AST AssetServicingTimes

Conference Special

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# The clock is ticking:

## Time is running out for MiFID II compliance

Blockchain revolution?

TA's hour of reckoning

Keeping post-trade punctual

Middle East on its own schedule


## J.P. Morgan wins State Street's $1 trillion custody gig

BlackRock has switched custodian for $1 trillion in client assets from State Street Bank and Trust Company to J.P. Morgan Corporate & Investment Bank.

J.P. Morgan expects to onboard the assets from State Street over the next two years.

Daniel Pinto, CEO of J.P. Morgan's corporate and investment bank, said: "This historic deal expands our relationship with BlackRock and is a validation of the investments we've made and the resources we've added to the custody and fund services business."

According to BlackRock, State Street will still be a "significant service provider for BlackRock", retaining its exchange traded fund business, among other things.

Derek Stein, senior managing director and head of business operations and technology at BlackRock, suggested that the decision reflects a commitment to maximise economies of scale, and to offer cost savings to clients.

He said: "As a fiduciary for our clients, we continually look for ways to secure services at the lowest cost and highest quality available. The expansion of our custodial relationship with J.P. Morgan reflects its attractive value proposition for these services while still allowing BlackRock to maintain a diverse roster of fund service providers."

The news comes as State Street released its Q4 2017 earnings on 25 January, noting a 1.4 percent dip in assets under custody and administration, compared to Q3 2017.

However, State Street's assets under custody and administration was up 4.6 percent on Q4 in 2016. It also reported new asset servicing mandates of about $1.4 trillion in 2016, including $180 billion in Q4.

A State Street spokesperson commented: "BlackRock continues to be a valued and longstanding client of State Street with a more than two-decade long servicing relationship. We remain a significant service provider for BlackRock, and the transition will not be fully completed until 2018."

"As seen in our earnings announcement, we continue to see strong client demand for our services."

The spokesperson added: "Many of our most significant client wins during the year were expansions of existing client relationships, which we see as a strong endorsement of the value we're providing."

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# UK and US regulators round on Deutsche Bank

Deutsche Bank is set to pay a total of around $628.1 million to the UK's Financial Conduct Authority (FCA) and the New York State Department of Financial Services (DFS) to settle charges around failings in the bank's anti-money laundering (AML) framework.

The bank will pay the UK regulator a penalty of £163.1 million ($203.1 million), the largest ever imposed by the FCA, or its predecessor the Financial Services Authority, for failings in AML controls.

The New York DFS will receive $425 million (£339.1 million) to settle the investigation into violation of New York AML laws, and Deutsche Bank has also agreed to a consent order.

The charges relate to 'mirror trades' executed between April 2012 and October 2014, which involved orders being placed for both sides of a trade, which were then executed by Deutsche Bank's Russia-based subsidiary DB Moscow at exactly the same time.

Customers on both sides of the trade were already connected, and the volume and value of the securities were the same. This allowed Russian roubles to be converted into US dollars and transferred out of Russia in a manner that the FCA said is "very suggestive of financial crime".

In total, almost $10 billion of unknown origin was transferred from Russia to overseas accounts in Cyprus, Estonia and Latvia.

According to the FCA, Deutsche Bank did not properly oversee the formation of new customer relationships for global business in the UK, thereby exposing the UK financial system to the risk of financial crime.

The mirror trades were routinely cleared through the Deutsche Bank Trust Company of the Americas unit in New York. The DFS investigation found that "none of the trades demonstrated any legitimate economic rationale".

It added that Deutsche Bank "missed numerous opportunities to detect, investigate and stop the scheme due to extensive compliance failures".

The FCA investigation noted, specifically, that Deutsche Bank performed inadequate customer due diligence, and did not ensure that its front office took responsibility for the corporate banking and securities division's know-your-customer (KYC) obligations.

Deutsche Bank used flawed customer and country risk rating methods, deficient AML procedures and an inadequate AML IT infrastructure, the FCA found. The bank also lacked automation in its AML system for detecting suspicious trades, and failed to adequately oversee trades booked in the UK by traders in other jurisdictions.

This means the bank did not have enough information on its customers to inform the risk assessment process, or to provide a basis for transaction monitoring, the FCA said.

Similarly, the DFS investigation found that Deutsche Bank conducted business in an "unsafe and unsound" manner, failing to maintain an effective and compliant AML programme or a true record of transactions.

The DFS added that the bank's KYC processes were weak. The bank failed to accurately rate its country and client risks for money laundering, and lacked global benchmarking in its risk appetite, which resulted in "material inconsistencies and no methodology for updating the ratings".

The statement on the DFS investigation said: "Deutsche Bank was not in line with peer banks, which rated Russia as high risk well before Deutsche Bank did in late 2014."

Finally, the DFS noted that anti-financial crime, AML and compliance units were ineffective and understaffed, and that a senior compliance employee had failed to respond to a query regarding contradictory

information on one of the companies involved in the scheme.

The statement added: “At one point, an attorney who lacked any compliance background served as the Moscow branch’s head of compliance, head of legal, and as its AML officer—all at the same time.”

Deutsche Bank agreed to settle at early stages of both investigations. In the UK, this meant it qualified for a 30 percent discount on the penalty.

The discount does not apply to $9.1 million in commission generated from the suspicious trading, which was disgorged as part of the overall penalty. Including this, and without the 30 percent discount, the total penalty paid to the FCA would have been £229.1 million.

The FCA noted that Deutsche Bank was “exceptionally cooperative” throughout the investigation, and that it has “committed significant resources to a large-scale remediation programme” to correct the shortcomings in its AML control framework.

Mark Steward, director of enforcement and market oversight at the FCA, said: “Financial crime is a risk to the UK financial system. Deutsche Bank was obliged to establish and maintain an effective AML control framework. By failing to do so, Deutsche Bank put itself at risk of being used to facilitate financial crime and exposed the UK to the risk of financial crime.”

“The size of the fine reflects the seriousness of Deutsche Bank’s failings. We have repeatedly told firms how to comply with our AML requirements and the failings of Deutsche Bank are simply unacceptable. Other firms should take notice of today’s fine and look again at their own AML procedures to ensure they do not face similar action.”

As part of its settlement with the DFS, Deutsche Bank has entered into a consent order to engage an independent monitor, approved by the DFS, for up to two years. According to the DFS, the penalty also acknowledges the bank’s cooperation and remediation efforts.

Maria Vullo, the DFS financial services superintendent, commented: “In today’s interconnected financial network, global financial institutions must be ever vigilant in the war against money laundering and other activities that can contribute to cybercrime and international terrorism.”

She added: “This Russian mirror-trading scheme occurred while the bank was on clear notice of serious and widespread compliance issues dating back a decade.”

“The offsetting trades here lacked economic purpose and could have been used to facilitate money laundering or enable other illicit conduct, and today’s action sends a clear message that DFS will not tolerate such conduct.”

According to Deutsche Bank, the settlement amounts are already reflected in litigation reserves.

The bank is also cooperating with other regulators and law enforcement authorities that have ongoing investigations relating to the same matter.

Karl von Rohr, chief administrative officer at Deutsche Bank, said in a memo to employees: “While we are pleased to have resolved these matters, the FCA and the DFS were critical of our client onboarding and KYC procedures, AML monitoring and organisational clarity among the businesses and control functions involved in these securities trades. We deeply regret the bank’s role in the issues cited.”

He continued: “We have some way to go until we can put our major legacy legal matters behind us, but we continue to pursue their resolution step by step.”

Deutsche Bank’s onshore investment banking business in Russia closed in 2016.

## Chilean markets open up to international investors

Euroclear is cooperating with the Chilean Ministry of finance to facilitate access to the Chilean capital markets for international investors.

The partnership is intended to align Chile's post-trade processes with international standards, as part of a financial integration agenda promoted by the country's government.

Government bonds denominated and payable in pesos are now available to both domestic and international investors. Those sold cross-border—about 20 percent of the total issuance—have been settled through Euroclear's account at the Chilean central securities depository, Deposito Central de Valores (DCV).

Rodrigo Valdés, Chile's minister of finance, said: "Being able to tap into the liquidity provided by international investors is tremendously important for the continued development of our local market."

"And, it should yield tangible benefits such as reducing the cost of borrowing, increasing liquidity in our local markets and furthering investment in our economy. By making our bonds Euroclearable, we have aligned our capital market infrastructure with the globally recognised standards that are synonymous with Euroclear's robust, resilient and sound risk-management principles."

Stephan Pouyat, global head of capital markets and fund services at Euroclear, commented: "The new regulatory framework, including the new tax treatment rule, enables Euroclear to extend its already well-developed Latin America offering and provide international investors with a simple, efficient and cost-effective way of accessing Chilean assets."

Fernando Yañez, general manager of DCV, added: "Chilean sovereign bonds becoming Euroclearable is good news for the market, and represents a successful relationship with Euroclear. We are confident that Euroclear's market participation will generate more demand for these bonds from international investors."

## Repo market could 'shut down'

The repo market could "shut down" under stress conditions, with pension funds most at risk, according to Northern Trust.

Pension funds are caught between sustained low interest rates and "the unintended consequences of a variety of market regulations", explained authors Mark Austin and Steve Irwin in a new whitepaper.

"In times of market stress, the repo market could shut down, or a bank may not be able to provide an investor with direct cash," the whitepaper continued.

Therefore, funds must diversify their portfolios' liquidity sources in order to gain the "strongest protection" against future market turbulence. According to the whitepaper, some pension schemes are increasing their allocation to cash to as much as 7 percent of their portfolios.

In previous environments, investors could earn 2 to 3 percent by holding cash, but today, they must settle for no returns, or even suffer negative rates.

"Cash has gone from being a benign by-product of investing to arguably the essential facet of a lot of investment strategies."

Turning to regulation, Irwin and Austin cited the US Dodd-Frank Act, the European Markets Infrastructure Regulation and the EU's Solvency II Directive as all bringing unintended consequences through their liquidity requirements.

A separate report by the Dutch asset manager APG and the Dutch pension fund provider PGGM, two of Europe's largest pension funds, along with Insight Investment and MN, estimated that if European pension funds were required to centrally clear derivatives trades and post cash for variation margin, the total collateral required for a 1 percent rate shift would range from €205 billion to €255 billion. In more stressed scenarios, it could reach €420 billion.

"If interest rates in the current market environment move by a quarter of a percent—which some industry participants argue would not be uncommon—then, collectively, European pension funds would be required to post intra-day margins of approximately €55 billion," the Northern Trust whitepaper stated.

"So, while more central clearing has de-risked the market, it has unintentionally given investors new kinds of liquidity challenges."


## NSD to launch OTC repo collateral service

Russia's National Settlement Depository (NSD), in partnership with Bloomberg, is preparing to launch a new collateral management service for over-the-counter repo transactions in March.

The platform, which began testing in December, promises to expand the number of users of NSD's collateral service and allow new repo transactions to be processed "in a similar way to the functionality available for repos with the Bank of Russia and the Federal Treasury".

NSD's existing system currently services 192 participants.

The project, which began last year, is sponsored by the Moscow Exchange Group and has been in a testing phase since December 2016.

In a statement on the launch, NSD described its role as keeping general collateral certificates (GCCs) and basic assets, as well as providing collateral management services to automatically select clients' securities for the pool on the basis of selected parameters and for margins calls.

The aggregate value of repo transactions serviced by the NSD increased nominally in 2016, to sit at RUB 47.3 trillion ($797.5 billion), up from RUB 46.3 trillion ($780.6 billion) in 2015.

The annual value of repo transactions with the Federal Treasury through the NSD doubled between 2015 and 2016, to value more than RUB 37.4 trillion ($630.6 billion).

Transaction volumes also increased to more than 2,200, up from 1,200 the year before.

The value of repo transactions with the Bank of Russia fell steeply to RUB 9.9 trillion ($166.9 billion) in 2016, down from RUB 30.8 trillion ($519.3 billion).

In January, Bloomberg launched the MARS Collateral Management solution and secured HSBC Private Bank and more than a dozen corporations and financial institutions as clients.

The MARS solution targets the new variation margin requirements for non-centrally cleared OTC derivatives for banks, investment firms and corporations, promising to facilitate the collateral management and reconciliation processes needed to adhere to these new requirements.

Bloomberg commented: "These rules are intended to reduce systemic risk, but present costly operational challenges to investors who will need to calculate and post initial and variation margins for all non-cleared trades, classify eligible collateral to post and deal with an increase in margin calls and daily calculations."

By way of possible solutions to what the paper describes as the "liquidity conundrum", funds should identify "unusual sources of liquidity", such as securities available for repo activities or securities lending.

Funds should also maintain a liquidity ladder to forecast needs and match them with known cash flows, while modelling the asset liquidity profile and stress testing it to understand the true benefit and cost of embedded funding costs, as well as margin requirements on derivatives positions.

## PayCommerce hails successful instant payments test

Cross-border payments network PayCommerce has completed the first payment, clearing and settlement using its Federated Ledger blockchain technology.

In the first phase of the network rollout, PayCommerce completed multiple test payments between the US and India.

The Federated Ledger blockchain-based technology foundation is integrated into the network, allowing for lower transaction costs, increased efficiency and transparency, and easier risk management and regional compliance.

PayCommerce intends to begin production and commercialisation of the network in Q2 2017, with a view to introduce instant payments in the UK, Mexico and Gulf Cooperation Council countries by the end of the year.

The platform will then be extended to include Singapore, Canada and the Philippines in 2018.

Max Narro, CEO of PayCommerce, said: "The facilitation of instant payments into India heralds a new era in the democratisation of cross-border payments."

"For the first time, payees will receive remittances in real time, eliminating costly clearing and settlement procedures and reducing risk in payment acceptance."

He added: "We're excited for the rollout of real-time payments cross-border account-to-account in other markets in 2017 as we lead the world forward in instant payments space."

Gareth Lodge, a senior analyst at Celent, said: "PayCommerce has created a new category in the cross-border payments

## BNP Paribas partners with AI start-up

BNP Paribas Securities Services has invested in Fortia, a financial technology start-up focused on artificial intelligence (AI), acquiring a minority stake in the business.

The Fortia solution uses AI, machine learning and business process monitoring to help clients in the funds industry to meet increasing compliance requirements and manage large volumes of data.

Its investment compliance platform, Innova, helps asset managers and owners to control and monitor their funds' compliance with local and international regulatory requirements.

It is also designed to help clients improve operational efficiency, and offers access to improved data and analytics, plus scenario simulations.

The investment from BNP Paribas Securities Services will help finance Fortia's next stage of growth, while offering expertise in its target market. BNP Paribas will also implement Innova into its own depository banking business.

Jean Devambez, global head of product and client solutions, and asset and fund services at BNP Paribas Securities Services, commented: "Fortia's Innova solution tackles two very real challenges for financial services companies and institutional investors—growing regulatory requirements and mounting volumes of data—by applying new technologies in an intelligent and innovative way."

He added: "By taking a stake in Fortia, we are not only helping a start-up flourish but also ensuring our clients have access to the latest technologies to grow and develop their business, meet compliance requirements and enhance operational efficiency."

Fortia founder Reda Bouakel said: "We are very pleased with this strategic partnership, which will provide Fortia not only with the necessary financial resources for its development but also with a strong business expertise essential to the evolution of our offerings."

"This strategic partnership marks a decisive step in Fortia's development and ambition to become one of the leading providers of technological solutions dedicated to investment compliance monitoring, anti-money laundering, know-your-client and reporting."

BNP Paribas Securities Services and Fortia were introduced at L'Atelier BNP Paribas's Fintech & Corporate Accelerator programme in 2016. The programme is focused on business development, and is designed to create value for start-ups, BNP Paribas businesses and clients.

space with its consortium model of banks and corporates, focusing on the banking industry (versus just banks) and its distributed ledger-inspired technology delivering instant payments. It is a unique model in the industry."

Currently, the PayCommerce network includes 95 banks, corporates and alternate channel providers, located in 75 countries.

## First Irish UCITS funds win stock connect approval

Value Partners Ireland, an Irish UCITS funds umbrella, has become the first to be approved by the Central Bank of Ireland (CBI) to start investing in China A-shares through the new Shenzhen-Hong Kong Stock Connect.

Value Partners was supported by HSBC, which, the bank said, has been working closely with the CBI around approvals for UCITS funds for the Shenzhen-Hong Kong Stock Connect programme, as it did when the original Shanghai-Hong Kong Stock Connect launched in 2014.

The new stock connect programme began operations on 5 December 2016.

The CBI began accepting invitations from Irish UCITS funds on 16 December to invest through the platform.

Ciara Houlihan, head of trustee and fiduciary services at HSBC Institutional Trust Services in Ireland, which acts as depository to Value Partners Ireland, commented: "We understand that this is the first Irish UCITS fund to be approved to invest in the Shenzhen-Hong Kong Stock Connect."

"HSBC has a long track record of engagement and connectivity in Asian markets and is exceptionally well placed to enable Irish regulated funds to access this latest programme."

Florence Lee, who is head of China sales and business development for securities services in Europe, the Middle East and Africa (EMEA) at HSBC, commented: "HSBC is delighted to have supported these funds in accessing the Shenzhen stock market, which offers investors the opportunity to invest in some of China's fastest-growing companies."

"These advances reinforce the significant strides made in opening China's capital markets to European and now Irish investment vehicles."

Stephanie Palmer reports

# Tick follows tock

## They may have been offered a 12-month extension on the implementation of MiFID II, but good things won't come to asset managers who wait

After much toing and froing between regulatory authorities and the European Council, the eventual delay to the implementation of the second Markets in Financial Instruments Directive (MiFID II) came as something of a relief for an industry under serious regulatory pressure.

But the regulation remains infamously broad and complex, and the changes it will bring to funds management and distribution operations should not downplayed. As the new deadline of 3 January 2018 creeps ever closer, all affected parties are being increasingly urged not to dilly dally in getting their solutions up to scratch.

**On target**

Gary Janaway, newly appointed COO of KNEIP, suggests that one of the key issues asset managers should focus on is that of the notion of their 'target market' and the management of data relating to the products they manage and the distributors that promote them.

The information included in the target market universe of data includes expressions of a fund's level of risk, suitability for investors, and the type of assets held and the investment strategy.

This will need to be provided by asset managers to each distributor for every fund they agree to distribute to their clients. The frequency by which asset managers should exchange the target market data with distributors, and the specific data content is not yet clarified.

"The target market data required is only in its nascent form as the industry has only just started the work to define what is required and in what form," Janaway says. "This will need to be defined quickly."

According to Janaway, it would be preferable to have one definition for target market requirements for all fund domiciles in Europe, rather than, for example, one definition in cross-border and international centres, and another for domestic markets.

He says: "Slight adaptations or flavours might be able to work, but if there are distinct differences in each market, it will be cumbersome and increase costs."

Asset managers typically register funds for distribution in many different markets, through multiple distributors. If the definitions of target market data are not standardised, they will create one master set of target market data, consisting of sub-sets for each cross-border and domestic market. Extracts or sub-sets of this data will be sent to each distributor, depending on the domicile of the funds they distribute.

Distributors will, in effect, have the same exercise to perform but in reverse, once they have received target market information from the assets managers. In practice, this will likely be a positive confirmation sent to asset managers built around the idea of 'negative target market', the process by which distributors will confirm to asset managers that they are in compliance with the target market.

Etienne Deniau, head of strategic marketing at Societe Generale Securities Services, also notes that distributors have a lot of work to do. He suggests that affected fund managers have generally done everything that's required of them already, at least to an extent.

Fund managers have to look at the suitability of their products, and define their target markets. Deniau explains: "They're not part of MiFID II directly, but their distributors will require them to specify which market each product is for."

As each distributor will have agreements with many asset managers to promote a selection of their funds, in several countries where the distributor has clients, they too will need to maintain details of each relationship.

This will include details of each asset manager, its funds and the target market data covering these investment products.

Janaway says: "So, distributors too will need to maintain a superset of data, made up of the target market data of each fund they promote for each asset managers, large or small. Thus, each distributor will create the mirror image of its relationship with its asset managers. So we have a situation where distributors and asset managers have more or less the same exercise to complete in preparation to be MiFID II compliant."

**Blurred lines**

While the framework of interaction between asset managers and distributors is reasonably clear, the conditions and details as to precisely what needs to be exchanged, how frequently and when, is not. This is particularly true when considering the notion of negative target market. In the case of an investor buying an unsuitable fund, or in a jurisdiction where the fund is not registered—or if the risk profile of a fund changes and renders it unsuitable to certain investors—this needs to be reported to the asset manager. How and when this should be done is yet to be defined, but more importantly, there is less information available as to how to rectify such cases.

Further, it will be one thing for asset managers and distributors to work together, but there are yet more question marks as to the extent of work required to prove that each party is compliant.

Janaway asks: "What will they need to produce to demonstrate that the actual investors in a fund are eligible investors who have been sold suitable products? Once this is known, how often must this exercise be performed?"

"It's a distinct possibility that this exercise may require asset managers to analyse the custody chain, allocating investors' shares in funds to the account where they are held by the custodian of the distributor."

While the register of shareholders is usually maintained by the fund's transfer agent or fund administrator, many of the shareholder accounts are likely to be nominee or omnibus accounts of large custodians that often operate with central securities depositories. These accounts can have complex custody chains involving multiple financial intermediaries.

This may sound extremely challenging, but, as Janaway points out, it would be in keeping with MiFID II's focus on transparency.

He says: "If the strictest interpretation of transparency is required as a result of MIFID II—which is very possible—it is going to be a very demanding year for distributors and asset managers."

Similarly, Deniau highlights issues around identifying beneficial owners that are natural persons, because of the different identification methods used in different EU member states.

"It is a difficulty because member states have different ways of doing it," he says.

Just as different countries have different ways of identifying people—social security identification that last a lifetime versus identity cards and passport numbers that change every ten years, for example—markets are not uniform in identifying retail end investors. This will pose yet another complexity to those asset managers and distributors trying to keep track of all their target market information in a clear and transparent manner.

**Delay another day?**

With so many uncertainties still remaining, and the deadline looming less than 11 months away, some institutions are wondering if, even with the 12-month extension, they will be prepared to meet the requirements under MiFID II.

Deniau notes that parts of the directive are "a bit blurred", and suggests that the very nature of it being a directive means it requires a lengthy, two-step negotiation for institutions to get any clarity on the work they should be doing.

He says: “You might go to your local regulator and ask which interpretation, A or B, is correct. The regulator might say A, but then they will go to the European regulator for further clarification, and they could come back a few months later and say the correct option is actually B.”

“They need to validate and confirm that with the European regulator, and then on that topic we could lose six months.”

Janaway is more optimistic, however, suggesting that clarifications are starting to emerge. He says: “I would expect that by the end of Q1 2017 there will be enough certainty about what needs to be done to allow the industry to progress.”

KNEIP, he says, is anticipating the need for more transparency, and so will not delay the start of development on its solutions. In fact, Janaway estimates that KNEIP’s prototype MiFID II services will be ready for the market by the end of Q3 2017. However, the pressure on the industry will grow the longer it takes to finalise the target market data, frequency of exchange and terms for managing exceptions.

He says: “We will need to keep refining our services from Q4 this year through 2018. Our approach is twofold: to develop a service around the management and exchange of target market data and; an extended service to overlay this information across holdings of a fund’s register of shareholders.”

Deniau is of the opinion that the 12-month delay may still not be sufficient, given the overhaul required. For large distributors, banks or insurance companies, the process of changing internal systems can take about a year in itself.

“You need to know the necessary requirements, code in the business requirements, test them, put them into production, train the users—and if you’re talking about a network with a few thousand people, this process takes more than a year,” Deniau says.

“Today there are still some uncertainties on the technical details. There are two ways to manage this, either you make a hypothesis that you may have to change at a later stage, or wait for the final details to be confirmed. Either way, you risk not being compliant by January next year.”

In drafting the designs for solutions, KNEIP has made certain assumptions, Janaway says, and so by building modular solutions, it should be well placed to incorporate the final requirements.

He says: “We know there are certain data sets that people will need to store, we hold a lot of data for asset managers already, so we see MiFID II as an extension of services we provide today. In addition, we have the capability to transmit and receive data on an industry level today and do so in providing a range of services to our clients and their counterparties.”

Janaway and Deniau agree that the initial delay was sensible, as requirements to report security transactions involved considerable complexity; so much so that it took the focus away from the requirements for asset managers to meet the new rules relating to the target market needs covering product and distribution. Equally, however, neither expects to see another reprieve come January 2018.

They also agree that the new timeframe is still pretty tight, with Deniau calling it “difficult to cope with”.

Despite this, Janaway suggests that further delay could actually be damaging to the industry. It would preferable, should 1 January 2018 be deemed to soon for full compliance, to introduce a grace period of a few months. “If delay is discussed on the agenda today, people will start to down tools or lower the priority of their MiFID II projects,” Janaway says.

“If we want to change our industry, we need to get on and do it, putting the effort and commitment into making it happen.” **AST**

Stephanie Palmer reports

# Innovation overload

## Technology is changing the way we live, work and invest. Experts discuss how transfer agency is reacting as the movement gathers pace

**How has the rise in financial technology affected the role of transfer agents? Is there a risk of the function becoming obsolete?**

**Sorya Tea:** The word ‘fintech’ might be recent, but it’s not a new development for transfer agents and we have worked with software companies for many years.

Innovation is happening at a faster pace and the industry is definitely evolving. However, the recent advances in technology we have seen are mainly impacting retail relationships—rather than the institutional space—where direct customers are taking advantage of the rising number of digital options available to them, such as online shopping and online and mobile banking. Research shows that consumers are becoming less reliant on traditional face-to-face interactions.

I don’t believe transfer agents are at risk of becoming obsolete, especially in the institutional/wholesale space. There will be numerous opportunities for more automation, which will allow us to focus more on value-added services that cannot be automated.

We are dedicating more resource than ever to actively monitoring how fintech can enhance our servicing model and investors’ experience at Brown Brothers Harriman.

**Ghassan Hakim:** There is no doubt that the rise of fintech has stirred many aspects of the financial services world, not excluding transfer agents. However, the consensus at the moment seems to be of uncertainty as to the real versus the perceived impact.

What is sure, though, is that change is continuously coming. But, perhaps the new changes will make their impacts at a faster pace than in the past. Transfer agents need to be ready for what’s coming and perhaps the most likely shorter-term impact is investors using personal apps, bypassing clearing organisations and possibly distributors, to transact directly with the transfer agents.

Will the actual function of a transfer agent become obsolete? It is unlikely in the near- to mid-term horizon, and the answer may not be in the technology but in how the regulators react and set new fintech rules. It is difficult to foresee a financial world without some form of central registry to keep track of a fund’s shareholders, in/out flow of investment funds, regulatory reporting and mandatory know-your-client (KYC) and anti-money laundering (AML) oversights. It will be interesting to see how collaborative the industry participants will be with fintech and amongst each other, and whether real standards emerge for the benefit of the ultimate investor.

**Paul Stillabower:** The rise in fintech firms and the approach they adopt has had an impact on transfer agents and the funds industry as a whole. Fintech can provide the solutions that both transfer agents and asset managers need in order to innovate, and help them to flourish in the long-term.

Transfer agents were historically slow in adopting technology to automate and standardise their processes. Less than 10 years ago, the industry was considered a manually intensive business. However, a significant amount of investment has been made by the industry in improving its technology to achieve higher rates of straight-through processing (STP) and reporting capabilities. That being said, many of the core components a transfer agent carries out will likely be affected through further advances in technology, to one day reach full automation. It is therefore imperative that transfer agents continue to evolve by leveraging the vast amount of data that they hold. This big data, if packaged in the right format, will assist their clients in gaining a greater understanding of distribution trends.

Transfer agents will not only continue forging partnerships with the fintech sector to help achieve their objectives, but also adopt a fintech mindset by adopting agile methodology and building innovation labs. Fintech is likely to continue playing a significant role in this evolution and become a valuable collaborator.

**David Moffat:** The challenge for existing agents is to evolve the processes already in place so disintermediation by outside players can be avoided.

The development of fintech within the asset management sector has been moving at a glacial pace compared to banks and payment networks, resulting in a number of start-ups entering the industry.

Rather than risk disruption in the industry, transfer agents have the chance to innovate and transform existing processes using the likes of robotics, artificial intelligence and moving the point of servicing closer to the customer.

**Kelly Ashe:** The fund administration industry is in a constant state of flux, and transfer agents in particular face the continual need and expectation to improve their business processes to meet the ever-changing dual needs of their clients and the end investors.

The ongoing challenge for transfer agents to improve their levels of automation and efficiency, as well as respond to pressures on reducing fees, is substantial, and the threat of a game-changing disruptor entering the industry to exploit the inefficiencies and excessive costs that exist has never been higher.

The traditional role of the transfer agent will change in response to increasing automation across STP platforms via application programming interfaces (APIs), utilising cloud net technologies to network data streams, ultimately leading to a situation where exception processing only is the standard industry-wide, regardless of fund type.

With evolution an inescapable fact, fund administrators must adapt their business processes and operating models to keep their services fit for purpose as asset managers become more demanding and the regulatory environment continues to mature and expand. Those that fail to keep up with the pace of change risk obsolescence.

Sorya Tea
Senior vice president for investor services
Brown Brothers Harriman

Mark Standish
Vice president for product management
Quartal Financial Solutions

Paul Stillabower
Global head of client experience
RBC Investor & Treasury Services

Ghassan Hakim
CEO
Riva Financial Systems

David Moffat
Group executive of financial services
IFDS

Kelly Ashe
Sales and marketing manager
Pacific Fund Systems

> ***There is a very real risk that technology will replace many of the functions that transfer agents perform***
>
> **Mark Standish,** Quartal Financial Solutions

**Mark Standish:** There is a very real risk that technology will replace many of the functions that transfer agents perform. Technologies that have been little more than buzzwords, or for technology geeks, are moving from start-up mode to being credible solutions for business problems. In the wider financial industry, blockchain and distributed ledger technology (DLT) are starting to find real business uses and are a focus for most major financial institutions with expectations of reduced IT costs, improved data sharing and lower operational costs.

When you look at a key transfer agency service such as the shareholder registry, this is an obvious application of blockchain or DLT technology. Once you have a secure, distributed, immutable ledger of shareholder transactions, this information can be made available to authorised third parties for the provision of other services. These services, usually part of the transfer agent's bundled offering, are no longer tied to the transfer agent and can be supplied by others using the data secured in the ledger. Transfer agents will have to respond to this threat and turn it into an opportunity or watch as the traditional pillars of their service are eroded.

**Which technology developments do you expect to have the biggest effects on transfer agency? Blockchain, artificial intelligence, or something else?**

**Hakim:** Blockchain, by far, is currently the most transformative technology development that will have the biggest impact on the role and function of the transfer agent. Blockchain is the technology that is most likely to eliminate the middle man, mainly the clearing organisations and the distributors, allowing investors to send their personal transactions directly to the fund, as represented by the transfer agent. Could there be a scenario where the investor transacts directly with the portfolio manager, informing that manager of available funds to invest or requesting redemptions or switches, and so eliminating the transfer agent? Unlikely in the foreseeable future, given the possibility of making that fund manager ineffective by channeling attention to the flow of transactions rather than on the market and investing opportunities. However, this is not to discount other technology advances that will impact the transfer agent.

Artificial intelligence could eliminate the resource-intensive back-office functions, allowing investors to self-service themselves at levels never experienced before, such as making adjustments to their own trades. Further, the continuous spread of everything that is mobile, and expectations of immediate responses, will cause transfer agents to completely overhaul their infrastructure, which today consists of old legacy transfer agency systems.

**Moffat:** Blockchain's ability to record transactions means the technology should be a cornerstone for asset managers looking to 'change their propositions' and engage with clients more directly, at the same time as utilising the low risks blockchain offers.

For example, IFDS carried out a test where a mutual fund transaction was processed and recorded on a private blockchain without any input from intermediaries. Once the order had been made, the record was added to the firm's main register and data was not compromised.

Regulators are increasingly interested in blockchain because of its risk reduction by streamlining back-office processes, which will ensure obligations arising from transactions are certain and cannot be denied or fraudulently modified. Another demonstration of its safety is how debtor and creditor ledgers on the blockchain are tamper-proof, removing the need for confirmations and reconciliation.

Registries and sub-registries can be maintained directly on the chain, and payments can be re-joined tightly with delivery events, negating the need for clearing, settlement and confirmation processes, which effectively minimises counterparty and credit risk.

We estimate that the influence of blockchain on the space could lead to asset managers experiencing significant cost savings by dealing with the consumer directly via the blockchain.

**Ashe:** Blockchain, by its very nature as a digitised distributed ledger, clearly has the potential to greatly facilitate the role of the transfer agent.

Much of the industry's experimentation with blockchain to date has focused on how trades are recorded, which could affect how and when transfer agents receive information used to manage the shareholder record. Furthermore, the open and transparent nature of the blockchain technology offers the potential to streamline compliance functions like AML, KYC and fraud detection.

Such potentially disruptive technology may change what transfer agents do and how they do it, but will likely ultimately force a more effective use of automation technology in the industry. An example of this can be seen occurring already with the traditional role of the transfer agent changing in response to the increased automation and interaction across STP platforms via APIs, utilising cloud net technologies to network data streams, ultimately leading to exception only-focused processing.

**Standish:** Short-term, the collation and analysis of the data that is already available to provide business intelligence gives an insight into the business and profit sources. Blockchain and artificial intelligence could be expected to have the greatest medium-term impact—blockchain and DLT for shareholder registry and service

provision, and artificial intelligence in AML and KYC procedures, potentially coupled with blockchain identity validation. Longer-term, the impact of service-based distributed processing and data transfer with common standards will transform data management and reduce the reconciliation requirements across the entire financial industry.

**Stillabower:** Over time, blockchain and DLT will be materially significant in both the transfer agency and distribution space. The emerging technology has potential in a number of areas, but is more likely to evolve in pockets of internal processes. Blockchain should be viewed as a fundamental infrastructure development rather than as a replacement for transfer agents. It may become a key component of the client experience, but it will not necessarily revolutionise the industry, at least not in the short term.

Blockchain has the potential to reduce risk and increase transparency and traceability of transactions, but regulatory and compliance requirements still need to be met. RBC Investor & Treasury Services will be an active sponsor in developing the potential opportunities that blockchain presents in supporting the buy side. Given the extensive amount of big data that transfer agents hold, there is scope to develop in areas such as predictive analytics to help fund managers understand buying behaviour across a wide range of demographics.

**Tea:** I think artificial intelligence and robotics are more elaborate words for automation initiatives. While they could improve some core processing components of the transfer agency function, this would be limited as we are already at high levels of STP. At Brown Brothers Harriman, we have always focused on optimising operational processes including trading, cash, reconciliation and data input and reporting.

From our perspective, the technology developments that have the biggest impact on our transfer agency models are online capabilities for the institutional and wholesale funds buyers. This will be particularly transformational in the AML/KYC space, enabling online account opening and documentation uploading, in addition to the use of online dealing and reporting. However, we need to keep in mind that in order for a truly new model to be successful, full regulatory and market support is critical. As an example, online account opening will only work if an electronic signature is fully accepted.

**What kind of benefits would greater automation bring?**

**Stillabower:** The European Fund and Asset Management Association SWIFT Fund Processing Standardization Report (mid-year 2016) suggested that a significant number of fund orders still have some type of manual intervention. Transfer agents' fund order automation rate is approximately 90 percent for Ireland, while Luxembourg is 82 percent. That means 10 to 18 percent of the orders processed, which amounts to more than 300,000 orders a month, are processed manually.

The benefits of striving to 100 percent automation are obvious. Efficiency and operational risk mitigation are key objectives, which in turn would improve the overall client experience while opening opportunities to enhance services that leverage the big data that transfer agents hold.

**Ashe:** Back-office administration, by its very nature, is perfectly suited to be automated, and investing in STP technology is essential. It is repetitive, often involving very complex data-intensive processes, and it has a lot of underlying moving parts. Maximising the advantages offered by technology to increase automation is crucial if an administrator wants to be both efficient and accurate. An excellent administrator will not only maximise the use of technology but will also constantly seek out new and improved technologies, continually pushing the boundary of what is achievable in terms of automation. Of course, all of this comes at a cost, so this is a significant factor of the overall operational challenges facing an administrator.

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>
> **Kelly Ashe,** Pacific Fund Systems

At Pacific Fund Systems we have seen a significant emergence of the automation of private equity fund structures. First retail and mutual funds were automated, then hedge funds, and now private equity funds. In this new world, data is everything. With regulators pushing for greater openness and accountability across the industry, the new requirements for disclosure and transparency will increasingly fall to the administrator.

The pressure to deliver more data will increase exponentially, not just because end investors will demand access to more detailed and sophisticated information at their convenience, but because fund managers will have an intensified need to gain a deeper understanding of investor behaviour as changing distribution trends emerge, alongside risk insight and analytics tools. Leveraging big data is not a new concept for the funds industry but fund administrators have been slower to react, partly due to legacy technology issues.

**Tea:** Over the past decade, the industry has made significant efforts to automate transfer agency processes, with a focus on transactions, cash processing and reporting. Manual processing takes up valuable time and resources, as well as increasing the margin for error. Further automation across the servicing chain would mitigate risk by removing the human element of these processes and allow increased focus on more value-added services. We also recognise that a manager's level of automation and efficiency can affect its speed to market for new products and its ability to answer clients' demands. It is therefore important to work with a transfer agency provider that is focused on scalability.

**Standish:** Automating processes within an organisation has a material impact on the bottom line. Realigning expensive human resources to manage complex problems that cannot easily be solved by rules is more efficient and more rewarding.

While not everything can be solved by rules-based processing, in many cases the amount of data that can be processed against complex rules may identify patterns and activities that the human eye would never see. However, it is when you consider the impact of automation between organisations and across markets that the economies of scale and efficiency, and innate ability to trust the data received, that the biggest benefits are gained.

**Moffat:** To date, automation initiatives in Europe and Asia's transfer agency markets have come about due to third-party suppliers identifying a commercial niche to exploit, rather than transfer agents actively collaborating with distributors to find more efficient ways to work together. As a result, there are many services and functions around trading and settlement where these third parties can—and have—exploited automation, yet so few examples of innovation centre around the more mundane administration functions.

The next steps in automation will likely be in the collection, analysis and use of data sub-sectors. The second Markets in Financial Instruments Directive requires fund managers to have a much greater understanding of who is buying their products, for what purposes, in what concentrations and in combination with what other products. Services that allow fund managers to look at the underlying adviser and consumer behaviour—through banking and platform nominee holdings—in near real-time will radically alter the product design, marketing and sales activities of fund managers in a very short time-frame.

**Hakim:** The key benefit of increased and smarter automation is meeting the expectations of the next generation of investors. This

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>
> **Sorya Tea,** Brown Brothers Harriman

is a generation that is growing up on mobile devices, social media and a borderless world.

They have no patience for filling out long applications, snail mail and periodic reporting. They want information at their fingertips and they will tend to follow online reviews from fellow investors rather than hearing the advice of a sound financial planner.

As a result, when fund manufacturers implement automation that meets those expectations, that's where the key benefit will manifest itself. Automation also brings greater control over compliance, whether in knowing your customer or identifying suspicious activities, eliminating possible human errors.

Another benefit from smart automation is the introduction of timely dashboards that provide fund manufacturers instant information on possible trends, allowing managers the opportunity to react and address them.

Finally, as has been the case for years, automation usually brings about lower costs for the fund manufacturers, eliminating redundant systems, streamlining underlying infrastructure and reducing headcount, all of which should translate into lower expense ratios for the investors.

**Are these changes happening fast enough in the industry?**

**Standish:** The banks and exchanges are at the cutting edge of applying new technology. Partly, this is as a result of a surge in interest in blockchain technologies since the arrival of bitcoin. The latest developments, such as Corda from the R3 consortium, aim to resolve many of the public/private issues and are an indication of where we believe the industry is moving.

The majority of these technologies are still to be proved in business use, though there are many initiatives that are starting to have an impact. The funds industry has not yet experienced the same pressures that the banks have, but already, downward pressure

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>
> **Ghassan Hakim,** Riva Financial Systems

on fees, regulatory requirements and an optimisation of third-party costs are raising the question of what more technology should be doing for an organisation. While there is merit in not being on the cutting edge, it is a brave organisation that ignores, or makes no attempt to anticipate, the developments in the wider market.

**Tea:** 'The industry' refers to a broad space that includes retail and institutional investors, so we are seeing change occur at varying paces. For the retail space, technological advancements are happening more quickly, whereas the institutional market might not be at the forefront but it is definitely benefitting from the learnings seen in the retail space and adopting those.

**Moffat:** Many of these changes are driven by the intended and unintended consequences of regulatory change. As a result, most asset managers would argue that the changes are happening too quickly and without regard to the imposed cost.

Changing a business model can only happen when a clear financial case can be made for the investment, or when a shift in the law or regulations requires it to. Left to their own devices, asset managers and transfer agent service providers have shown a reluctance to invest in improved operational models and services. As a result, step changes are, in general, either driven by the regulators or by new entrants with disruptive propositions.

**Hakim:** Before we look at how fast the changes are happening, we need to ask ourselves if the changes taking place are indeed the right ones for us to make, and whether they are addressing the problem or challenge we are solving or addressing.

The idea is that we should not change just for change's sake and, once we identify the right change, then we need to ensure that we are implementing these changes the right way and not introducing chaos, confusion and inefficiencies.

With that in mind, our industry is a highly regulated one, so for changes to be materially effective, existing regulations and regulators need to adapt to them. So, maybe the question should be phrased towards how fast the regulations are changing as a result of the rise of fintech and its influence over our industry. At the end of the day, I believe that the regulator will control how fast the changes are happening.

Historically, regulators have always lagged behind new technology innovations and advances. However, this time around we are seeing our regulators becoming more proactive and engaged by participating in the discussions with fintech, and hiring resources with relevant fintech experience.

**Stillabower:** We continue to hear the maxim that 'we live in a digital age', yet in the funds industry an average of over 10,000 daily fund order instructions continue to be processed manually for Irish and Luxembourg funds. There is no easy route to 100 percent automation, but this must be an aspiration for transfer agents if they want to remain in step with technological evolution.

More can always be achieved to advance the changes required, but with finite resources available there is a fine balance between moving the industry forwards through innovation and implementing equally important regulatory obligations.

**Ashe:** The fund administration sector is changing quite rapidly, as more and more demands are placed upon administrators to comply with ever-increasing regulatory and reporting requirements demanded by the world's regulators, tax authorities and investors.

As a provider of software, we invest time and resources to analyse the ways in which the needs of fund administrators have changed and will continue to change, and constantly monitor the industry to identify what adaptations are in view as we seek to ensure solutions are in place by the time, or before, they are demanded by administrators.

The systems used by fund administrators must be able to cope with the ever-deepening due diligence obligations of the transfer agent to investigate and to validate the identities of the investors, the parties related to the registered entity and the ultimate beneficial owners.

The price of getting it wrong is not simply embarrassment or minor licence breaches—it will be major punitive fines and incalculable reputational damage.

**Do you think the funds industry is in for more disruption? What kind of measures should managers take to deal with this?**

**Standish:** Without question, given the state of the global economy and the political forces that are sweeping all before. On that macro level it is becoming harder to run an asset management business where the markets do not behave rationally, and significant changes are brought in overnight. So, better data, analysis and artificial intelligence would help a manager to respond.

At the detailed level, a renewed focus on the costs of the business and the costs of doing business compared to the sources of revenues is important. Controlling costs, optimising fee collection, knowing what is profitable and choosing the right avenues for growth are all areas in which technology can support and improve the business execution.

**Moffat:** For many asset managers it feels that few certainties remain. Changes in distribution, investor demographics and pricing, and the shift to low-cost alpha and passive investing, all

> ***Many are struggling due to costly legacy products and an aging cohort of underlying investors with few ideas on how to shift their brand to appeal to a younger audience***
>
> **David Moffat,** IFDS

combine with a shifting regulatory landscape to make planning for the future very difficult. Many are struggling due to costly legacy products and an aging cohort of underlying investors with few ideas on how to shift their brand to appeal to a younger audience. Asset managers should look to work with technology providers to streamline their systems and processes, providing clients with up-to-date technology. However, unfortunately for some, the answer is to do little but cling on and await a buy-out.

**Ashe:** As well as being more highly regulated, the global investment environment is increasing in complexity as many fund managers move away from a business model designed around a single asset class.

Fund administrators will need to adapt accordingly. They will be expected to administer funds holding both traditional and alternative investments including hedge funds, derivatives and real estate, for example. Similarly, thought must be given to evolving trading strategies, even increasingly prevalent practices such as high-frequency trading.

Administrators that have the systems in place to offer this expanded range of services across both traditional and alternative funds have a real opportunity to expand their offering by taking advantage of the convergence between traditional asset managers and alternative asset managers, including private equity and real estate investment strategies. It will no longer be enough to offer a limited service to just one segment of the market.

The true cost of regulatory change is another disruptive factor, and not just because of the effect it continues to have on the squeezed margins and the impact on the fund administrator's profitability. It is the fundamental change in how we view information and, more specifically, the responsibility associated with it.

Managers increasingly need to know exactly who their investors are, and the administrator will be responsible for locating, recording and reporting this information. It is fair to say that omnibus accounts are unlikely to survive such stringent transparency measures as directives implemented worldwide continue to oblige managers to know who the ultimate underlying beneficial owner is at all times.

**Stillabower:** The growth and diversification of technology giants and ecommerce groups should not be viewed lightly. Defined industry norms are being challenged by the influence of technology advancements. With the generation of digital natives only a short time away from becoming investors, their expectations of transparent choice, advice and access will need to be met.

Choice will mean a variety of financial products available in one place, which are readily searchable and easy to understand in order to make comparisons. In terms of advice, this will include professional advice, as well as that of active investors providing their performance ratings and returns. Investors will want to know they will receive the services they need, when they need them. As for access, this means a secure platform that is convenient and intuitive to use.

The more consumers that take an interest in investment, the more interest technology giants will take in supporting the investment infrastructure.

Transfer agency, however, is a complex industry and involves more than keeping a register of shareholders up to date. If the industry does not evolve in parallel with the inevitable evolution of fund distribution, it is only a question of when the technology, media and telecom sector will become a serious participant.

**Tea:** I don't like the word 'disruption' because of its negative connotation. I view it more as looking for the new opportunities that will potentially improve or transform the industry, processes and business models. It keeps transfer agency an exciting and challenging place.

Of course, more than ever, careful resource planning and allocation is crucial to ensure all elements are looked at holistically, including the regulatory, risk and compliance framework.

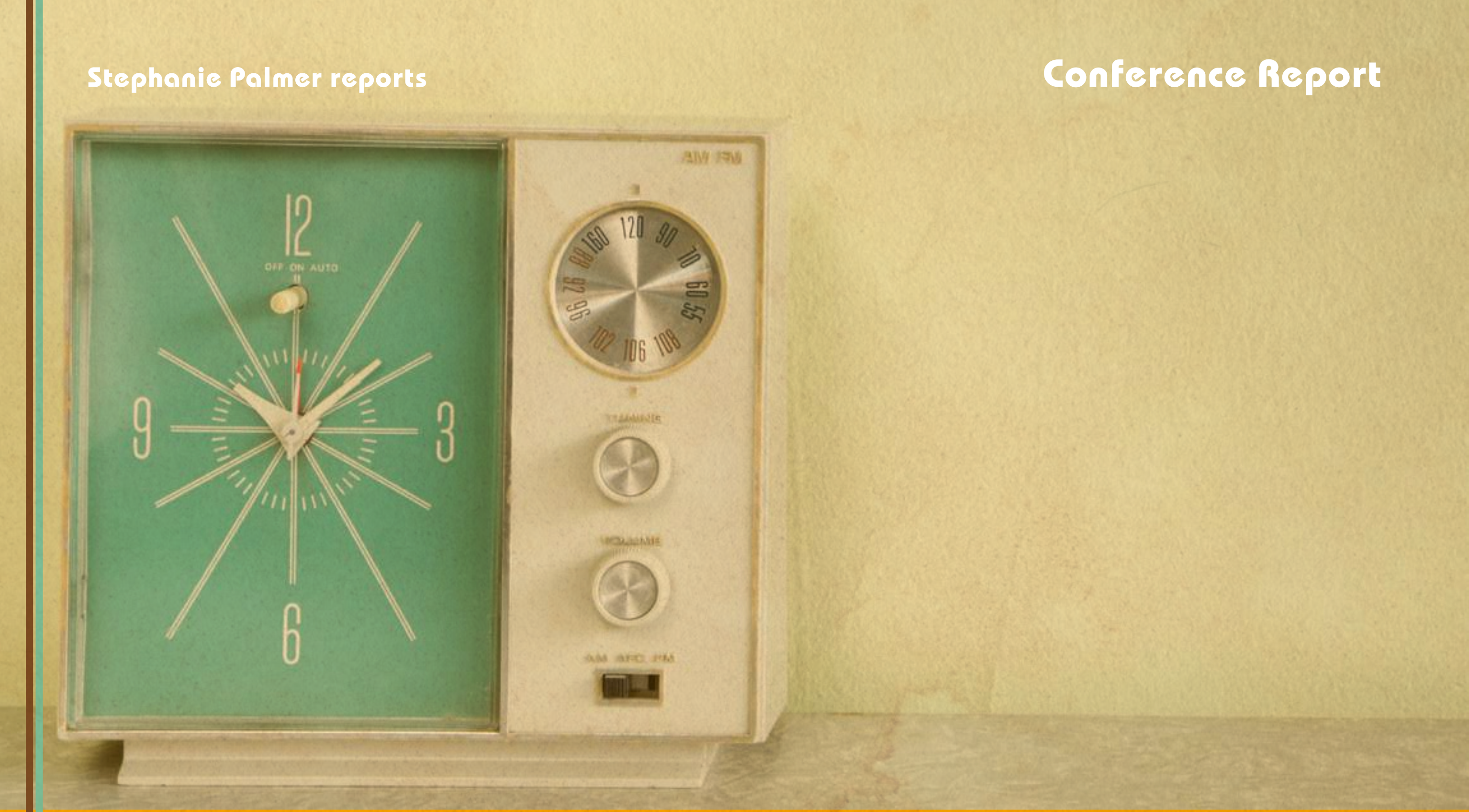
When we are looking at ways to evolve, we are ensuring we are working with the right partners. The right partners are those who are investing in technology.

**Hakim:** While the political world around us seems to be temporarily rejecting globalisation, innovative technology and changing demographics in every corner of the globe are ultimately taking our industry towards a more global, interconnected, borderless, 24/7 market. If today's technology is considered disruptive, let us visualise what a one-global market could do to our industry.

A reality in which any investor, anywhere in the world, can invest in any fund from any jurisdiction at any time, using any mobile medium, and can expect immediate feedback. This will be a transformational disruption to our industry, and the signs are all there. This is not a question of if this transformation is going to happen, but when.

Managers today need to study the changing demographics, understand their culture and expectations, ensure they have diversity and inclusion amongst their teams, be open to change, challenge the status quo and let go of old habits. The refreshing good news about our industry and all of its participants is that we are recognising this change and are already taking steps to address this reality. **AST**


INTELLIGENT OPERATIONS
DISTRIBUTION
COMPLIANCE
CUSTOMER EXPERIENCE
MASTER COMPLEXITY
DISCOVER OPPORTUNITY
Reducing cost, keeping pace with regulatory change, and improving your customers' experience can seem an impossible balancing act for asset managers.
It doesn't have to be.




# Waiting for a Revolution

**Blockchain may be the talk of the town, but before the industry starts moving ahead, it has to figure out in which direction it will go**

Regulation, time-scales and plain old logistics were on the agenda at the London Blockchain Week conference, where techies and financial market experts gathered to discuss all things distributed.

Making an impromptu appearance on an afternoon panel, Luis Carranza, fintech entrepreneur, founder of London Fintech Week and organiser of the event, noted that people tend to say blockchain is at the stage that the internet was in the early 90s. He said, however, that he believes it to be "more like the technology in the 70s and early 80s".

He said: "It's way earlier than it feels like, but it's going to move a lot faster once it starts."

One aspect that is holding this development back is the uncertainty that remains around how blockchain should be regulated, and attendees heard that this is something that should be at the top of the agenda for start-ups.

Edan Yago, CEO and founder of Epiphyte Corporation, suggested that in blockchain and cryptocurrencies, regulation has been "maybe the most critical thing for us to think about".

Hogan Lovells partner John Salmon also used the internet as a point of reference, but as an example of how regulation of blockchain is likely to go.

When the internet was becoming more widely used, some believed it should be stringently regulated, while others argued it shouldn't be regulated at all. Eventually, Salmon said, it emerged that "most of the laws and regulations that we already had could be applied to the internet".

Existing financial rules will apply to blockchain, but new ones may need to be created, too. At present, it is difficult to predict "how exactly it will work", Salmon said.

Another speaker, Richard Levin, shareholder at law firm Polsinelli, warned entrepreneurs that if they are not thinking about regulation at present, they "really ought to".

Innovators in the financial services sector have a responsibility to try to help regulators understand what they're working on. It's important to "have the dialogue and try to shape the regulations that you will have to live with", he said.

Salmon agreed with this, conceding that, although the industry can be critical of regulators, they have “quite a tough job”.

Financial services regulators have historically been concerned with the resilience of the financial system and protecting consumers, but now they also have to worry about maintaining competition and monitoring innovation.

Using the Financial Conduct Authority as an example, Salmon noted that the UK regulator has opened up and is willing to discuss new innovations. “We need to help them understand these things,” he said.

Levin added to this, pointing out that, in this industry, companies have to think about the regulations in every jurisdiction in which they potentially have clients. For example, he said: “In the US, it’s a rat trap.”

According to Levin, the US Securities and Exchange Commission considers digital assets as securities in some contexts, while the Commodity Futures Trading Commission considers them as commodities, and the Treasury and Internal Revenue Service consider them as property.

“And then you have 50 state regulators who also want to get their clutches on you,” he said.

In other jurisdictions, such as Singapore and the UK, “they’re being pragmatic”. However, although we tend to think about regulatory arbitrage in terms of one country against another, Levin suggests that companies should also consider arbitrage between competitors.

If a company chooses to be regulated and is willing to be the first to be regulated, that sets a precedent for regulation, and begs the question of why their competitors are not doing the same.

“It’s not always a bad thing. It can give you a competitive advantage over other firms, because you chose to do embrace regulation early.”

On a panel on the tokenisation of assets and value, speakers turned their attention to security of blockchains.

One speaker, Hugh Madden of Equichain, placed importance on ensuring confidentiality in blockchain technology, saying: “The way the world is going, there is almost no such thing as private data.”

Although transactions on a blockchain should only be accessible to authorised participants in that transaction, it is also important to make sure that there is a data store that has policy support for jurisdictional data rights—making sure that no data ends up somewhere it shouldn’t, he said.

Dimitri De Jonghe, a core developer at Bigchain DB, took this further, warning: “Don’t put private stuff onto public blockchains”.

While current cryptography may be secure for the next 20 years or more, anything that is put on the blockchain now is not guaranteed to be protected against the technology of the future.

Marta Piekarska, security architect at Blockstream, added to this, reiterating that whatever is put on to a blockchain stays there. At some point in the future, the cryptography could be broken and “what we thought was private and encrypted stops being private and encrypted”.

"If a company chooses to be regulated and is willing to be the first to be regulated, that sets a precedent for regulation, and begs the question of why their competitors are not doing the same."

“What are the consequences of putting something on a blockchain? We have to stop thinking in terms of computers that we know today.”

Putting things like health or identity information on a ‘secure’ blockchain could seem appealing, however the industry should work to define and address these security issues first.

Another panel discussion focused on the differences between different blockchains in the industry, with speakers concluding that financial services providers require their own blockchains to suit their specific needs.

Griffin Anderson, head of blockchain accounting at ConsenSys, said that 2018 will be the “breakout year” for the technology. This is when institutions will start putting real blockchain solutions into practice to improve business processes, he said.

Anderson also suggested that “almost all” Fortune 500 companies will likely have a business process that can be transformed by blockchain, but that each will require slightly different functionalities.

Megan Reynolds, business development manager at Crowdcube, agreed that distributed ledger technology is still in its early stages, although she noted that there has been a focus on the technology itself rather than on the market for it. “It’s an amazing technology that is without a market,” she said, adding that, particularly for start-ups seeking crowdfunding, “we will have to see that first”.

Similarly, Richard Muirhead, general partner at OpenOcean, noted that it can be difficult for technology start-ups to identify the market they are targeting. He said: “It takes a lot of work and luck to find the right combination of capabilities and features. It’s as much about what you leave out as what you include.”

Looking to future uses of blockchain and distributed ledger technology, Anderson suggested that the first ‘tokenised’ assets have begun to arrive, which represent “ownership of an underlying entity”.

This, Anderson suggested, can be applied to fungible assets but also to non-fungible assets such as vehicles. Tokenising assets “changes that marketplace as people adopt digital assets and trade them” and can “really add a lot of liquidity in the market”.

ConsenSys is in the early stages of working on this, Anderson said, adding: “It’s going to be a really fun ride.” **AST**


BREAKING
PATTERNS
FOR 200 YEARS
...because the conventional way
isn't always the best way.

Stephanie Palmer reports

# Circle in the sand

## The Middle Eastern markets are diverse in many ways, and they're focusing on themselves before they look to harmonise settlement cycles within the wider region

In investment terms, the Middle East region is often lumped in with North Africa and Europe, but, even in itself, this is a vast and diverse area with different countries facing different economic challenges.

The six countries of the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE)—each have their own market quirks and influences. They're different sizes, have financial sectors at various stages of development, and they feature in multiple market indices. However, there are also certain trends that span all of them, and indeed, that mirror those in the more 'mainstream' markets in Europe, Asia and North America, as well.

Robert Frazer, senior vice president at Northern Trust, who is based in Abu Dhabi, suggests that, across the GCC region, government institutions are moving towards building in-house investment management capabilities.

He says: "To a certain extent this is being driven by cost consideration as investors seek to reduce the amounts paid in external manager fees. However, it also reflects a growing sophistication within the investment community and a willingness to recruit market-leading talent and develop front and middle office investment platforms."

With regards to investment strategies, Frazer notes that, over the past five years, there has been increasing commitment to passive investment, with strategic allocations becoming more weighted in this direction.

"Like markets in Europe and North America, there has been closer scrutiny of the value added by active managers and a consequential shift towards beta-focused strategies," Frazer adds.

But this is still a region of emerging and frontier markets, and this is also reflected in the strategies seen. According to Fadi Al Said, director and portfolio manager for the Middle East and North Africa strategy at Lazard Asset Management, Saudi Arabia represents a significant proportion of the investment universe of the region.

Here, investors tend to focus on the petrochemical industry, which is export-oriented and unique to this market. However, there is also interest in healthcare and insurance due to low penetration.

Al Said notes: "There is a very undeveloped market in insurance in Saudi Arabia, and that's something that investors are taking advantage of, positioning themselves in light of the favourable trends seen in the insurance sector."

The UAE is more developed in its infrastructure, with a diversified and developed economy that could potentially prove resilient to softer commodities prices.

But, Al Said says, its very openness also serves to leave it more exposed. "It's a more open economy, and it relies heavily on sectors that are not seen in other economies—particularly trade, logistics and, most importantly, tourism." This is something that global investors will take into account.

Finally, Al Said draws attention to Kuwait, which he calls an "under-owned" market with "increasing importance in the context of frontier markets".

An anticipation of inflows from frontier market participants draws the attention of investors, which in turn could lead to more inflows from liquidity-driven investors.

He says: "There might be some structural changes in the market, plus new tools, pricing mechanisms or regulations that will increase the appeal for investors."

With an unprecedented political shift in the US, and uncertainty remaining in Europe, the Middle East is not immune. Unsurprisingly, the effects of falling oil prices are felt particularly hard in GCC states, which are oil-producing countries.

Frazer says: "The low yield investment environment, along with the impact of falling oil prices, is compelling institutional investors to focus more attention on operational costs and efficiencies."

"Service delivery models are coming under increasing scrutiny in a bid to ensure data delivery and transaction processing platforms are eliminating or driving down costs."

He suggests that service providers such as Northern Trust are being asked to build and support sophisticated middle- and back-office solutions that can support more governance and more diversification.

"While many investors already manage highly diversified portfolios across all asset classes, others are at an earlier stage of their journey in diversifying into alternative investments," Frazer says.

"These changes often bring with them the challenges of data integration, limited transparency and more onerous oversight requirements. There is a growing demand for service partners who are able to deliver sophisticated and bespoke governance tools."

Also noting the direct impacts of commodity prices, Al Said suggests that the correlation can be viewed in both economic and market terms. Commodity price softening may affect some markets more than others. For example, global economic issues will affect Saudi Arabia's petrochemical industry, while less demand for travel and tourism is more likely to affect the UAE.

"Indirectly, this impacts consumers and the corporate sector as it puts pressure on some of these states to restructure some of the subsidised sectors," Al Said says.

He does concede, however, that there is a flip side to this, and when commodities and oil prices are strong, these markets will benefit accordingly. While this is not an exact science, "it is related in a sense".

The financial markets are a little more complex in their correlations. Al Said suggests that, as more markets are considered essential in the emerging market indices, they "become direct beneficiaries of passive inflows into them, and of increasing liquidity".

"The opposite is also true especially when there are emerging markets outflows".

Both the UAE and Qatar were upgraded to emerging market status in 2014, a move that, by all accounts, led to a positive impact on both markets, and an increase in flows that is expected to continue. Certainly, Frazer notes that since the markets were upgraded, Northern Trust has seen its assets increase in both.

Despite accounting for such a large slice of the investment landscape, Saudi Arabia still stands as a frontier market. However, Frazer suggests that the Saudi Capital Market Authority and its stock exchange, Tadawul, are focusing their efforts on securing emerging market status as soon as possible.

Frazer says: "The dynamics of Saudi Arabia being included into the emerging market status will allow the market to attract global investments. To fully achieve emerging status, the government has a detailed plan that focuses on market operations, governance and regulatory oversight."

It is widely expected that Saudi Arabia will be granted this upgrade in 2019, which would require a decision to be made in 2018. And it's not far off meeting the criteria.

Al Said says: "There is not a specific formula that means a country will be automatically upgraded, but there are guidelines related to some factors like settlement, foreign ownership, liquidity and regulations, as well as the opinion of investors into other emerging markets. Investibility is key. Market access is key."

He suggests that the UAE and Qatar were more forthcoming in restructuring for the requirements, and that, in his opinion, other GCC regions should follow suit.

But Saudi Arabia is something of an anomaly in that it only opened to foreign investment in 2015. Since then, unclear regulations have been straightened out, and the T+0 settlement cycle has been pushed back to T+2. These are all steps that should lend themselves to a status upgrade.

Al Said says: "Tadawul considers this a high priority and, based on the announcements we're hearing, it's not a matter of whether it will be upgraded, it's a matter of when."

He adds: "This will have a significant impact into the markets. If liquidity is higher than expected, this will push prices higher."

Further, in the medium- to long-term, Kuwait could be a frontier market poised to make the leap to emerging. Al Said suggests that, aside from Saudi Arabia, this is the only market large enough, both in terms of market and liquidity, to be considered. He adds that market restructuring here is already underway.

So, as different countries grow and develop at different paces, how important is it for their financial markets to harmonise their clearing and settlement cycles? For asset managers in the region, at least, it could serve to make life a little easier.

According to Al Said, harmonisation for clearing and settlement between the GCC states could be beneficial as it unifies the settlement cycles across the region, and reduces some costs. He notes that the market regulators have been discussing this topic for a long time, however, he says it is not a requirement and it is not indispensable for the GCC markets. Even broader emerging markets are not necessarily fully synchronised, he says.

Frazer adds to this, noting that, although changes may be happening in that direction, harmonisation would be more of a nice-to-have than a necessity.

"Changes to the clearing and settlement infrastructure, such as Saudi Arabia's migration to a T+2 settlement cycle, are essentially taking place within markets," he says. "There is no immediate priority to invest resources in harmonising the investment infrastructure between GCC states." **AST**

Stephanie Palmer reports

# What goes around comes around

## From matters of compliance to risks to data collection, collateral management has an important part to play in the back-office lifecycle. SmartStream's Jason Ang explains

**How can effective collateral management help reduce risk for financial institutions?**

When looking into effective collateral management, you have to consider the full lifecycle of the process, which includes both mitigating credit risk and managing market risk. It's important to integrate those processes with settlement systems because credit risk isn't mitigated until the collateral is received.

We're also seeing management of market risk through the new initial margin regulations, so systems need to be able to handle that, and to manage disputes. Connectivity and speed of resolution are very important here, and having a holistic collateral management system—with partnerships for straight-through processing and connections to clearinghouses, messaging systems, and cash management and settlement systems—aid that resolution process.

The SmartStream Transaction Lifecycle Management (TLM) - Collateral Management system is designed to holistically manage collateral in this way. Even though we have many of our own components, like a reconciliation system, it's important to provide functionalities to connect clients with other systems as well. That's why TLM also has public application programme interfaces (APIs) that simplify interaction with internal and external systems.

**What are the main regulatory benefits?**

The attempt to harmonise regulations to prevent another credit crisis is key, plus there is a lot more transparency now. Market participants tend to be more engaged with each other. It is no longer the case that the big investment banks dictate how everything works; the conversations are not so one-sided.

Regulations are driving up the costs for everyone, and, if you're in a fully manual environment it can be challenging to think about how much work you have to do, and how much you have to figure out—especially if you have to do it by yourself.

Where the regulations are coming in, part of the work is coming up with a consensus as to what needs to be done, and working together with those who have the experience to do it. TLM is well placed for that, given that we get input from our unique mix of clients, coupled with the experience of our business analysts who have run day-to-day operations in both buy-side and sell-side firms.

On top of this, obviously, is the execution and the methodology for development. An agile methodology allows us to focus not only on high quality, but also on fast time-to-market for new functionalities.

The idea is to get all the understanding of what needs to happen and get the solution out to clients quickly while maintaining very high quality. Quality matters because you can then execute with confidence and control costs.

**Is regulation driving innovation in this space?**

Absolutely, and I think that relates to the point of having the right connections, with access to the right experience, to be able to form a consensus when interpreting some of the regulations.

Even with the initial margin rules, which were quite straightforward, there were nuances that required operational experience, legal expertise and a large enough client base to get a consensus on how to execute a solution and bring it to market quickly.

SmartStream has a lot of clients, ranging from large investment banks to small hedge funds, service providers and fund managers. We can get a market consensus and implement a solution that works for everyone. If we had only buy-side clients, our perspective would be very different to if we had only large investment bank clients. These entities will have very different concerns.

The aim is to create functionality that is innovative and rich enough to deal with situations that arise. That reduces systemic risk, at least between our clients. We get input from every angle; everyone can see each other's point of view, and everyone benefits.

**How important is collateral optimisation in the current regulatory and cost-conscious environment?**

There are now more regulatory requirements than ever before. The likes of gross initial margin and gross variation margin require higher-quality assets, and at the same time, countries are

being downgraded. We're in a situation where there is a growing demand and fewer assets available. Everyone is looking not just at collateral optimisation, but at services around collateral and at asset management itself.

Players are thinking about rehypothecation rules and triparty agreements, and the cross-process environment is really driving how a lot of decisions are being made.

The SmartStream collateral optimisation application is designed to pragmatically evaluate available assets and the different eligibility arcs.

It then presents the best collateral allocation using linear programming. It takes into account eligibility, concentration rules and wrong-way risk, and any new regulatory regime can be programmed into the algorithm.

A part of it is also about feeding data from our system into another system, and then getting it back later, potentially to feed a cash management or asset allocation system.

SmartStream's public APIs allow clients to access data more easily, and our reporting suite can extract data from our system in a clear format, so that it can be used for other purposes.

**What other benefits can data management and analysis offer?**

We're seeing clients expressing that they need more information from the collateral system. This system is a source of assets for some clients, or agreement information, and there are projections they need to make based on things like margin calls, disputes and assets. It's also a place where over-the-counter trades usually reside, so people often use it for audit records. Having a comprehensive extraction process means getting all of that information to another location and allowing clients to run all kinds of management information system enquiries on it, so that the process-intensive work doesn't impact the speed of the production environment.

Equally, it's important to have real-time updates for some processes. For example a collateral movement could be transmitted immediately and used in cash management projections.

The need of information coming from a collateral system has become ubiquitous. Information is key. Institutions want the ability to look into the system if they need to, and the ability to marry together data from different systems. It's not just about providing a view into the data for stakeholders, it's also about efficiency, utility and transparency, and about making data available in a practical manner. **AST**

***Institutions want the ability to look into the system and to marry together data from different systems***

**Jason Ang,** Programme manager for collateral management, SmartStream

# The times they are a chainin'

## Fund distribution is entering the digital age, and so can traditional service providers. Fundsquare's Paolo Brignardello explains why it's in their interests

Anyone operating in the funds industry over the last few years will know that product costs are under pressure, and new ways of doing business in the future will need new operating models. The advent of several regulations such as the second Markets in Financial Instruments Directive (MiFID II), the Regulation for Packaged Retail and Insurance-based Investment Products, and UCITS V, have or will impose a greater regulatory burden on asset managers, and rising intermediation in distributing funds in the last decade has squeezed margins.

As if things weren't challenging enough, asset managers must also adapt to changing client behaviour with a growing number of millennials placing greater emphasis on simplicity and convenience of services, as well as security. As we enter the digital era, industry players will need to evolve their distribution models in order to provide services to investors and sustain trust in the future. The funds industry must also lower overall costs and deliver even more competitive products. A recent report from Deloitte and Fundsquare points out that Luxembourg's cross-border fund industry alone could save nearly €1 billion a year with improvements to the fund distribution supply chain. However, there's been little impetus for changes so far. This could soon change with the introduction of new technologies such as blockchain. Blockchain has been something of a buzzword in recent months. Its distributed ledger technology (DLT) is threatening to shake up the business model for financial sector players, including the funds industry. Distributed ledgers and digital tokens are able to use blockchain technology to track ownership of financial assets, in real time and in a less costly method, opening it up to shared economy models.

There has been much speculation that the introduction of blockchain technology could help drive down costs and replace intermediaries that currently operate in the fund space. These include transfer agents, custodians, distributors, and settlement and clearing houses. But these entities provide vital fund administration services and cannot simply be dispensed with. Instead, we see blockchain technology as offering a route towards greater efficiencies among intermediaries, heightened security and improved services for investors around a single ecosystem. Starting from late 2016, Fundsquare partnered with InTech and KPMG to launch FundsDLT, a new decentralised fund order processing engine based on DLTs, digital tokens and smart contracts to test a fund distribution model using blockchain. The aim was to set a first milestone operating in the existing fund industry ecosystem, in cooperation with existing actors. In this attempt to create a shared economy for funds, the first use case addressed is for asset managers willing to sell funds directly to investors, and to test its effects.

The operating model sees an investor going through an online application to access fund information and perform know-your-customer (KYC) duties and then subscribe to a fund by provisioning cash through a digitalised token. On the other side, transfer agents will perform the validation of KYC requirements and order acceptance, while an asset manager can follow up inflows and outflows in the registrar in real time. Once the net asset value (NAV) has been published, the entire settlement process is executed instantaneously.

FundsDLT is expected to reduce the cost and processing time of transactions by streamlining fund administration and order-routing tasks. As a result, investors, asset managers, custodian banks and transfer agents will be able to share information in a far simpler manner. For example, it can currently take up to three days for a transfer agent to execute an order taken from a client. This new fund distribution channel will do it in a couple of hours after NAV publication—and in the not-too-distant future, with multiple NAVs per day. Investors' experience of lengthy settlement processes for services will be less tolerated when compared to other online transaction services. The proposed ecosystem created by FundsDLT will also ease anti-money laundering, KYC and MiFID II verification by standardising the process. This will reduce costs tremendously and remove the need to repeat KYC tasks for investors or their agents.

FundsDLT intends to expose a complete application programming interface to deliver an open standard covering accounts, transactions, onboarding, KYC, payments and entitlements. This is expected to lead to broader changes in Luxembourg's pool of expertise. Intermediaries like transfer agents have great stores of knowledge and are well placed to be an active part of the industry's revolution. FundsDLT has been developed using a private permissioned Ethereum blockchain and is expected to grow under a consortium blockchain where the consensus process and access permissions are controlled. The experimentation is progressing, in collaboration with fund industry actors, toward a viable product that is driving increases in operational performance.

We strongly believe that the funds industry needs to explore the digital revolution to find alternatives as well as complementary distribution models that will increase efficiency, deliver a new service paradigm to investors and make funds more accessible to new market segments. **AST**

**Paolo Brignardello**
Head of product management and marketing
Fundsquare


WE KEEP A WATCHFUL EYE ON WHAT MATTERS TO YOU
With our years of experience and track record in custody services, it is second nature to us to provide top class safekeeping and administration services while leading change in the Nigerian financial market.
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# Time after time

## A more complex environment means asset managers need to have their ducks in a row, says Colm Carey of Donnelley Financial Solutions

**How important is it for asset managers to have a robust content management system in place?**

The ever-increasing regulatory disclosure obligations, distribution opportunities in new jurisdictions, and multiple types of documents create challenges for managers to maintain consistent disclosure across documents and markets. A content management system is a pragmatic approach to managing and updating such a wide range of documents and disclosures in this environment. A robust content management system will allow an asset manager to focus on growing its business rather than spending time creating, reviewing and formatting documents. For example, our ArcPro solution supports scalability and consistency of content, and facilitates easy and streamlined updates across the whole document library. Some key benefits our clients value are:

- Consistency and risk mitigation: Clients get text and variable content, accurate and in one shared content file, ensuring consistency across every document and section where that text is shared.
- Operational efficiency: Change once, update many documents. Users can manage a far greater number of documents and spend less time doing so than would be possible without ArcPro.
- Cost: Auto typeset, fully stylised print- and web-ready output eliminates the need for costly and time consuming typesetting or teams spending hours formatting an MS Word file.
- Single content source: A centralised source for all documents and disclosures. Full search functionality, version control, and audit trails ensure that documents (and text within them) can be found easily.
- Workflow: Fully customisable workflow is developed around how our clients work. It allows for collaborative review cycles, formal sign-offs, and dissemination of approved files to email, web or file transfer protocol, or to our print operations.
- Language versions: Translations by investment management and finance industry native speakers ensure consistency between English versions and any translated documents.
- Review: Robust review and audit tools highlight any changes made to a document and ensure nothing has changed that was not supposed to.
- Typeset output: Full client branded web- and print-ready PDF files.

**What are the main benefits of outsourcing this function?**

This tends to vary depending on their preferred operating model. Some asset managers will outsource this function to their fund administrator, corporate trustee or law firm.

Others like to keep document management in-house.

Fund administrators, corporate trustees, management companies and law firms use ArcPro to manage all of their clients' documents.

We also work directly with asset managers who prefer to manage their documents in-house.

In both instances, our teams will implement, streamline and train client staff to use ArcPro to update, manage and publish fund documents. The majority of changes, new documents or updates can be managed directly by clients.

Clients with significant global or regional operations value having all of their documents in a centralised location.

For example, Asia Pacific asset managers can gain significant efficiencies in managing their Hong Kong key facts statement, Singapore product highlight sheet, and Australian product disclosure statement on the system, managing consistency between the different documents, the variations, and reusing appropriate variables.

Utilising a content management system, such as Donnelley Financial's ArcPro solution, investment managers and their service providers can manage, update and control their documents and disclosures in a cost efficient and streamlined manner.

**What are the main drivers for improving content management—cost efficiency, regulatory compliance, or something else?**

The main driving factors typically vary from client to client. Some investment managers will have an extremely well maintained data set and document process, some less so.

Some are over-resourced, some under-resourced; some are proactively seeking a content management solution; some are responding to increased challenges, whether it's product growth or more regulation.

While the underlying drivers may vary from client to client, some common requirements include:

- Legal and compliance issues: Inconsistent information on a pre-sale offer document or legal agreement can pose significant risk for an investment manager. Managing, reviewing and approving this content in one place ensures that it is consistent and accurate in any other document or section that text is used.

- Operational efficiency: New fund launches, new or updated regulatory disclosure obligations and periodic document updates are just a few of the common challenges faced by those working in the investment management industry. Asset managers look to content management systems to make this an easier and more controlled process.

- Scalability: A content management solution will help an investment manager to easily manage growth, enabling them to add new funds, sell into new markets, and remove the administrative strains often associated with this.

**How can you ensure optimum data security within content management systems?**

We deal with a wide range of sensitive data and confidential information for asset managers, including regulatory filings, annual reports, fund fact sheets, and private offering documents. The security and the integrity of our systems are of paramount importance to us. We invest significant time and resources to ensure that our clients' data and documents are safe and secure. All data communication between the application and users is secured with 128-bit encryption or higher; our data centres are AT 101 certified, with validated processes around security and emergency response systems; and we run annual penetration and disaster recovery testing. **AST**

**Donnelley Financial's ArcPro solution has been adopted by Ironbark Asset Management.**

In 2016, the Australian fund manager implemented ArcPro to streamline its offer documents.

Lechelle Hooper, head of product and client communications at Ironbark, shares how the new tool has helped the business. She says: "After researching a number of systems to streamline our offer document production and maintenance, we selected ArcPro platform because it is very intuitive and because the underlying input system is Word, which we are very familiar with."

"We are very happy with the system and with Donnelley Financial Solutions. From initial implementation the team has been very supportive with a thorough training and implementation plan through to ongoing servicing."

"After the implementation training, our team members were confident to use the system independently, however, if we have any issues, the Donnelley Financial team are always quick to respond and resolve our issues so meeting our tight deadlines has never been an issue, even given the time zone difference."

"ArcPro solution has improved our offer document production and maintenance processes. We've gained efficiencies in time spent on producing documents and through our internal governance processes. The system sets us up for scalable growth and ensures brand compliance and high quality product documentation with every use."

***"New fund launches, new regulatory disclosure obligations and periodic document updates are just some of the challenges"***

**Colm Carey**, Director of sales and business development for Asia-Pacific, Donnelley Financial Solutions

# Many hands make light work

## In the search for alpha, appointing an investment fund and a management company can bring myriad benefits, says Eduard von Kymmel of VP Bank

Alpha, often called the 'holy grail' of investing, receives a lot of attention from managers as well as investors. Alpha is expected to be found by exploiting market inefficiencies and is mostly referred to the abnormal rate of return on a security or portfolio in excess of what would be predicted by an equilibrium model such as, for example, the capital asset pricing model (CAPM). In a nutshell, alpha is mostly referred to in the context of the active allocation of assets.

However, did you ever think about market inefficiencies which can be taken advantage of through the professional operation of an investment fund? Apart from the recent market turbulences and the connected mistrust from regulators and investors of offshore funds, there are many more advantages referring to operational economies of scale that can be used to generate additional returns by establishing and managing an investment fund in Liechtenstein or Luxembourg, in collaboration with a local management company.

**Managing regulations**

These days, regulation is getting a more and more strategic discipline, but how can the growing flood of regulations be managed? The ongoing monitoring of the various upcoming and steadily changing regulations causes additional costs and affects asset managers in their day-to-day operations. Therefore, outsourcing this task to a management company by establishing and managing an investment fund could help not only in boosting the operational efficiency of the asset manager, but also assist in gaining a strategic advantage over competitors, while still being able to operate a lean setup. Talking about outsourcing, it also needs to be mentioned that all the back- and middle-office tasks—administration, compliance, reconciliation, risk management, audit management, correspondence with authorities and regulators—which otherwise have to be taken care of by the asset manager, can be farmed out to the management company of the investment fund.

Investment funds can therefore be seen as a valid and highly attractive outsourcing opportunity for asset managers. By establishing and continuously managing an investment fund structure in Liechtenstein or Luxembourg, the asset manager will be enabled to transform previously fixed costs into variable costs, thereby reducing overheads. In addition, asset managers will be able to use their existing resources to fully focus on their key functions to the utmost extent, namely managing the assets according to their mandate and distribution.

**Reducing risks**

Investor protection has to be mentioned in one breath with regulation, given that this is the core mandate of any investment fund as well as all the stakeholders.

Since the management company and depository are liable towards third parties, duties and responsibilities will be transferred to the management company and the depository of the investment fund. Therefore, apart from lowering overheads, liability risks and the costs in conjunction with these risks can also be significantly reduced. Moreover, the investors are protected through the 'deep pockets' of the management company as well as the depository, which in turn leads to strong corporate governance provided to the investment fund, the asset manager and finally the investors.

Taking into account the investors' perspective further, investments into an EU-regulated investment fund provides them with clear guidelines when it comes to the protection of their interest as well as the handling of complaints and escalation procedures.

**Enabling diversification**

In terms of the allocation of assets, investment fund structures can also be beneficial for asset managers and investors, since the desired diversification might only be achieved through a substantial investment amount.

This is especially given for fixed income securities as well as various alternative investment strategies. Consequently, the asset allocation of the clients allows for an enhancement of their risk/return profile and for a portfolio better addressing their needs through the utilisation of an investment fund.

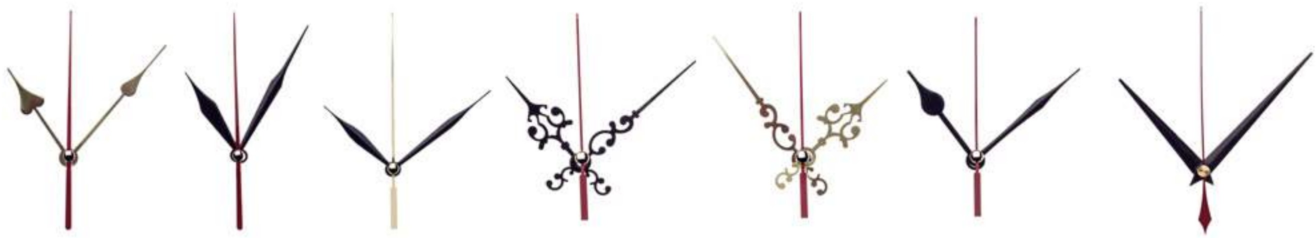
Compared to an operation without any investment fund structure, the equal treatment of investors might be difficult for asset managers managing various different mandates held with numerous banks. Likewise, the different portfolios will suffer from slippage and the comparison between the various portfolios will get considerably more difficult.

Again, an investment fund can easily address this issue, since all the clients' assets will be held at the same depository and trades will be executed at the same time.

The various client needs can then be addressed on the level of the different share classes in order to treat every investor within a given share class equally.

**Pan-European distribution**

By using an EU or European economic area (EEA) fund structure, the ongoing access to the European single market can be significantly facilitated as well as guaranteed on an ongoing basis. Additionally, when it comes to the commercialisation of an investment strategy, an investment fund provides clear guidelines on how, and to whom, to market the products to as well as the admissibility of the marketing materials used to do so. Nevertheless, distribution also comes with additional workload in terms of the required resources needed to administer the relationships stemming from a pan-European distribution. Again, the management company of an investment fund can help to take care of these relationships, thereby nominating and monitoring the



relevant delegated counterparties as well as potential changes in the legal or regulatory landscapes.

Taking into consideration the increasing demand for transparency as well as regulatory needs for various reports, an investment fund domiciled in a jurisdiction of the EU or EEA also disposes of reports that are in line with the requirements set out by the European regulators, allowing a standardised reporting of the activities of the fund to its investors which exactly meet their demand. Moreover, specific reports demanded by the clients (for example, reports required by the German Insurance Supervision Act, reports according to specific account rules, and the like) can also be provided by the management company of the fund within a reasonable amount of time without putting additional workload towards the asset manager.

**Efficient tax management**

Notwithstanding are certain tax advantages, especially when it comes to reallocating assets, the utilisation of derivatives as well as the exploration of double tax agreements and reclaiming withholding tax. Again, this directly affects the overall performance of the investors' portfolio and potentially enhances alpha by increasing the returns through efficient tax management, which will be overtaken by the management company to allow the other stakeholders involved to focus on their core functions. In addition, certain privileges compared to direct investments directly influencing the investors' personal tax situation may be achieved through the utilisation of an investment fund.

In order to be able to gain from these opportunities, certain systems allowing the production of the required reports, as well as the coordination of the required service providers, authorities and other stakeholders, have to be in place.

Once more, these tasks can be carried out by the management company within an EU or EEA investment fund.

**Professional expertise**

Besides effects that are directly measurable in terms of cost reductions for the asset manager and the investors, both the asset manager and the investors will be able to profit from the expertise provided by dedicated management companies professionally servicing asset managers and investors in their daily business. This may cover the whole spectrum from input referring to the structures operated to supporting the daily operations, which can be of specific advantage when it comes to certain investment strategies that might go beyond the traditional universe of stocks, bonds and cash. Even more, it is not only about 'do what you can do best—outsource the rest', but also about what the clients demand: independent operations; separation of powers; and a reliable, flexible and extensible infrastructure. These are key to growth and to a return enhancement, both for the asset managers as well as for the investors.

**Variety of advantages**

To conclude, on the one hand, investment funds offer a variety of advantages that can help asset managers to grow their business organically by providing tailor-made solutions while still being able to operate lean structures. In addition, a key condition to institutional growth is independent operational staff to provide the check and balance functions needed to secure the value of their investments.

On the other hand, investors are able to gain from advantages offered through the professional operation of an investment fund by making the most of the tools and resources available to the utmost extent. Therefore both investors and fund managers, are able to benefit from the generation of additional alpha by boosting the operational efficiency. To express it in a different way, a management company is the all-rounder which is able to provide an action plan for all contingencies in a reasonable amount of time, thereby enabling future growth, an increase in returns and more efficient operations. **AST**

***Investors can gain from professional operation of an investment fund by making the most of the tools and resources available to the utmost extent***

**Eduard von Kymmel**, Head of fund solutions, VP Bank


**Stephanie Palmer reports**

# On your marks

## Payments service providers in Europe, and around the world, would be wise to get set for PSD2. Deutsche Bank's Shahrokh Moinian explains

**What major changes are coming in with PSD2, and how can institutional payment service providers adapt in order to comply?**

The second Payments Services Directive (PSD2) comes into application on 13 January 2018 and will introduce three major changes, as well as a number of minor ones. First, PSD2 extends the scope of its predecessor directive to payments where only one payment service provider is located in the EU or European economic area (EEA), or 'one leg out' transactions, and to payments in non-EEA currencies. This means that the bulk of the directive's information and transparency requirements will now also apply to these types of international payments. However, certain provisions under PSD are excluded from the scope extension (such as the provision on amounts transferred and amounts received), so providers need to take advice or check carefully which provisions apply to their particular circumstances.

The second change is that PSD2 seeks to strengthen payment security, and the security of customer account details, by requiring two-factor authentication for all electronic payments and remote account access, though certain payments will be exempt.

However, the most fundamental transformation brought about by PSD2 will be the opening up of the European payments market to a number of different types of 'third party providers'—the most important of which are payment initiation service providers and account information service providers—that will be given a new type of license and subject to new requirements.

Payment service providers will have to undertake a substantial volume of change work to adapt their systems and processes to implement these changes. However, what will probably have the most far-reaching effect on the European payments market as a whole is the licensing of the new third-party providers, as this is likely to usher in a whole new innovation ecosystem in European payments.

**What do you anticipate emerging as the biggest challenge for back-office processes?**

Each of the three main changes implemented by PSD2 has potentially significant consequences for back-office processes. Payment service providers will need to make changes to ensure they comply with all relevant provisions regarding international payments in consequence of PSD2's scope extensions. They will also have to ensure all their customer authentication processes for electronic payments, as well as for other forms of remote account access, are geared up to require two-factor authentication. How challenging each of these changes will be for any given institution will depend on its current systems and processes, but there should be sufficient time—and help where required—to implement the necessary changes, provided institutions don't delay.

Setting up the third-party interface is an entirely new requirement affecting all payment service providers that offer access to online payment accounts. The European Banking Authority will publish further details regarding this soon, although it is unlikely to define the interface's technical specifications, common standards or interoperability. In this light, Deutsche Bank is taking a pro-active approach that strongly favours banking industry collaboration as the means of developing a single pan-European technical standard for third-party provider access, which further promotes the vision of a single European domestic market with the single regulations, formats and technical standards. In that respect, currently we see Berlin Group, a pan-European payments initiative focused on interoperability standards and harmonisation, as the most international and advanced working group.

**What will Brexit mean for UK institutions, with regards to PSD2?**

Until the UK's withdrawal from the EU becomes effective, EU regulation remains binding. After that, we don't yet know what shape UK replacement regulation will take. However, UK institutions with operations located in the EU or EEA, or processing payments one leg of which are located there, will still be obliged to comply with its provisions, so most institutions operating internationally would do well to gear up for the changes, whatever happens regarding Brexit.

The UK is a very technology- and innovation-friendly environment, and is likely to continue to be supportive of the best in fintech and of innovation in payments. Also, there are other moves pushing the market towards more open banking. Take, for example, banks developing and implementing open application programming interfaces.


**How does the directive aim to promote innovation in corporate payments while also improving the safety of transactions?**

Third-party providers working in close proximity and cooperation, as well as competition, with incumbent providers is likely to stimulate a lot of innovation, both in the kinds of products and services offered to corporates and in how these are delivered. In corporate payments, unlike in the retail sector, the journey has only just begun to transform the customer experience and add value to payments. Accessing multiple account balances and real-time complex transactions—processed through various providers, channels, devices and jurisdictions—is only the starting point. Corporates will also expect substantial added value from their payment service providers. More sophisticated services might result, such as tailored decision-supporting analysis of data calculating anticipated comparative outcomes of different courses of action.

Naturally, where there is more frequent and easier access to customer account information by more parties, this gives rise to worries concerning the security of customer account information. This is precisely why PSD2 is raising the bar by requiring two-factor authentication as standard in both electronic payments and for all kinds of remote access to customer accounts and account information.

**Does PSD2 favour 'disruptors' over legacy service providers, and is this a sustainable provision?**

The EU institutions have expressed themselves in favour of payment innovation on many occasions, but PSD2 does not seek to favour any particular type of provider.

Its likely effect is rather to level the playing field by allowing third-party providers access to the market, bringing them under regulatory supervision, and guaranteeing them access to customer account information.

The new business models and customer-friendly channels of communication that these organisations bring with them are bound to stimulate innovation. However, it is by no means clear who will deliver the bulk of these new services—it might be established incumbents, leveraging their natural advantages of global footprints, deep-rooted customer trust and regulatory expertise, or it might be technologically nimble fintech providers—but many of the successful solutions are likely to arise from collaborations between the two.

The result should be a vibrant, innovative and secure payments market in Europe, benefitting corporates, consumers and the market as a whole. **AST**

***"Third-party providers working in close proximity with incumbent providers is likely to stimulate a lot of innovation"***

**Shahrokh Moinian**, Global head of cash management for corporates, Deutsche Bank

# Tech it or leave it

## As they face increasing demands from clients and regulators alike, fund administrators could be best off leaving back-office technology upgrades to the professionals, according to Kelly Ashe of Pacific Fund Systems

The role that technology can play in enabling the fund administrator to perform its traditional net asset value (NAV) accounting and shareholder services was historically underutilised, however those days are long gone.

In 2017, it is an undisputable fact that the fund administration sector continues to evolve, particularly in respect to the industry's appetite for—and attitude towards—information technology, and its emergence as an integral capability and a key differentiator when it comes to winning new business and retaining existing clients.

Finding themselves increasingly under the spotlight, fund managers are demanding far more of their administrators than ever before in order to comply with ever-increasing regulatory and reporting requirements demanded by the world's regulators and tax authorities.

The ongoing challenge for administrators to improve their levels of automation, transparency and efficiency by embracing new technology while simultaneously responding to pressures on reducing fees is substantial. The threat of a game-changing disruptor entering the industry to exploit the inefficiencies and excessive costs that exist has never been higher.

Servicing an industry in such a constant state of flux is no easy task, and as a software vendor that exclusively focuses on this niche industry, Pacific Fund Systems has invested time and resources to analyse the ways in which the needs of fund administrators have changed, and continue to change. Our software development objectives are defined by the aim of ensuring that we continue to develop functionality that will assist clients to embrace these emerging technological advances, in order to automate areas of the additional responsibility placed upon them, ultimately improving efficiencies and increasing operating margins.

With the inescapable evolution of technological advance, as fund clients and their fund managers become more demanding and the regulatory environment continues to mature, the inevitable conclusion is that fund administrators must systemically adapt their business processes, operating models and underlying core technology where necessary, in order to keep their services competitive and fit for purpose.

As a fund administration software provider constantly monitoring the industry to identify what adaptions are in view, we aim to ensure solutions are in place before they are needed. By adopting this proactive approach we consistently exceed the expectations of our clients, allowing Pacific Fund Systems to retain its enviable position as the software supplier of choice for the fund administration industry, with PFS-PAXUS continuing to satisfy the needs of the most sophisticated fund administrators.

So how should fund administrators adapt? On the one hand, administrators seek to modernise their operations to manage this range of new pressures and embrace a new generation of technology, while competing for business in an environment rife with competition and margins under increasing pressure.

The adoption of technology in the fund administration back office will remain a principal focus for many fund administrators in 2017 and beyond. The opportunities for automation, and the resultant switch to exception-based processing in particular, will provide all early adopters with a strategic competitive edge that cannot be overlooked.

To operate effectively, fund administrators are under pressure to increase their levels of transparency, accuracy and responsiveness while significantly improving the efficiency of their operations, and this is simply an unattainable challenge for many of the legacy back-office applications still in use today.

With regulators continuing to push for increased transparency and accountability across the industry, the new reporting requirements increasingly fall to the administrator, resulting in the additional burden to deliver the required data on behalf of their clients.

In addition to regulatory pressure, the demands for increased data are manifold: end investors want access to more detailed and sophisticated information; fund managers need to gain a deeper understanding of investor behaviour to capitalise on changing distribution trends as they emerge; and the adoption of continually improving risk insight and analytics tools can support informed investment decisions.

Although leveraging 'big data' is no longer a new concept to the asset servicing industry, it appears that fund administrators have been slower to react, most likely due in part to legacy technology issues. In light of the fact that most of the new regulatory requirements dictate that fund administrators and transfer agents obtain, store and validate more fund- and investor-related data than ever before, the challenge of implementation continues to present an opportunity to pro-active system vendors such as Pacific Fund Systems, as many administrators look to gain a competitive advantage by transforming raw big data into actionable business insight. Our clients are able to add this valuable service to their offering simply by taking advantage of the open relational database design of the PFS-PAXUS application.

We cannot discuss advanced technology in the back office without focusing on automation and the essential investment in straight-through processing (STP) technology that many administrators still need to make.

Those of us who have spent time manually inputting transactions and shareholder information and manually producing investor communications know better than most that the manual back-office administration undertaken by the fund service providers is by its very nature perfectly suited for automation. It is repetitive, often includes very complex data-intensive processes and it has

a lot of underlying moving parts, yet it can be accurately defined within existing data sets which, in turn, align with prescribed accounting formats.

"Utilising technology to increase automation is crucial if an administrator wants to be both efficient and accurate," says Paul Kneen, COO of Pacific Fund Systems. "A successful administrator will maximise its use of technology and will constantly seek out new and improved technologies, continually pushing the boundary of what is achievable within the budget allocated."

Although alternative funds in general still have a long way to go to achieve the STP levels seen in the retail fund space, we are witnessing an emergence in the automation of private equity funds. One obvious explanation for this is the growth of private equity as an asset class, meaning that there are simply many more of these fund types in existence. More consciously, private equity fund managers have seen how successful automation has been with retail and hedge funds and have sensibly questioned if the same could also be true for the types of funds that they manage.

At the same time, private equity and real estate fund managers are also facing increased expectation and demand from their investors to provide third-party validation of asset pricing and performance. As such, it seems that the exact same conditions that fundamentally drove the shift to employ third-party fund administrators for hedge funds, exist today for private equity and real estate funds.

Mainstream third-party administrators that have both the technology in place and the understanding to administer these funds will be best placed to take advantage of this active growing market opportunity. With capital flows into private equity funds predicted to considerably increase, amid the market uncertainty and predicted outflows affecting hedge funds, this is an opportunity that some fund administrators cannot afford to miss. Administrators that have a system in place that enables them to offer this expanded range of services across both traditional and alternative funds, such as PFS-PAXUS, which integrates both fund accounting and investor services for all fund types on a single application, have a tangible opportunity to expand their offerings by taking advantage of the convergence between traditional asset managers and alternative asset managers, and bringing the administration of private equity and real estate funds on board.

Cloud technology is a valuable consideration to mention also. With the increased focus on investors and transparency—along with a growing expectation for 24/7 real-time access to information—data availability and security are clearly defined key differentiators to remaining competitive.

Continued improvements in cloud technologies, and reduction of related costs, particularly via the software-as-a-service delivery model, offer service providers access to improved operational efficiencies that were previously out of reach to all but the largest of industry participants.

The availability of a cloud-based application facilitates greater global scalability, accessibility and flexibility, and by reducing the IT infrastructure burden, fund administrators are free to focus resources on their operations.

In line with the aim of staying ahead of current technological trends and the efficiencies they create, Pacific Fund Systems is currently enhancing its offering with the planned delivery of PFS-PAXUS via the cloud, as a hosted solution targeted for launch in 2017. The existing 'client-hosted' model will continue to be offered in parallel with PFS-CLOUD, providing new and existing clients with an enhanced range of hosting options.

With the number of interfaces expected to grow in scale and complexity, it will make technical and financial sense to have experts managing the core technology environment on behalf of clients, in turn allowing those administrators to focus on their core business. **AST**

***With the increased focus on investors and transparency, data availability and security are clearly defined key differentiators to remaining competitive***

**Kelly Ashe**, Sales and marketing manager, Pacific Fund Systems

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**Bob Kneip, founder and CEO of KNEIP, is moving to the position of chair, as part of a re-shuffle of the firm's leadership team.**

The changes are part of a new focus on KNEIP's digital strategy, which Kneip will lead in his new position. He has also appointed Neil Ward, former global senior vice president of business operations at Skype, and a team of specialists, to help him.

Former chair, Marie-Jeanne Chèvremont, will remain on the board of directors, and will be a special advisor to the new chair.

Lee Godfrey will take on the CEO position, taking responsibility for the day-to-day management of KNEIP. He will also chair the management team.

Godfrey has been with KNEIP since 2008, when he joined as deputy CEO. He is credited with advancing product development and process implementation, and overseeing expansion of the firm.

Kneip said: "KNEIP will continually evolve and develop to help clients be efficient and sustainable. Such evolution is vital in driving the sustainability of the asset management industry as a whole."

Godfrey commented: "We are in a unique position to dramatically change the way our clients operate, and help them improve efficiency, reduce waste and increase transparency to the investors in their products."

**Standard Chartered has appointed Colin Brooks as vice chairman for its securities services and transaction banking business.**

Brooks will advise the business and management teams and act as a senior sponsor to clients.

Based in Singapore, he will report to Margaret Harwood-Jones, global head of securities services and transaction banking at Standard Chartered.

With 26 years of experience in the Asian markets, Brooks joined Standard Chartered as a senior advisor in November 2015. Before this, he held several roles at HSBC Securities Services business, including, most recently, global head of custody and clearing.

Brooks said: "[Being] with Standard Chartered over the past year has given me great insights into its culture and what makes the bank so well regarded by many in the industry."

**The Depository Trust & Clearing Corporation (DTCC) has appointed Ann Shuman as general counsel, as her predecessor Larry Thompson steps down to focus full-time on his vice chair position.**

Thompson has been with DTCC since 1981, when he joined as associate counsel. He became general counsel in 2005, and has also held his vice chair position since 2015.

Focusing on his vice chair responsibilities full-time, Thompson will lead public policy engagement with regulators and lawmakers, while also acting as a senior advisor to the firm and chief spokesperson. Shuman was previously managing director and deputy general counsel, a position she has held since she joined DTCC in 2014.

Taking over the general counsel role, she will advise senior management and the board of directors in legal and regulatory matters. She will also join the management committee, and will continue to oversee the global legal team.

Michael Bodson, president and CEO of DTCC, said: "Over the years, Ann Shuman has distinguished herself for her sharp legal mind, her deep understanding of the complexities and nuances of financial market infrastructures, and her collaborative approach to managing significant legal matters."

Regarding Thompson's role change, Bodson said: "As we expect to continue facing regulatory scrutiny in the coming years as well as the potential for new legislation and further regulatory developments, Larry Thompson will focus on these issues to protect our interests and promote DTCC's critical role in reducing risk for the industry."

**Jeffery Heslop, COO of the US Securities and Exchange Commission (SEC) is to leave the agency in February.**

Heslop joined the SEC in 2010 as its first ever COO. He is credited with leading innovation in business processes, internal controls and technology infrastructure, ultimately reducing costs within the SEC, and improving efficiency and cooperation between divisions. Kenneth Johnson, current CFO of the SEC will become acting COO until a permanent replacement is found.

Michael Piwowar, acting chair of the SEC, said: "As the SEC's first COO, Jeffery Heslop helped the agency streamline operations and leverage resources to more effectively serve the investors and markets."

Heslop said: "It has been a true honour to serve with the extraordinarily dedicated and self-sacrificing professionals who comprise the agency's staff."

Heslop's departure follows a major reshuffle in SEC leadership, which saw previous chair Mary Jo White step down at the end of the Obama administration. Michael Piwowar is currently acting chair, and will be replaced by Jay Clayton, a partner at law firm Sullivan & Cromwell.

Following White's announcement, both Annie Small, the SEC's chief legal officer, and chief of staff Andrew Donohue also announced they would leave the agency in January.

**Eurex Exchange's council has elected Carola Gräfin von Schmettow as chair.**

Gräfin von Schmettow, who is CEO of HSBC Trinkaus & Burkhardt, will serve a three-year term.

A new vice chair and investor representative were also elected at the meeting of council members on 25 January.

Professor Dr Lutz Johanning of the WHU – Otto Beisheim School of Management was elected as vice chair, while Christophe Adam, global head of client operations at Societe Generale Newedge UK was selected as investor representative on the council.

**Tim Wood has been named the new head of HSBC Securities Services (HSS) in the UK, effective 28 March.**

Wood joins from RBC Investor and Treasury Services where he served as managing director of business management for 14 years. He will take over responsibility for the UK business from Rafael Moral Santiago, head of HSS Europe, who will continue to focus his responsibilities throughout the rest of Europe.

In his new role, Wood will be based in London and report to Santiago, as well as becoming a member of the HSS Europe management committee.

**The board of the Alternative & Direct Investment Securities Association (ADISA) has named its officers for 2017, as John Grady begins his term as president of the board.**

Grady, a partner at law firm DLA Piper, was first selected to be the 2017 president in January 2016, and has served on the board as president-elect since then.

Keith Lampi has now become president-elect of the ADISA board, having been chosen as president for 2018. Lampi is president of the Inland Private Capital Corporation (IPCC), where he has worked for 14 years.

Vice president of the board has been named as Greg Mausz, executive vice president of operations and due diligence at Capital Securities, and managing broker dealer for Preferred Apartment Communities.

The outgoing president, Mike Bendix, co-founder and CEO of DFPG Investments, will continue to serve on the board as immediate past president.

Brian Buehler, partner and investment committee member at Triton Pacific Securities, has become secretary of the board, and Mark Kosanke, founder of the Concorde Financial Group, is treasurer.

AST AssetServicingTimes

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

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

**Contributors:** Becky Butcher, Drew Nicol and Barney Dixon

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

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

**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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Catherine Bowman, founder of The Bowman Law Firm, was also elected to the board as director, for a one-year term.

The board of directors, which consists of eight additional members and a legal counsel member, was elected by ADISA members at the end of 2016.

**Capita Asset Services has appointed Andrea Lennon as head of business development for its Irish funds business.**

Lennon joins from BNY Mellon, where she spent eight years in business development and relationship roles.

Paul Nunan, managing director of the Capita Asset Services fund solutions business in Ireland, said: "Andrea Lennon brings a wealth of funds experience and we are thrilled to welcome her into the team. Her expertise will be invaluable for the business." **AST**