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Fend off reform fatigue, urges FSB

The Financial Stability Board (FSB) has called on the leaders of G20 nations to fend off reform fatigue and continue to work together through reinforced, voluntary, international regulatory cooperation grounded in agreed international standards.

Bank of England governor and FSB chair Mark Carney wrote to G20 leaders on 3 July ahead of their summit in Hamburg on 7 and 8 July, to update them on the FSB's progress in areas such as over-the-counter (OTC) derivatives reform and shadow banking.

Through a series of reports delivered over the last week on multiple subjects, the FSB appears to be largely pleased with its work since the financial crisis of 2008 to minimise risks in markets, with Carney telling G20 leaders that reforms "are building a safer, simpler and fairer financial system".

"[But] there are nascent risks that, if left unchecked, could undermine the G20's objective for strong, sustainable and balanced growth," Carney warned.

Without naming US President Donald Trump's aim to repeal and replace the Dodd-Frank Act, nor the UK's decision to leave the EU, Carney said: "Giving in to reform fatigue could erode the willingness of G20 members to rely on each other's systems and institutions and, in the process, fragment pools of funding and liquidity, create inefficiencies and frictions, reduce competition, and diminish cross-border capital and investment flows."

He added: "There is, however, another path that involves working together through reinforced, voluntary, international regulatory cooperation grounded in agreed international standards."

This could include encouraging full and consistent implementation of standards to support a level playing field and reduce regulatory arbitrage opportunities, and revising legal frameworks to facilitate cooperation.

On this last point, Carney gave the example of sharing information on resolution between authorities, removing legal barriers to reporting OTC derivatives to trade repositories, and removing barriers to authorities' access to that data.

ESAs set the KID straight

The European Supervisory Authorities have clarified some of the finer points around the Key Information Document (KID) required under the Packaged Retail and Insurance-based Investment Products (PRIIPS) Regulation.

The European Securities and Markets Association, the European Banking Association and the European Insurance and Occupational Pensions Authority released a question and answer document relating to the KID, which will become mandatory on 1 January 2018.

According to the ESAs, the paper is intended to promote common supervisory responses and practices in implementing the new rules.

Responding to questions raised by various stakeholders, the document covers the presentation, content and review of the KID, and clarifies methodologies around risk, reward and cost information.

Specifically, the Q&A addressed look-through requirements for underlying investments when dealing with a fund-of-fund.

The authorities noted that calculations should take into account any costs incurred by underlying funds, or by other underlying PRIIPs.

The document said: "Where the underlying investments are PRIIPs producing KIDs, it will only be necessary to obtain cost information from the KIDs."

Where the underlying investments do not have KIDs, it will be necessary to obtain KID-equivalent information for the direct underlyings."

The Q&A also clarified that any benefits from securities lending will be taken into account in the performance section of a KID, if they are passed to the investor.

If the benefits are not passed on, then they will be accounted for as costs.

With regards to derivatives, the document said that futures, call options and put options that are traded on a regulated market could be grouped together according to their types, "as long as the relevant product characteristics … that determine the presentation of risks and costs in the KID are the same within that group".

Non-exchange traded derivatives, however, may "differ considerably in terms of risk or reward and costs structure as a result of the characteristics of the trading venue".

Therefore, an equivalent level of granularity in the KID should only be possible for non-exchange-traded derivatives that have the same relevant characteristics as those traded on a regulated market.

For over-the-counter (OTC) derivatives, the document said: "It is not possible to use the same approach as for call and put options and futures traded on a regulated market."

KIDs for OTC derivatives should show the relationship with the underlying asset, the type of underlying asset, the currency of the notional amount, underlying value of the contract, and a representative price, term or interest rate, plus any other features considered to be relevant.

This content should be based on market conditions that are applicable while the OTC derivative contract is available to retail investors.

The document clarified: "This means that the KID should not be based on purely hypothetical data nor that it has to contain specific contractual data."

"In turn, this means that it could be acceptable to draw up a single KID for a class or group of OTC derivatives that share the same relevant product characteristics."

Custody is not a commodity

Viewing custody and clearing as a commoditised industry could be putting pressure on pricing and threatening the industry, according to a panel of experts.

Speaking at the Network Forum in June, Reto Faber, head of direct custody and clearing for Europe, the Middle East and Africa at Citi, suggested that providers will always be incentivised to price as competitively as possible.

However, he suggested that custody is "self-defined as a commoditised industry".

This means investing in getting the cost-base down, in becoming more efficient, and in sustaining that.

He argued, however, that custody should not be treated as a commoditised industry at all, pointing to liquidity, risk management, compliance management, asset safety and change management services, as well as market information and consultancy.

There is a lot of value in the industry that "unfortunately is intangible to a large extent".

He said: "And unfortunately we have electively failed to quantify this value."

Susanna Scheffold, global head of securities services at Unicredit, added that custodians need to really drill down to understand "what pure custody is" and "what is the added value".

She called price unbundling "inevitable" and said: "We must not underestimate what the impact of unbundled pricing would be to the client."

In a live poll, audience members were asked what they believe could make the largest contribution to cutting costs.

Results were fairly evenly split, with 37 percent voting for more industry utilities, for example around know-your-client processes and due diligence questionnaires, and 32 percent suggesting that changing the technology paradigm would have the largest impact.

A further 29 percent selected more standardisation—in technologies as well as in messaging—as offering a way to potentially cut costs.

Faber suggested that technology will have to be one of the next areas for the industry to "really home in on and leverage to extract efficiencies".

These efficiencies can often be realised very quickly, he said, and are an area where the industry can "step-up" collectively.

Scheffold added that cost savings will be achieved in a combination of ways, including through more standardisation as "the starting point for more industry agility".

She said: "The more harmonisation we can gain, the more standardisation we can gain, the more [we] can also gain the cross-country scale that is definitely necessary to reach critical mass to really get these efficiencies realised."

However, Scheffold went on to advise attendees to differentiate between the commoditised parts of the industry and the differentiating parts.

For the former, "standardisation is extremely important", she said.

But, when it comes to the differentiating part, "labour is the essence of the service differentiator", according to Scheffold.

Scheffold said: "Here we have the quality of the people, here we have the knowledge, the expertise, the know-how of the market."

She added: "This is in essence the added value to our clients."

Fintech association launches in Hong Kong

The new FinTech Association of Hong Kong (FTAHK) has officially launched, to encourage further development of financial technology in the country.

An independent, not-for-profit and member-driven association, FTAHK is intended to champion an open, inclusive and diverse fintech community in Hong Kong.

Its three main goals are to advocate, collaborate and educate. These will be addressed by 12 committees focused on topics such as blockchain, artificial intelligence, big data, payments, regtech and financial literacy.

Henri Arslanian, fintech and regtech leader for China and Hong Kong at PwC, and a board member of the new association, said: "We look forward to working with the entire ecosystem, from start-ups and financial institutions to regulators and government, to drive fintech forward not only in Hong Kong but also globally."

Andrew Eldon, head of digital, Hong Kong, retail banking and wealth management at HSBC, added: "We are delighted to be joining the FTAHK as a founding member."

"This is an important industry-led initiative and HSBC has a leading role to play in supporting Hong Kong's continued development as a world-class fintech hub. Joining the association gives us an opportunity to deepen our ties across the fintech landscape and contribute our time, resources and thinking to continue to shape Hong Kong's financial future."

The association launch was attended by around 300 people in the local fintech and wider business community last week.

R3 completes prototype for euro commercial paper issuance

R3 and four of its member banks have collaborated to build a solution for issuing euro commercial paper (ECP) on a distributed ledger technology platform.

The prototype runs on R3's Corda platform, and was built with participation from ABN Amro, Commerzbank, ING and KBC.

It provides an operating model for issuance and sales of ECP in a trading marketplace and, according to R3, has demonstrated the ability to reduce costs of market intermediaries.

It can also reduce operational risk, improve efficiency, and improve transparency of transactions for regulators, the group said.

Work will now continue to move the project from experimentation to production, with input from software vendors, leaders in the short-term debt instrument world and the regulatory community.

R3 CEO David Rutter said: "Collaboration in pursuit of overcoming a shared industry challenge is the ethos that R3 was built on."

"As we continue to develop Corda, the learnings from these proof of concepts allow us to ensure the platform can be applied to a vast array of different scenarios, processes and asset classes. This is another milestone in Corda's journey to becoming the new operating system for financial markets."

Roman Schmidt, divisional board member for advisory and primary markets at Commerzbank, added: "The ECP proof of concept is a material building block for the way new issuance can be created and distributed using distributed ledger technology."

"This milestone has proven that, together with our ecosystem partners, we can shape the future within capital markets."

ECB calls time on 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.

New settlement netting service launches for OTC FX

NEX Optimisation has launched its automated settlement netting service, which it calls the first of its kind in the industry.

The service has been initially launched for over-the-counter foreign exchange trade, and is expected to be rolled out to other asset classes in the future.

It is intended to remove the manual process of netting between clients by applying an application programming interface to communicate between clients', banks' and custodians' systems.

An automated workflow will also allow for visibility and control around payment preparation for net and gross trades.

According to NEX, around $150 billion is settled every day between clients and dealers, but settlement failure rates are 3 percent.

The netting service should minimise intra-day settlement exposure, reduce settlement fails and provide greater certainty of funding needs.

Joanna Davies, managing director at Traiana, said: "The settlement netting service will allow traders to execute with any bank on any trading venue and enjoy optimised, efficient, automated and consistent post-trade processing from execution through settlement."

"Settlement netting processes have traditionally been fragmented across organisations and asset classes, requiring extensive manual processing, which does not reflect the way in which the market is moving. By automating the entire netting process via a central hub, we've brought an essential tool to the market that will significantly reduce breaks and have a direct impact on costs for our clients."

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 did not respond to a request for comment.

FCA reveals final MiFID II rules

The UK's Financial Conduct Authority (FCA) has revised some of its proposals on implementation of the second Markets in Financial Instruments Directive (MiFID II), issuing its final rules and guidance on the directive.

The FCA's policy statement sets out the ways in which the UK's policy will go beyond the requirements of the EU legislation, but noted that the authority has an obligation to consider the government's economic policies when implementing it.

It says: "We have considered the benefits to consumers and to the integrity of the UK market of our proposals, set against the costs for firms and therefore overall the extent to which the UK remains attractive as a location for internationally active financial institutions."

Particularly, the statement responded to consultation paper CP16/29, released in September 2016, which received 211 responses and caused the FCA to revise some of its proposals.

Deutsche Börse engages T7 for cash

Deutsche Börse Group's Xetra trading platform has migrated cash trading to its new T7 facility for the Frankfurt Stock Exchange, putting both Xetra and Eurex derivatives trading on the same system.

According to Deutsche Börse Group, the new system reduces latency, meaning the time for order processing, even further. Harmonising Xetra and Eurex trading technology also produces significant synergies and means lower development and maintenance costs.

Deutsche Börse also confirmed that Eurex trading participants will benefit from easier access to Xetra, while regulatory requirements and technical updates can also be integrated into the trading system more quickly and efficiently.

The Xetra trading platform on the Frankfurt Stock Exchange is the global reference market for German equities and the leading market for European exchange-traded funds trading.

Roughly 1,000 international equities and 1,500 exchange-traded products are currently tradable on Xetra.

Eurex Exchange, the European Energy Exchange and the Bombay Stock Exchange already use T7 trading technology, while the Vienna Stock Exchange and the Irish Stock Exchange will soon migrate their systems to T7.

Hauke Stars, Deutsche Börse executive board member responsible for cash market, pre-IPO and growth financing, said: "The new trading technology T7 gives investors and exchange-listed companies access to a sustainable and extremely reliable system that already has a proven track record on different international stock exchanges."

"Trading participants specifically benefit from cash market and futures trading synergies and further reduction in latencies."

The migration to T7 follows Eurex's move to become the only exchange that offers futures and options on all major MSCI indices this week, in response to the launch of futures and options on the MSCI EAFE index.

Eurex promises the new products will address the structural behaviour changes of the buy side.

According to Eurex, passive products like exchange-traded funds are gaining momentum and this affects the derivatives markets because it creates new hedging needs for asset managers.

Mehtap Dinc, head of derivatives product development at Deutsche Börse, said: "The European market for corporate bonds plays a key role in the financial ecosystem. It has grown consistently after the financial crisis, both in terms of market participants and overall assets under management."

"The new environment creates demand for innovative hedging solutions in the form of exchange-traded derivatives. The same is true for MSCI products."

"With more providers of MSCI-related vehicles and growing competition on pricing these, an increased need for cost-effective and efficient hedging tools in the form of futures and options arises."

Inducement rules in relation to research will still be applied to collective portfolio managers, not only to investment firms that are subject to MiFID II.

However, the FCA amended its original proposal around how quickly charge deductions should be passed into a research payment account (RPA), and clarified that it does not intend to require investment managers to have a single RPA per research budget.

The FCA has reduced the threshold for the size of portfolio a local authority should have in order to opt in to professional client status, making it easier for local authorities acting on behalf of local government pension schemes to gain this status.

Also, best-execution rules under MiFID II will not be extended to alternative investment fund managers, as was originally proposed.

However, the FCA maintained that collective investment undertakings that are not UCITS will not be automatically considered either complex or non-complex.

This includes non-UCITS retail schemes and investment trusts.

The FCA's statement said: "Most of what is in the MiFID II conduct provisions is familiar in the context of the existing UK regulatory framework."

"But, as well as the specific adjustments firms will need to make, their implementation presents an opportunity for firms to consider their existing approach to compliance and their efforts to put the interests of clients at the heart of what they do."

"In this regard, having an effective governance structure and the right culture are crucial to implementing MiFID II successfully."

The statement also noted that implementation of the directive before the 3 January 2018 deadline represents a challenge for firms, "particularly given that important issues concerning the interpretation of the legislation are still being resolved".

However, it said: "We expect firms to take reasonable steps to meet this deadline."

It went on: "Firms who still need to apply for authorisation or variation of permission should prioritise as a matter of urgency their submission of complete applications."

It added: "Such firms must have contingency plans in the event that by 3 January 2018 they do not have the required permissions."


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United we withstand

In a climate of regulatory change, cost pressures and cyber threats, the network management industry will be at its strongest if it sticks together. Stephanie Palmer reports from The Network Forum in Warsaw

As tempestuous weather swept through Warsaw, the first annual meeting of The Network Forum made for a harmonious environment within the storm, with conversations centring around collaboration and cooperation to tackle the many perils in the current environment.

In one session, panellists focused on the Target2-Securities (T2S) pan-European settlement platform, wave five of which is set to go live in September, with speakers suggesting that more harmonisation and standardisation is required to fully realise the benefits of the platform.

In a live poll, the audience was asked what they think could further materialise the intended benefits of T2S. Asset servicing harmonisation emerged as the most popular answer, named by 53 percent, followed by increased volume of cross-central securities depositry (CSD) settlement, selected by 36 percent.

Karen Birkel, chair of the change review group at the European Central Bank, suggested that in terms of asset servicing, corporate actions would be the most difficult thing to harmonise, saying: "There's still a lot of work to be done there."

Allison Levy of BNY Mellon added that, while harmonisation would be "so welcome", the markets each work very differently, and so it "will be really tough to bring all of that together".

However, another speaker, Swen Werner of State Street, suggested that one of the real benefits of the platform is that it has created a process of governance which "over time will bring some of the standardisation."

Birkel added that CSDs have already "collaborated fantastically" to make T2S migrations work in the first place. The whole project is about collaboration, and about prioritising and solving problems in a collaborative way, she said.

Working together could also be the key to tackling the risk of cyber crime.

In another session, Margaret Harwood Jones of Standard Chartered, who was moderating the panel, asked attendees whether they believe cyber crime is going to be the source of the next financial crisis.

More than half of respondents, 54 percent, answered with 'highly likely', while a further 17 percent said this is 'inevitable'.

Harwood-Jones quoted statistics from a Standard Chartered whitepaper, saying cyber security is now considered one of the top three risks for banks. She added that the cost of cyber breaches is currently estimated at an excess of $500 billion, and expected to increase to more than $2 trillion by 2020.

Jamie Woodruff, chief technology officer of Metrix Cloud, suggested that firms tend to focus on the robustness of their infrastructure, forgetting about the "personal side to cyber security".

He called humans the industry's first and last line of defence, adding: "We don't really train them adequately."

The panel also discussed the issue of legacy technology as contributing to cyber risk. Phil Mort, executive director of J.P. Morgan, said the industry tends to talk about legacy technology "as if it's an inevitability".

"It's not," he said. "We choose to have legacy technology."

Patrick Wheeler, a self-proclaimed 'cyberpreneur' added that, typically, IT departments tend to focus on their own businesses within an institution. However, networks are interconnected, and this is the "true legacy problem".

While Wheeler sympathised with the complexity of the work required from project managers and IT managers in order to address this issue, he said: “It’s surprisingly hard, but there’s no excuse not to do it.”

Finally, Mort noted that, as cyber attacks evolve, the long-term challenge is “not going to be solved organisation by organisation”.

“There needs to be a significantly increased level of coordination” in everything institutions do, he said.

Institutions are often dealing with up to 150 regulatory bodies “that have their own view on what ‘good’ looks like”, and different levels of maturity, different priorities, and sometimes contradictory expectations, Mort said.

“As long as that continues there’s an inevitable drag on business,” he added.

“Without that type of uniformity approach, we will struggle to be as nimble and as agile as our adversaries are.”

Building a strong network defence will be the way to address cyber security in the future, Phil said, concluding that, as a community, “we are potentially so much stronger than individuals”.

Another speaker called on attendees to rally together to tackle the Central Securities Depositories Regulation (CSDR), saying: “We [are] duty bound, as an industry to act in our collective best interests.”

Phil Brown, co-CEO of Clearstream Banking, said that despite the challenge CSDR poses, he does “see benefits for the industry into the long run”, noting that the regulation is “designed to improve the efficiency of our operations as well as the transparency of how we function as market infrastructures”.

He added, however, that it doesn’t matter what industry participants think of the regulation—it is here to stay, and it is up to them to mould it and make the best of it.

Although he maintained that change can be good for the industry, Brown suggested that some aspects under CSDR could restrict the services offered by CSDs, and could have “unintended consequences on the market as a whole”.

The initial drafts of the regulation were not perfect, he said, and the industry came together to lobby for change during the consultation period—change that eventually came about.

There are still questions around whether CSDR will prevent CSDs from developing their services over the next three years or so, and some in the market would be “pleased to see CSDs throttled back in that way”, Brown said.

It is again up to the industry to “take some ownership and responsibility for shaping and implementing regulation”, Brown said, adding: “We have an obligation to do so, not just an opportunity.”

He asked: “How do we work together as an industry to implement the best version of CSDR?”

Concerns were also raised about new rules coming into effect under the second Markets in Financial Instruments Directive (MiFID II), which could restrict liquidity in the market and have a negative effect on securities lending and repo industry.

Anna Biala, a partner at Clifford Chance, highlighted some of the challenges of MiFID II that could affect custodians, pointing out that the directive prohibits title transfer collateral arrangements with retail clients.

She said it is currently unclear as to whether this includes securities lending and repo transactions, adding: “It seems that that was not the intention of the legislators.”

However, Biala pointed to restrictions relating to these arrangements with professional clients. If an investment firm wants to enter into a title transfer collateral arrangement with a professional client, it is required to consider the use of the transfer “in the context of the situation”, taking into account the “client’s obligation to the firm and the assets that are subject to the title transfer collateral arrangements”.

The firm must also provide “additional warning” around what the effect of the arrangement may be—a requirement that Biala called “surprising”.

She said custodians should consider that “the new rules might have an impact on securities lending and repo transactions”, and could have a wider effect on the market.

“[MiFID II] might impact market liquidity,” she warned.

Segregation rules under the directive are quite restrictive, she said. “The risk is that this will disrupt the flow of collateral in the financial systems, which is quite problematic bearing in mind that various regulations now require additional collateral.”

The topic of technology also inevitably came up in conversation, with Markus Ruetimann, chief executive of advisory firm Hardy London urging custodians to embrace innovation and collaboration in order to move forward.

Ruetimann suggested that it is surprising “our industry has really not changed”, and said it is the industry itself that has “introduced complexity” to its own clients.

“Our industry talks about disruption rather than about innovation and evolution,” he said.

Ruetimann named a number of “shared challenges” throughout financial services, including information security, reduction of profitability, emerging technologies, regulatory arbitrage and re-gaining client trust.

He said the real test in addressing these challenges is not actually in innovation, but in the ability to deliver value for money, and encouraged global custodians to “be more creative” and to “re-invent” themselves. He advised buy-side attendees to focus on simplification and automation, insight and immersion, talent, and culture in the business, in order to bring about digital change.

Safeguarding of client assets is a key point for success, and “protecting of data and client identity is very much back on the agenda”, he said.

At the same time, the approach to leadership should be shaken up, and new technical talent should be encouraged into the industry.

Ruetimann concluded: “We should all work together to encourage the industry and regulators to progress and help with transparency, standards and shared data.” AST


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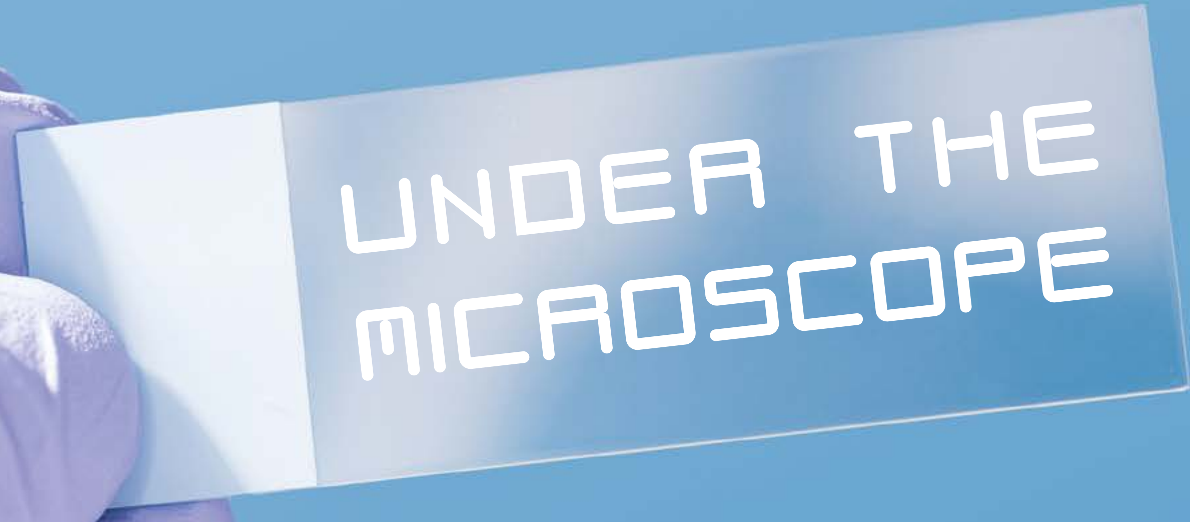

UNDER THE MICROSCOPE

The Financial Conduct Authority's study of the asset management industry revealed issues around pricing and transparency, and uncovered cracks in some managers' methodologies. Stephanie Palmer explores the findings

While the UK's asset management industry has been rocked by European regulations and referendums alike, the Financial Conduct Authority (FCA) has been beavering away on other internal matters, finally producing the much-anticipated final report of its Asset Management Market Study.

According to the FCA, the UK asset management industry is the second largest in the world, with around £6.9 trillion in AuM, £3 trillion of which is managed on behalf of UK pension funds and other institutional investors.

The FCA first launched its market study in November 2015. A year later an interim report was published, revealing some of the regulator's findings and inviting consultation, which ultimately informed the final study.

The report highlighted four main areas of concern: price competition, fund performance, clarity of objectives and charges, and the investment consultant market.

Through its findings, the FCA suggested that asset management firms do not generally compete on price, particularly when it comes to retail active management services. It also noted that, for regards to segregated mandates sold to large institutional investors, prices tend to fall as the mandate increases.

This is not, however, the case for retail funds of a similar size.

Some firms are seeing a high level of profitability, with average profit margins of 36 percent.

The report said: "Firms' own evidence to us also suggested they do not typically lower prices to win new business. These factors combined indicate that price competition is not working as effectively as it could be."

According to the FCA, the overall 'package of remedies' it proposes is intended to help make competition work better in the market and to protect investors.

The report also stated that, not only is there no relationship between the price of a fund and its performance in generating returns, but that "there is some evidence of a negative relationship between net returns and charges".

It can be difficult for investors to identify outperforming funds, the report said, partly because it is difficult to interpret and compare past performance information. Even if they could compare this information, this is not necessarily a good indicator of future performance.

The report said: "There is little evidence of persistence in outperformance in academic literature, and where performance persistence has been identified, it is persistently poor performance."

Equally, fund performance is not always reported against an appropriate benchmark.

In order to drive more competitive pressure, the FCA proposed measures to support disclosure of an all-in fee to investors, and to support "consistent and standardised disclosure of costs and charges to institutional investors".

However, commenting on the report, Stewart Bevan, product manager at KAS BANK, suggested that this only addresses part of the issue.

"While it's encouraging to see the regulator recognise the importance of transparency, now is the time for action," he said.

"Institutional investors need the tools to help them understand the charges they pay for investment management services, and while costs are, of course, not inherently bad, understanding them is the first step toward more effective management."

Bevan continued: "Furthermore, the decision to disclose a single all-in fee to investors is a positive step toward simplifying charges for investors, but only if it comes with clear communication that, from a scheme perspective, this is only part of the picture, and there will be other outlays that form a part of their overall expenditure."

"Simplification is helpful, but the underlying detail needs to also be available, if required."

Graham Vidler, director of external affairs at the Pensions and Lifetime Savings Association (PLSA) said the report makes "important recommendations", adding: "Institutional investors, however large and however well-governed, need a competitive, transparent market in order to deliver the best outcomes for their members."

The report also raised concerns around "how asset managers communicate their objectives to clients", suggesting that many active funds are offering similar exposure to passive funds, but charging significantly more. In fact, the report estimated that there is around £109 billion in active funds that closely mirror the market, but are significantly more expensive than passive funds.

The FCA holds the view that value for money in asset management products comes from "some form of risk-adjusted net return".

It said: "This can be broken down into performance achieved, the risk taken on to achieve it and the price paid for the investment management services."

Although the report conceded that many institutional investors are increasingly focused on charges, investors' awareness of, and focus on, charges is often "mixed and poor".

The FCA suggested that it will chair a new working group to consider how these objectives can be made clearer and more useful to investors, particularly looking into improving the language of the objectives, before it considers making any rule changes.

Finally, the report raised concerns about the way the investment consultant market operates, noting that, while large institutional investors are able to negotiate and get better value for money, the smaller institutional investors such as pension funds find it harder to negotiate, and typically rely on an investment consultant.

It said: "We have identified concerns in the investment consulting market. These include the relatively high and stable market shares for the three largest providers, a weak demand side, relatively low switching levels and conflicts of interest."

In response to this, the FCA said it will recommend to the Treasury that investment consultants are brought "into the regulatory perimeter", however, this is subject to the outcome of a provisional market investigation reference to the Competition and Markets Authority.

Commenting on the report, David Vafai, CEO of bfinance, said: "We share the FCA's central concerns regarding investment consultants in the UK institutional sector: the high and stable market shares for the three largest providers; relatively low switching levels; and conflicts of interest, particularly those that arise from offering both advice and fiduciary management."

He added: "The lines have clearly become blurred and greater regulatory scrutiny is appropriate."

However, the wider regulatory burden remained front-of-mind for both the FCA and industry commentators. The report noted that any remedies proposed have been considered within a wider regulatory context, particularly taking into account the second Markets in Financial Instruments Directive (MiFID II), the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, and the Senior Managers and Certification Regime (SM&CR).

The FCA's package of remedies is intended to support and complement these regulatory initiatives, rather than oppose or override them.

"Where we believe that forthcoming regulations will at least partly address our concerns, we are looking at ways in which we can complement these changes," the report said.

PJ Di Giammarino, CEO of JWG, did not see the proposed changes in this light, however, saying the UK's asset management industry can "expect both new regulatory initiatives and a wide spectrum of changes to existing ones".

He said: "This will not be welcome news to a sector that is currently resisting the reforms already asked of it."

Di Giammarino warned that the buy side is "lagging far behind" in its implementation of MiFID II, and suggested that, with the FCA's new recommendations, boards should start to take better notice of their regulatory obligations.

He said: "The consultation papers are out there and the handwriting is on the wall—consumers will be given more transparency, benchmarks will be more effective and managers will be made more accountable in a more competitive market. Those that start adapting to the new reality now will have a far greater chance of survival."

However, John Dowdall, managing director of Silverfinch, noted that when it comes to fees requirements, specifically, the new remedies alongside existing regulatory requirements may lead to a surplus of data that asset managers could find difficult to manage.

Dowdall said: "MiFID II already requires a monumental amount of data to be held and communicated across different parties regarding both funds and individual investors and, if mishandled, could pose a wealth of risks along the regulatory chain."

"Today's report from the FCA, which concentrates on the need for an 'all-in' fee for end investors, will require even more data assessment for asset managers when selling a product."

He continued: "With such large volumes of information being required, both sensitive and public, it is essential that asset managers and distributors fully prepare to meet these new rules and can assure investors that all information is protected."

"We are thrilled by the increasing interest from the industry as it readies itself for the new regulation, but want to ensure that the focus isn't simply on complying with the new rules, but complying in a safe and secure environment."

The FCA is not making any rash changes, for now. Another consultation paper has already been published, asking for feedback on remedies regarding governance and technical changes to promote fairness for investors, and some of the proposed measures remain subject to the outcome of working groups.

Other recommendations will be consulted on later in the year, in light of other legislative changes, and even those that are final will be rolled out over several stages of implementation.

Andrew Bailey, chief executive of the FCA, commented when the report was released: "We need a competitive sector, attracting investment into the UK which also works well for the people who rely on it for their financial wellbeing."

He added: "We have put together a comprehensive package of reforms that will make competition work better and help both retail and institutional investors to make their money work well for them." **AST**

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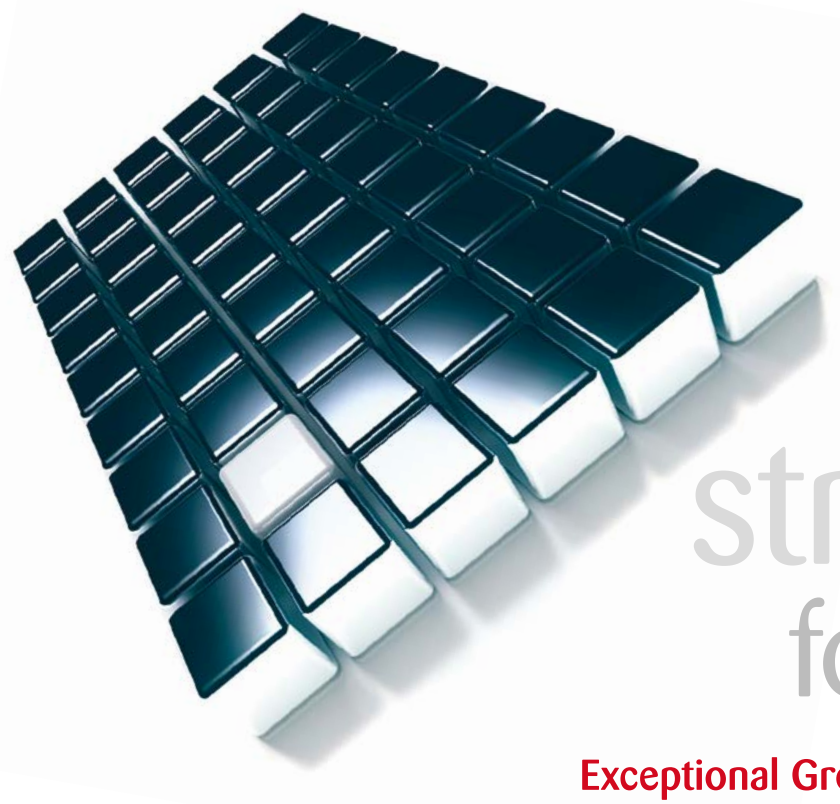

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Comings and goings at RBC I&TS, Intertrust, J.P. Morgan and more

Royal Bank of Canada Investor & Treasury Services (RBC I&TS) has poached J.P. Morgan's Hong Paterson to lead its Singapore business.

Paterson will be country head and director of global client coverage in Singapore, leading business development and client coverage in the country.

She joins from J.P. Morgan Commercial Banking in Singapore where she was an executive director, responsible for multinational clients.

According to RBC I&TS, Singapore represents an important market for the business, and for its global asset manager and sovereign wealth clients.

Andrew Gordon, managing director for Asia at RBC I&TS, said: "Hong Paterson's substantial experience and extensive knowledge of the local market will be invaluable in driving our business and client activity in Singapore."

HSBC has appointed Terry Alleyne to its securities services client management team, as a client executive.

Alleyne will be a key contact for European insurance clients, and will be responsible for growth in the segment.

Based in London, he will report to Linda McLennan, who leads the insurance sector within client management.

Alleyne joins HSBC from Citigroup, where he was business manager for global custody product management for Europe, the Middle East and Africa (EMEA), working with financial institutions across the insurance, asset management and banking sectors.

Previously, he has also held positions at J.P. Morgan Chase and BNP Paribas.

An memo issue by HSBC said the hire "demonstrates we are investing in our client management franchise".

J.P. Morgan has hired Mike Hughes to lead global custody.

Hughes has joined the bank from Deutsche Bank, where he was head of strategic execution for global securities services.

At J.P. Morgan, Hughes will report to global head of custody Chris Rowland, who also has responsibility for trust and fiduciary.

The appointment of Hughes at J.P. Morgan follows the departure of Matthew Bax, who joined Citi as head of sales for custody and fund services for the EMEA region earlier this month.

Dutch capital market solutions provider Intertrust has bolstered its fund services offering with string of senior appointments in its regional offices.

Intertrust's Luxembourg office has welcomed Christine Jacquemart as commercial director of fund services and Harald Thul as director of alternative investments services.

Jacquemart, who joins from Pictet & Cie (Europe), will focus on developing the company's fund services, covering fund administration and depositary for both regulated and unregulated Luxembourg alternative investment funds.

Thul joined Intertrust in 2013 after 14 years at PwC, and will now be responsible for the coordination and development of the alternative investment structures.

James Donnan has been appointed as head of fund services for Intertrust's Hong Kong office.

Donnan will oversee the delivery of services to the firm's alternative fund clients and will be responsible for leading the group's private equity strategy across Asia. He was previously Intertrust's commercial director for China.

Michael Johnson has been named as head of funds in the Channel Islands, where he will be responsible for developing the funds strategy.

Finally, Joost Broekhuis has accepted a role as executive director of capital markets and funds services, based in Intertrust's Amsterdam headquarters. Broekhuis will focus on risk management across the broader client portfolio in the Netherlands.

Paul Lawrence, global head of funds services at Intertrust, said: "These appointments reflect our commitment to strengthening our fund services proposition. We pride ourselves on the level of expertise we have within our team, and the high-quality funds services we can provide to clients."

The European Fund and Asset Management Association (EFAMA) has elected William Nott of M&G Securities to serve a two-year terms as president.

The election was made at the EFAMA annual general meeting, held by The Investment Association in London on 23 June.

Nott succeeds Alexander Schindler, who had been president since 2015.

Nicolas Calcoen, CFO of Amundi, was elected as vice president of the association.

Nott is chief executive of M&G Securities, a position he has held since 2006, and is also chief strategy officer for the M&G Group.

He has served on the EFAMA board of directors and the board of The Investment Association for a combined total of 16 years.

Calcoen has been with Amundi since 2012, and is also head of finance and strategy at the group, alongside his CFO position. He has been a member of the EFAMA board of directors since 2012.

Nott said: "It is a great honour and responsibility to be entrusted with the presidency of such a highly successful and well respected association. I look forward to continuing the excellent work of our outgoing president Alexander Schindler, who has been unrelenting in ensuring the views and concerns of EFAMA and its members have been clearly heard by policymakers and regulators."

According to EFAMA, the new board will focus on building investor confidence and supporting investor-centric legislation, and on helping to build up a well-functioning capital markets union.

The new EFAMA board will also continue to support good governance of the industry and build on competitiveness, while striving to increase recognition of the UCITS and alternative investment fund brands.

Peter De Proft, director general of EFAMA, commented: "EFAMA is resolute to actively engage in the global and European regulatory debates that govern and drive our business model in a new European world. Our new presidency will surely help us achieve this."

"With William Nott and Nicolas Calcoen, a talented team in place in the EFAMA secretariat, and the indispensable support of our members, we will continue to work alongside policymakers and regulators to build the best possible regulatory environment for our industry." AST

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