle Delabye as a managing associate in its Luxembourg office, building on its investment funds team.

Delabye's practice focuses on the regulated investment funds sector. She joins from Jeantet's Luxembourg office, where she was head of regulatory and investment management.

Francois Pfister, practice partner at Ogier in Luxembourg, said: "We are very pleased to be able to welcome Anne-Gaëlle Delabye to our team, and we expect to announce further moves to strengthen our offering soon."

"The Luxembourg office has seen a strong double-digit growth year-on-year and we remain confident that we have some way further to go. Anne-Gaëlle Delabye's focus on the investment funds and regulatory sectors is the perfect fit for where we see opportunities developing in 2017." **AST**

INTERNATIONAL FUND MANAGEMENT

8-9 MARCH 2017

KEY HIGHLIGHTS ADDRESSED

KEYNOTE SESSIONS
Market Volatility and Events | Fund Management | Systemic Risk Globalisation of the Industry | Technology & Data

REGULATORY CHANGE & BUSINESS IMPACTS
Regulatory Landscape | Regulatory Reporting | Execution Risk | PRIIPS | Conduct Risk | Behavioural Analytics

LIQUIDITY RISK MEASUREMENT & MANAGEMENT
Systemic Risk | Collateral Management | Liquid and Illiquid Assets | Market Conditions and QE | Market Conditions | Stress Testing | Central Clearing

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The International Fund Management 2017 Summit looks to bring together over 300 asset and fund management professionals over two days to provide a platform for networking, interaction, idea sharing, insight, and thought leadership. The multi-stream function allows attendees to tailor their event by freely moving between sessions on regulatory changes, liquidity risk measurement & management, product innovation and client solutions.

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