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Fragmentation would weaken central clearing

Fragmentation of European markets by jurisdiction or currency would reduce the benefits of central clearing, Bank of England governor Mark Carney has said.

In a speech at a breakfast event at Mansion House in London, Carney welcomed the European Commission's proposals for a two-tier regulatory system for central counterparties (CCPs), but warned against carving up London's clearing market once the UK leaves the EU.

Carney pointed out that the UK houses some of the world's largest CCPs, including LCH in London, which clears swaps in currencies for firms in 55 jurisdictions, handling more than 90 percent of cleared interest rate swaps globally and 98 percent of all cleared swaps in EUR.

"All currencies, products and counterparties benefit from the resulting economies of scale and scope," he said. "Fragmentation is in no one's economic interest. Nor is it necessary for financial stability. Indeed it can damage it."

"Fragmenting clearing would lead to smaller liquidity pools in CCPs, reducing the ability to diversify risks and diminishing resilience. And higher costs would reduce the incentives to hedge risks, increasing the amount of risk that the real economy would have to bear."

The European Commission's proposals for a two-tier regulatory system, which were announced earlier in June, "recognise the importance of effective cooperation arrangements between the relevant EU

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Fragmentation would weaken central clearing, says Mark Carney

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authorities and their overseas counterparts", Carney said. "They include potential provisions for deference to the rules to which a CCP is subject in its home jurisdiction in line with the intent of the G20."

"Elements of these proposals could therefore provide a foundation on which to build robust cross-border arrangements for the supervision of CCPs. This should be based on deep cooperation between jurisdictions and authorities who defer to each other's regimes where they meet international standards and deliver similar outcomes."

Under the proposals, a new supervisory mechanism will be established within the European Securities and Markets Authority (ESMA), which will be responsible for ensuring a more coherent and consistent supervision of CCPs based in the EU, as well as more robust supervision of CCPs in non-EU countries, or 'third countries'.

Non-EU CCPs are the real targets of these proposals, with the introduction of a new two-tier system designed to apply stricter requirements to systemically important—or so-called second-tier—CCPs.

These requirements include compliance with the necessary prudential requirements for EU CCPs while taking into account third-country rules, as well as confirmation from EU central banks that the CCP complies with any additional requirements they set forward, such as collateral management, asset segregation and liquidity arrangements.

ESMA also envisages second-tier CCPs agreeing to provide ESMA with all relevant information and to enable on-site inspections, as well as the necessary safeguards confirming that these arrangements are valid in the third country.

In the event that a third-country CCP is deemed to be of "such systemic importance that the requirements are deemed insufficient to mitigate the potential risks", the European Commission would have the power to say that the CCP can only provide services in the union if it establishes itself in the EU.

Non-systemically important CCPs will continue to be able to operate under the existing European Market Infrastructure Regulation (EMIR) equivalence framework.

Speaking at the the Global Financial Markets Association in Frankfurt, Benoît Cœuré, member of the executive board of the European Central Bank (ECB), reiterated fears over what would happen if a CCP failed.

Many central banks rely on increasingly cleared trades such as repos to make monetary policy decisions. "Any closure of certain repo market segments due to a CCP failure would therefore inevitably limit our ability to align money market conditions with our monetary policy intentions," Cœuré said.

But he signalled that central banks are generally happy with existing rules to monitor and address potential risks stemming from central clearing.

"More fundamentally, of course, the UK's decision to leave the EU is prompting a significant rethink of the European approach to the supervision of systemically important global CCPs," Cœuré conceded.

"What concerns us today in the context of Brexit is that the current EU regime regarding third-country CCPs was never designed to cope with major systemic CCPs operating from outside the EU."

"Indeed, this regime relies to a large extent on local supervision, and provides EU authorities with very limited tools for obtaining information and taking action in the event of a crisis."

"In this regard, we think the recent European Commission proposals to amend EMIR are a step in the right direction."

"If adopted, they would provide the supervisors and the relevant central banks of issue with the guarantees they need in order to monitor and address risks to the EU's financial system."

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Custody clients demand innovation

Custodians must embrace new technologies if they're to survive in the digital age, according to a survey of sell-side executives by BNP Paribas Securities Services and TABB Group.

A survey of sell-side senior executives at mid-size US banks and brokers found that 80 percent expect there to be fewer custodians in the market in three years' time. The remaining 20 percent said they expect the numbers to remain the same.

The survey report put this down to "the aggressive automation and adoption of innovative technology that the sell-side anticipates occurring at their custodian banks".

It added: "[Respondents] have provided a clear blueprint for what they think banks need to do to survive."

When respondents were asked about their most important technology initiatives, cybersecurity and client-driven user interface emerged on top, each considered a top priority by 19 percent.

The report suggested that these are both "non-discretionary developments", particularly highlighting cybercrime as a "real threat" and suggesting that upcoming regulations and recent cyber breaches may have led to a new awareness and focus on addressing this.

With regards to the focus on user interface, the report suggested that this is aimed at improving user experience. It said: "Many are trying to create new offerings for their clients that are in step with technology changes, giving them a more graphic and interactive look and feel."

The most important non-technology initiatives in the sell side emerged as regulatory compliance, named by 22 percent, operational efficiency, highlighted by 20 percent, and data quality, named by 15 percent.

When asked what kind of technology they think will improve their operational efficiency over the next year, blockchain, or distributed ledger technology, was most popular, named by 33 percent of respondents, while regtech was a close second, selected by 27 percent.

Looking ahead over five years, however, blockchain, regtech and big data analytics are all expected to have an effect on efficiency, receiving 33 percent of the vote apiece.

Technology priorities when selecting a custodian did not necessarily reflect this, with the top priority emerging as cloud computing or storage, followed by digital identity and then distributed ledger technology.

The report said: "With their budgets declining, [respondents] are looking for new operating models that provide the prospect to reduce costs and feel that there are opportunities for their banks to provide services utilising cloud distribution."

When asked which aspects of securities services they would most like to see change over the next three years, 33 percent of respondents highlighted regulation, while 27 percent said would like to see more automation of manual processing.

Capital constraints were noted as a concern by 17 percent, while 13 percent said they would like to see change in collateral optimisation.

However, when selecting a new custodian, the sell-side is still focused on customer service, with 18 percent saying this is the most important aspect for them.

This was followed by value for fees and operational expertise, while innovative technology offerings came in fourth place, named as the most important aspect by 14 percent.

Dayle Scher, TABB Group senior analyst and author of the report, added: "We found that the custody industry is set for transformation in terms of the technology they use, while the focus on customer service reigns supreme."

He added: "Adoption of automation for remaining manual processes, combined with better data analysis, are critical enablers of the high-touch coverage the sell-side so covets."

Bruno Campenon, head of the financial intermediaries and corporates client line at BNP Paribas Securities Services, added: "The survey results validate that the advanced technologies we are already developing globally, such as distributed ledger technology and artificial intelligence, position us well to help our clients succeed in a changing digital landscape."

The report said: "The old perception of pillared institutions vaulting securities, collecting income and calculating net asset values for funds belies the custodian of today who more resembles a technology provider than stodgy bank."

"In this era of cyber threats, regulatory changes, disruptive technology and commoditised custody services, custodian banks must adopt and even develop their own innovative means of attracting and retaining assets, or risk submitting to the perception."

ECB to widen TARGET 2 for retail

The European Central Bank (ECB) is expanding its TARGET 2 instant payments system to facilitate retail payments throughout Europe.

The new TARGET Instant Payment Settlement (TIPS) system will allow for instant money payments via banks, allowing both citizens and firms to make instant retail payments in the eurozone.

It builds on the TARGET 2 settlement system, used for processing large-scale euro payments, and, according to the ECB, will "make sure that the demand for instant payments is met at European level and further facilitate the integration of the euro area".

Scheduled to start operation in November 2018, TIPS will be available 24 hours a day, and 365 days a year. According to the ECB, it will cost a maximum of €0.002 per payment for its first two years of operation.

It will be developed in close cooperation with the European banking industry.

Misys and D+H to merge

Technology providers Misys and D+H are joining forces to bring their combined fintech power to bear as a single global financial software provider.

The new company, known as Finastra, will have operations in 130 countries and serve 48 of the top 50 banks globally.

Finastra will be led by Nadeem Syed as CEO. Syed was previously CEO of Misys and has more than 27 years of experience guiding technology companies through transformation and growth.

The merger follows the acquisition of D+H by Vista Equity Partners, which already owns Misys, creating a merger of the two complementary financial technology providers.

Finastra promises to offer a broad set of retail banking, transaction banking, lending, and treasury and capital markets software capabilities.

Syed said: "Serving all of our customers and partners remains our top priority. By coming together as Finastra we are committed to enhancing our ability to deliver market-leading products and services, and to being an even more strategic partner to our customers."

"We will build momentum, delivering innovative and transformational products and exceptional service. Our mission is to help our customers, whatever their size, wherever they are located."

Robert Smith, founder, chair and CEO of Vista Equity Partners, added: "We firmly believe that Finastra is greater than the sum of its parts. The combination of scale, efficiency, and market leading service and technology will create a powerhouse in the fintech sector and uniquely position the company to meet the demands of its global customers and their clients."

Broadridge takes on SFTR

Broadridge is addressing trade reporting requirements set to come in with the Securities Financing Transactions Regulation (SFTR), launching a new solution spanning the entire reporting lifecycle.

Under the European Securities and Markets Authority's SFTR, any EU counterparts engaging in securities finance transactions will be required to report trade data to a registered data repository.

The Broadridge solution will provide system-level data from its securities finance and

Clearstream's ETF assets surpass €300 billion

Clearstream has seen a 25 percent increase in its custody business for exchange-traded funds (ETFs) over the last 12 months, with ETF assets under custody passing the €300 billion mark for the first time in May.

According to Clearstream, this increase is partly down to the emergence of products like its Vestima cross-border fund processing platform, designed to simplify cross-border ETF transactions while improving liquidity and reducing costs.

ETFs were added to the Vestima fund platform in 2014.

Clearstream Banking co-CEO Philippe Seyll, said: "Our system takes care of the complexity."

He added: "It is low on cost and it is automated. This means that a French investor can buy into a German-listed ETF and sell it on the UK stock exchange seamlessly."

Clearstream's total assets under custody for May saw a 3 percent increase to €13.46 trillion compared to the same month last year, when assets under custody reached €13.04 trillion.

The investment funds services business saw an almost 50 percent increase in the number of transactions, and a 19 percent increase in the value of securities deposits.

Transactions increased from 1.4 million in May 2016 to 2 million in May 2017, with securities deposits increasing from €1.84 trillion to €2.2 trillion.

In its international central securities depository (ICSD) business, Clearstream saw a 37 percent increase in the number of transactions, from 2.9 million in May last year to 4 million this year. However, securities deposits dipped by 2 percent, falling from €6.81 trillion to €6.7 trillion.

Similarly, in the CSD business, transactions jumped from 6.2 million to 8.3 million, marking a 35 percent increase. This did not translate to securities deposits figures, however, which saw a 4 percent increase from €4.39 trillion in May 2016 to €4.56 trillion in May 2017.

Finally, Clearstream's global securities financing business reported a 14 percent drop in volume outstanding, from €522.8 billion in May last year to €451.5 billion in the same month this year.

collateral management solution, as well as generating unique trade identifiers, providing a matching service, and reporting directly to the trade repositories.

It is also available as a modular solution that can be combined with other third-party reporting platforms.

SFTR is expected to come into force at the end of 2017, and will be phased in over a nine-month period, coinciding with the second Markets in Financial Instruments Directive (MiFID II), which is coming into effect in January 2018.

Tom Carey, Broadridge's president of global technology and operations internationally, said: "The SFTR rules present a major challenge for all market participants due to their complex nature, dual-sided reporting and proximity to MiFID-II compliance deadlines."

He added: "Broadridge's in-depth expertise in both securities finance and trade reporting regimes, combined with this new solution, will enable clients to adapt to SFTR smoothly while minimising operational disruption and reducing the resource impact of complying with multiple concurrent reporting mandates."

Northern Trust: Investors are taking transparency seriously

Transparency is an increasingly important factor when considering investment into both traditional and alternative assets, according to research by Northern Trust and The Economist Intelligence Unit.

A survey of 200 senior asset management and institutional investor executives suggested that transparency is significantly more important to investors than it was before the financial crisis.

The 'degree of transparency' was named as a 'very important' consideration for alternative investment by 63 percent of respondents. For traditional investments, it was very important for 62 percent.

The survey also found that, post-investment, more alternative investors are concerned about the degree of risk than about the degree of transparency in their investment, while the opposite is true for traditional investors.

For alternatives, 25 percent said the degree of risk is the most important post-investment consideration, while 17 percent said this is the degree of transparency, and 16 percent said it is the degree of liquidity.

However, the report also suggested that pre-crisis, while 21 percent would have considered

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don | Dublin | Hong Kong | Singapore | Tokoyo | Lux the degree of risk as the most important factor, only 3 percent would have have been most concerned about transparency.

Similarly, for investors in traditional asset classes, the degree of transparency was the most important factor for 21 percent, compared to 9 percent pre-crisis.

The degree of risk was considered most important by 18 percent, similar to the pre-crisis figure of 16 percent, while the degree of liquidity was most important for 15 percent of traditional investors both pre- and post-crisis.

When asked why transparency has become more significant for both alternative and traditional investment, a vast majority, 73 percent, of respondents cited portfolio risk management as a significant driver.

The second-most cited driver was regulatory requirements, named by 53 percent, and this was followed by competitive considerations, considered a driver by 43 percent.

However, the report noted that there is little industry consensus on who should have the final say on transparency requirements.

A third of respondents, 33 percent, said the decision is down to the investment committee collectively, while 20 percent put the onus on the chief investment officer, and 15 percent place it on the CEO.

Further, 10 percent said the CFO would have the final say, and 9 percent put the decision-making down to the chief risk or compliance officer.

The report also suggested that “this lack of overriding consensus cuts across every type of organisation”.

It went on: “No clear pattern emerges overall, indicating a lack of agreed-on best practices in the industry.”

Pete Cherecwich, president of corporate and institutional services at Northern Trust, said: “These results tell us that investment transparency is a growing priority, but asset managers and institutional investors remain unsure of how to best achieve it.”

He added: “As alternative investing has reached the mainstream, the industry would benefit from consistent standards and stronger policies around transparency.”

“Working with the world’s most sophisticated investors, we are committed to enabling greater transparency through continued research and technology development.”

ECB calls time on struggling Italian banks

Two Italian banks have been deemed ‘failing or likely to fail’ by the European Central Bank (ECB), and will be wound up under Italian insolvency procedures.

Banca Popolare di Vicenza (BPVI) and Veneto Banca “repeatedly breached supervisory capital requirements”, the ECB said. While they had been allowed time to present new capital plans, they had ultimately been “unable to offer credible solutions”.

The European Commission has approved use of state aid to facilitate the liquidation, which will involve the sale of some of the banks’ businesses to Intesa Sanpaolo.

In a statement, the commission said: “Resolution action is not warranted in the public interest in either case.”

It added that the banks “will be wound up in an orderly fashion and exit the market”.

Margrethe Vestager, the EU commissioner in charge of competition policy, said: “Italy considers that state aid is necessary to avoid an economic disturbance in the Veneto region as a result of the liquidation of BPVI and Veneto Banca, who are exiting the market after a long period of serious financial difficulties.”

“The commission decision allows Italy to take measures to facilitate the liquidation of the two banks: Italy will support the sale and integration of some activities and the transfer of employees to Intesa Sanpaolo. Shareholders and junior creditors have fully contributed, reducing the costs to the Italian State, whilst depositors remain fully protected.”

“These measures will also remove €18 billion in non-performing loans from the Italian banking sector and contribute to its consolidation.”

Intesa Sanpaolo will acquire certain assets, liabilities and legal relationships from the two banks for a token price of €1.

A statement from Intesa said: “This intervention will safeguard the jobs at the banks involved, the savings of around two million households, the activities of around 200,000 businesses financially supported and, therefore, the jobs of three million people in the areas which record the country’s highest economic growth rate.”

As part of the state aid, Italy will provide a cash injection of around €4.79 billion, and will provide guarantees of up to €12 billion, primarily on financing the liquidation mass.

The state guarantees are expected to be called upon only if the liquidation mass is not enough to compensate Intesa for financing it.

The European Commission clarified: “Both guarantees and cash injections are backed up by the Italian state’s senior claims on the assets in the liquidation mass.”

“Correspondingly, the net costs to the Italian state will be much lower than the nominal amounts of the measures provided.”

BPVI and Veneto Banca are both small commercial banks located in the Veneto region of Italy and operating primarily in the north of the country.

Both have been under monitoring from the ECB since 2014, and have been operating at a loss for several years.

A statement from BPVI said: “The board has expressed their grateful appreciation and staunch support to the management who has been leading Banca Popolare di Vicenza throughout these difficult times.”

The statement acknowledged the proposal from Intesa Sanpaolo, and said the board “wished every success in the challenging work to be started in the coming days”.

Veneto Banca has not yet responded to a request for comment.

Regs and revolution

Regulation and technology were still the hottest topics in town at Fund Forum International in Berlin. Stephanie Palmer reports

As the funds industry descended on Berlin for three days of insight, discussion and networking drinks, the ongoing regulatory burden remained at the front of attendees' minds, while the threat—or opportunity—of technology disruption was also a hot talking point.

The regulatory environment, and specifically the second Markets in Financial Instruments Directive (MiFID II), is breeding change, and complication, for both investors and fund managers, according to speakers in an early session.

Euan Munro, CEO of Aviva Investors, suggested that, globally, MiFID II has "complicated the picture".

While Munro noted the importance of the directive's main objectives of transparency and investor protection, he also conceded that actually implementing the legislation is "incredibly complicated".

He warned, specifically, against the potential unintended consequences of the directive and the possibility that some investors may end up receiving worse-quality counsel. He referenced the "race-to-the-bottom" in fee structures following the implementation of the Retail Distribution Review in the UK, in which the only aspect considered is return outcome, not risk outcome. Taking responsibility for a fund is critical, Munro added.

And within the current regulatory landscape, investor solutions are changing. Another speaker, Jamie Hammond, UK CEO at AllianceBernstein, said solutions have evolved, and will continue to do so. Investors have different appetites for risk and return, Hammond said, and firms should assess them individually and come up with a solution that meets their needs.

Finally, Julie Patterson, director of asset management and regulatory change at KPMG UK and moderator of the session, asked panellists whether new transparency and disclosure requirements are actually helping end investors in real terms.

On this topic, Neil Carnegie, founder of Carnegie Fund Services, suggested that, of all the investor disclosure documents and prospectuses that are produced, only about 15 percent is actually ever read.

Some of these prospectuses can run into more than 200 pages, Carnegie said. He called a lot of the information "stale and repetitive" and questioned whether it is of any use in helping the adviser or investor to understand what the product is.

In a later session, Peter Nonner, managing director at FIL Fondsbank, suggested that in the new distribution landscape under MiFID II, independent financial advisers (IFAs) should consider changing their business models and move "away from pure commission-based models to service fee models" to "show added value to their clients".

From a legal standpoint, Dr Edgar Wallach of Hengeler Mueller added to this, noting that under the new directive, inducements "can only be justified if it can be demonstrated that it is in consideration for enhanced quality of services".

Wallach went on to question what this advanced quality of service actually means. If IFAs would like to receive ongoing commission in the future, they could offer third-party products or portfolio monitoring services. He reminded delegates that IFAs are not directly subject to MiFID II rules, but added that they are indirectly affected because of the data collection requirements for fund platforms, which have to verify that products are being sold in line with the distribution strategy.

IFAs are "already an integral process of the target market supervision", he said.

Another panellist, Dr Christian Dicke, CEO of Fondsdepot Bank, took a generally positive view of MiFID II, saying: "In all the threats there are also opportunities."

Firms are investing in order to stay compliant, and to meet cost transparency and product governance requirements, they need robust IT systems. Within the whole industry, but particularly among small- and medium-sized banks that may not have invested so much in the past, "this is a small technology revolution", Dicke said.

This technology revolution is also present in the advisory world, where it is equally intertwined with regulatory issues.

> ***If you disrupt from within and stay ahead of the curve you stand a chance to take the benefit of technology, of creating a culture of can-do, using data to drive decision making***

In another session, panelists suggested that robo advisory services may boost efficiency in portfolio management, but warned that they could be at risk of a crash if they don't adhere more closely to regulation.

Thomas Bloch, co-founder and CFO of digital asset manager Vaamo, said the term 'robo adviser' can be "misleading in many instances", adding that many focus on investment, exchange-traded funds and index funds. The "core robo element" is more about scaling investment decisions electronically and removing some of the complexity in investment, he said.

Lars Reiner, founder and CEO of robo adviser Ginmon, added that portfolio optimisation can be improved through automated solutions. He described robo advisers as, primarily, technology companies, and suggested that as such they focus on "making the value chain as efficient as possible".

However, one speaker was more sceptical of the robo revolution. Paul Resnik, co-founder and director of FinaMetrica, suggested that some robo advisers use very short suitability questionnaires, and do not meet regulatory obligations of properly ensuring assets are right for clients. The regulation is there "because we had dissatisfied customers", he said. "We have the regulation we deserve."

In the robo advisory market, there is likely to be a crash, and investors' expectations will not be met, leading to what Resnik called "a correction". When the markets correct, investors will try to get out of "whatever's liquid", and whatever they can get out of quickly, which is likely to be their robo advisory investments.

Resnik had one note of positivity, however, saying this is the "perfect chance for the industry to self-regulate".

Another speaker, Steffan Binder, co-founder of MyPrivateBanking Research, put himself "pretty much in the optimist camp", but said that robo advisory models will still need human involvement.

"People need some kind of human interaction with their advisers," Binder said, suggesting that a hybrid solution "will be the winning model".

Later, Porter Erisman, former vice president at Chinese ecommerce platform giant Alibaba Group, suggested that Chinese innovation in financial services could pose opportunities for the wider fund management industry,

When considering the parallel rise of ecommerce and fintech in China, "the two are inseparable", said Erisman, who is also the author of Alibaba's World: How a Remarkable Chinese Company is Changing the Face of Global Business.

With the success of Alibaba in China came AliPay, an escrow system that held buyers' money until the transaction was complete, and then sent it on to the seller. From AliPay grew Ant Financial and its money market fund, which raised $90 billion in assets in just three years.

Through development of mobile payments capabilities, fintech is now "part of the daily fabric of people's lives" in China. Going forward, Erisman suggested that "data is going to drive the revolution". In China, there is a lot of data available on the cloud, without the same sensitivity around data protection seen in other parts of the world.

Regulators have, for the most part, embraced fintech in this area, "allowing it to grow".

Similar developments are coming about in India and Southeast Asia, and in these markets digital is "going to be the core of how things are done". According to Erisman, this creates an opportunity for the fund management industry by offering "access to all these new investors".

"I don't see Chinese ecommerce companies coming here and taking, head on, the financial institutions," he said. "More than anything, it's a way for you all to tap into the hungry Chinese investors."

However, speaking in a different session, Neil Ward, former general manager of global business operations at Skype, warned that traditional funds players should in fact look out for "bigger, smarter players", such as Amazon, with a lot of money locked away.

Ward warned attendees that if they don't build up their technology capabilities now, these tech players may well "take our breakfast".

In the session, focused on digital disruption, Ward told delegates: "If you disrupt from within and stay ahead of the curve you stand a chance to take the benefit of technology, of creating a culture of can-do, using data to drive decision making."

However he added the caveat: "In terms of digital acceleration programmes, you've got to have real buy-in across the board."

Funds industry participants should focus on issues such as data processing, data manipulation and creating client interfaces that are simple, secure, and have robust cyber security—building systems that "are really profitably run with a great ecosystem price point for fund managers and fund administrators".

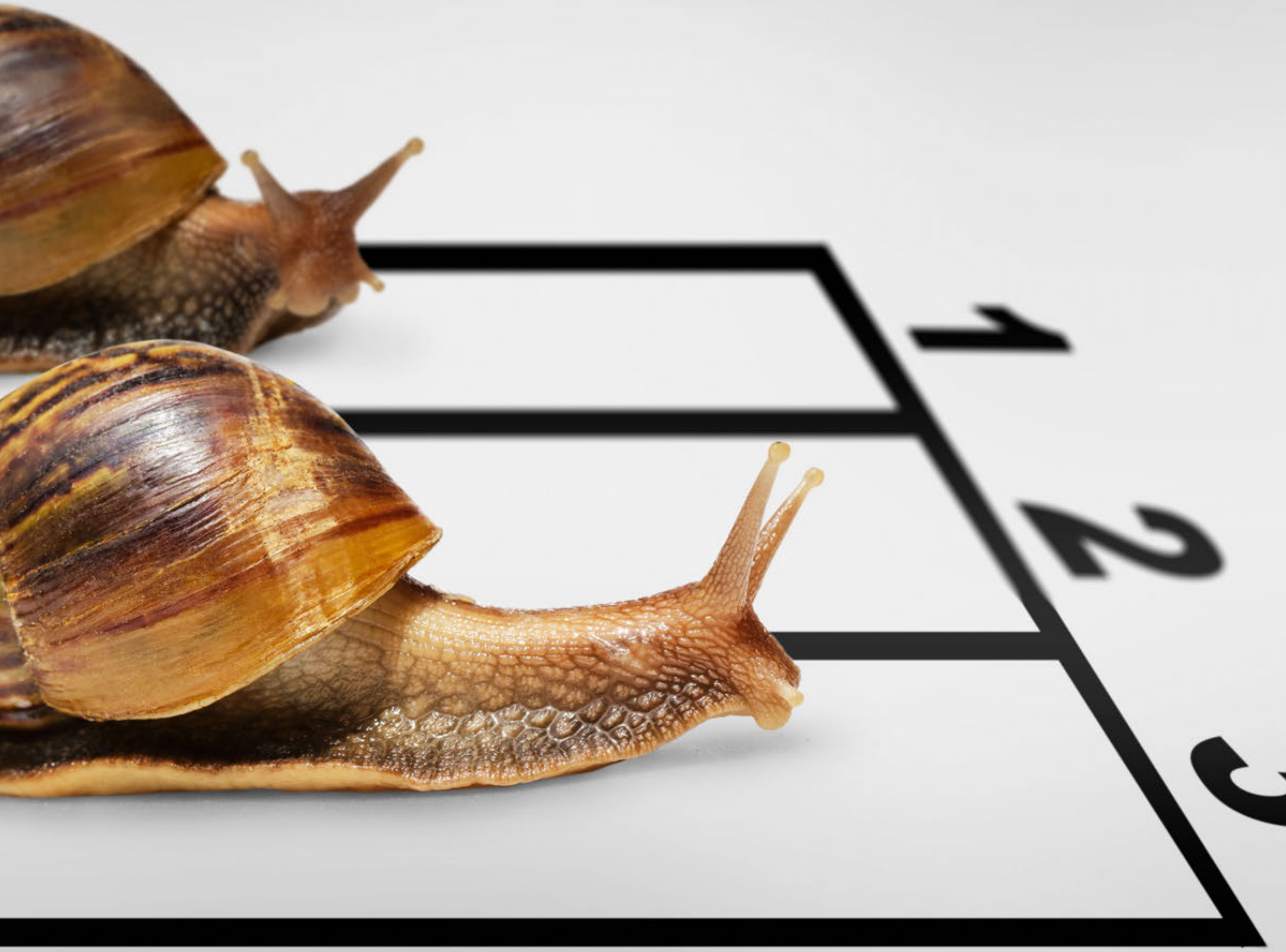
This will give firms the lead time that will allow them "to compete and win".

Finally, Ward urged attendees to make better use of the data available to them, saying there are "opportunities being missed".

He said: "There's a massive amount of data swimming around you guys and I don't think you get 1 percent of the value out of it." He added: "Figure out the data piece, build on top of that." **AST**

Slow and steady

When it comes to technology, the payments industry should not be too focused on winning the race, says Mike Laven of Currencycloud



Considering the huge developments in financial technology in recent years, how has the payments industry changed?

The biggest change is in user expectation. The thing about payments is that it's a secondary activity, and so should be as invisible as possible. The primary activity is the buying—payment comes afterwards, and we want to take as much of the friction out of that as possible.

Currencycloud works on cross-border payments, which is part of the evolution of faster payments, and one of the areas that currently has the most friction. We want to make the payment as 'background' as possible, and that means simple, smooth and fast.

How does this translate to the back office?

Ultimately, all transactions have to be connected to an account, and there can be a lot of layers of processing involved in that. Each transaction could go through five or six steps, passing from the agency bank to the issuing bank, being issued as a payment, and so on. So, in the back office, the goal is to remove some of those layers.

With each layer comes a delay, a reconciliation problem and a traction problem, and things get more complicated. If we remove as many layers as possible, everything can run more simply and without that friction, which makes it cheaper. The costs of each layer may be infinitesimal, but when you add it up, it comes to something. A lot of it is just about clearing up.

For example, in the UK, the Bank of England has said it will allow more firms to link up to the UK faster payment system. That means these firms wouldn't have to go through a bank, but could connect directly, taking a layer out of the system. It's not fully implemented yet, but it's a step in the right direction.

The UK is pretty enlightened about this kind of thing, and the regulator wants to do the right thing. But it can be much more difficult in jurisdictions where the regulators are more difficult.

Currencycloud hooks up faster payments through the banks, and there are still a lot of steps involved in that. At some point we would like to be able to remove some of those steps, giving us more control and making for a better experience for our customers. Of course this is easier said than done, but we will get there.

How is PSD2 going to change things?

There are a couple of key concepts in the second Payment Services Directive (PSD2), one of which is that financial services and fintech firms will be able to access account information in a very simple fashion. The theory is that this will allow for more innovation in the services available to the client, and that's a great idea.

The other key part, from our perspective, is around transparency and cross-border pricing. There is going to be much more transparency and more openness in what clients are being charged. In principle, I think this is correct, and should allow a whole series of fintech firms to offer services related to particular accounts.

Changes will be very slow, however, considering the amount of time it will take for everyone to open an application programming interface and for standards to be agreed. But, again, it is evolving in the right way, and these kinds of directional movements are important.

The banking system is, by definition, set up to protect customers and to protect money, so it moves very slowly. And I don't see any problem with that. We put a lot of pressure on the system and we want it to be reliable and working with the right information.

At Currencycloud, we have $5 to $6 million of customers' funds coming through our system monthly. That gives us a certain fiduciary responsibility. You can be pretty innovative, but if you move too fast you risk losing control. The regulatory safeguards are there for a reason and they're not going to decrease—when you have the trust of people's funds your business is going to be regulated.

However, it could be the case that some of the information services handling the funds could be managed more efficiently outside of the bank. The bank then becomes a repository for the money and for certain parts of the data, and the analytical parts and processing parts could be done elsewhere, allowing for innovation at the same time as meeting the fiduciary responsibility.

Where does cybersecurity come into it?

There are two kinds of security. First, there is the security of the funds—making sure that the money is protected—and the regulators look at that in terms of capital requirements and reconciliations.

The second part is about security of data. Every day we find out new information about customers, and we have to find a way to protect that information.

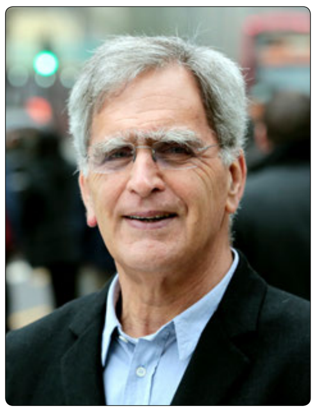
Data protection standards differ between, for example, the US and the EU, which can also become confusing, but the protection of people's identities and data is incredibly important, and we have to work on that constantly, as does every other firm.

We may be seeing better and better technology that allows us to complete processes more quickly and more efficiently, but at the same time, you can't implement this technology at the expense of customer protection. Data protection is a full-time job and a full-time responsibility now, and we have to keep investing in that.

This is perhaps why we are seeing a lot of investment into regulatory technology—there is currently something of a tension between cybersecurity responsibilities and boosting efficiency. Regulations are adding extra steps into transactions in order to protect the data more effectively, but that adds friction, which drives up costs.

There is no real solution to this at the moment, but technology can play a role in addressing that, and, especially as standards start to evolve, these things will come together. **AST**

The banking system is, by definition, set up to protect customers and to protect money, so it moves very slowly. And I don't see any problem with that



Mike Laven, CEO, Currencycloud

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John Griffith-Jones steps down from the UK's FCA, Denise Voss is re-elected as ALFI chair, and BNY Mellon makes a spate of new hires

John Griffith-Jones, chairman of the UK's Financial Conduct Authority (FCA) is set to step down from the role as his five-year term of office ends on 31 March 2018.

He will also step down from his role as chair of FCA subsidiary the Payments Systems Regulator (PSR).

Griffith-Jones was appointed as the first chairman of the FCA on 1 April 2013, when the organisation was established and became responsible for the supervision of all regulated financial firms.

He became chair of the PSR when it was established in April 2014. The regulator became operational in April 2015.

Griffith-Jones commented: "I committed to a five-year fixed term to chair the FCA and, in so doing, to help ensure that conduct regulation became a respected part of the UK financial landscape."

"It has been, and continues to be, a great privilege to be responsible for the work of both the FCA and the PSR. I like to believe that I will leave both in good shape to regulate well in the future."

Chancellor Philip Hammond commented: "Both [the FCA and PSR] undertake a vital role in ensuring that the UK financial markets work well and that the interests of consumers and users of those markets are protected."

"John Griffith-Jones has provided strong leadership to both boards during his tenure, helping to establish them as key parts of the UK financial regulatory system."

A new chair for the FCA will now be appointed following a process undertaken by HM Treasury. The new chair of the PSR will be appointed by the FCA, subject to approval from HM Treasury.

The Association of the Luxembourg Funds Industry (ALFI) has re-elected Denise Voss to serve a further two years as chair of the board of directors.

Voss has been a member of the board since 2007. She was made vice-chair of international affairs in 2011, and has been chair of the association since June 2015.

She has worked in the Luxembourg financial industry for over 25 years, and is currently conducting officer at Franklin Templeton Investments.

According to ALFI, Voss will continue to focus on fostering teamwork between the association's various bodies, its general secretariat, and its many committees and working groups.

ALFI will also continue to focus on providing input to EU and non-EU regulatory consultations, and remaining in communication with European institutions and the Luxembourg government.

The potential effects of Brexit on the funds industry will be high on the agenda over the next two years. Voss also highlighted the importance of governance and the role of management companies.

She said: "It's vital that ALFI continues to explain the delegation model that the Luxembourg fund industry has operated over the last 30 years since the introduction of UCITS."

"The delegation model continues to be tried and tested in many industries throughout the world and in the case of UCITS brings the expertise of portfolio managers from around the world to investors in over 70 countries."

Citi has hired Matthew Bax as head of sales for custody and fund services for Europe, the Middle East and Africa (EMEA), based in London.

Bax will be responsible for the growth of the company's custody and fund services platform and for further strengthening the client franchise in EMEA.

He will report to Danny Caplan, head of investor service sales for EMEA, on a regional basis, and to managing director Pat Curtin globally.

Previously, he worked at J.P. Morgan, where he served as head of custody and global foreign exchange for EMEA.

In a joint statement, Caplan and Curtin commented: "As we continue to build on the momentum of our investor services platform, we are delighted to add Matthew Bax to the team and look forward to leveraging his extensive industry expertise to provide clients with market-leading solutions across products and geographies."

BNY Mellon has secured Peter Salvage for the newly created role of global head of hedge fund services.

Salvage will lead and execute the long-term strategy to drive growth in BNY Mellon's hedge fund services business and work to further develop long-lasting partnerships for the bank in the alternative investment services industry.

He will report to Chandresh Iyer, CEO of BNY Mellon's global alternative investment services and structured products business.

Previously, Salvage served as managing director for SS&C and before that was Citi's head of hedge fund services for EMEA.

He was also the founder of Citi's over-the-counter derivatives and bank loan services.

Iyer said: "Peter Salvage brings extensive experience in hedge fund middle and back office services, innovation and technology."

He added: "His deep knowledge and track record of results delivering business expansion strategies in the space, and his strong emphasis on understanding hedge fund client needs and innovation, will be critical for BNY Mellon in serving our expanding client base of hedge, credit and hybrid private equity funds."

BNY Mellon has also appointed former Northern Trust executive Rohan Singh as its new Asia Pacific head of asset servicing.

Singh, who most recently led the Southeast Asia region for Northern Trust, will take up the role on 27 June.

He will continue to be based in Singapore and replaces Francis Braeckevelt, who has served as Asia Pacific head of asset servicing on an interim basis in addition to his role as Asia Pacific COO for asset servicing, which he will now resume.

Singh will also join BNY Mellon's Asia Pacific leadership council and extended leadership team, chaired by David Cruikshank.

In his new role, Singh will drive the execution of growth opportunities for the Asia Pacific asset servicing business, leveraging BNY Mellon's technology platforms, including the NEXEN digital investments ecosystem and Eagle Investment Systems, and enabling clients to build their businesses, gain better access to information, lower operating costs and achieve shared economies of scale.

Samir Pandiri, executive vice president of BNY Mellon and CEO of asset servicing, said: "Rohan Singh brings nearly three decades of asset servicing experience, working within large organisations across Asian markets and demonstrating a proven track record of increasing the management and relationship skills under his leadership."

"His expertise and industry knowledge will be critical as BNY Mellon builds on strategic growth opportunities within alternative investments, exchange-traded funds, real estate, private equity and middle office solutions in the region."

Asia Pacific chairman Cruikshank added: "The asset servicing business in Asia is a key focus for BNY Mellon, which through our team of experienced professionals helps to provide a breadth of investment services and access into Asia for global asset managers and institutional investors."

"We continue to see huge opportunities in the region where BNY Mellon is well positioned to assist global investors gain value from the numerous growth opportunities and pleased to have Rohan Singh steer our asset servicing business to the next level in Asia Pacific."

Finally, BNY Mellon has appointed Bridget Engle as chief information officer.

Engle, who reports directly to CEO Gerald Hassell, also joins the firm's executive committee.

She will be responsible for setting the strategic direction and execution of the firm's technology agenda, including advancing the firm's NEXEN digital investment platform, accelerating its digital and agile development efforts, and attracting and developing top IT talent.

Engle has more than 30 years of experience in IT from previous roles at the llikes of Lehman Brothers, Barclays Capital and DTCC.

"I am excited to join an industry leader like BNY Mellon," said Engle.

"I look forward to collaborating with partners across the firm to further advance the industry leading technology platforms and applications of BNY Mellon and develop the technology architecture for the future, to best serve clients and the financial markets."

Hassell added: "Technology innovation is at the heart of what we do, and Bridget Engle's leadership, proven industry expertise and her focus on aligning technology solutions to create value for clients will support our ambition to be the investment industry technology leader." **AST**

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