asset servicing times
The primary source of global asset servicing news and analysis
Issue 179 29 Nov 2017

Dubai and Australia to tackle fintech

The Australian Securities & Investment Commission (ASIC) and the Dubai Financial Services Authority (DFSA) are to work together on financial technology innovation.

The authorities signed a cooperation agreement to provide support to each other through their financial technology functions, and to allow for easier referrals for fintech businesses, meaning Australian fintechs will be able to operate in the Dubai International Financial Centre (DIFC) more easily, and vice versa.

According to ASIC, the agreement will also provide a framework for sharing information on regulatory technology trials.

The DFSA allows firms to to apply for an 'Innovation Testing Licence', enabling them to test new products, services and business models in a flexible regulatory environment.

This agreement follows a number of initiatives taken by the DFSA, which regulates the DIFC, including its FinTech Hive accelerator programme and the Dubai Future Accelerators programme.

It is the ninth agreement that ASIC has entered into, following cooperation agreements with the UK, Singapore, Hong Kong, Ontario, Japan, Malaysia, Abu Dhabi and Switzerland.

In 2015, ASIC launched its Innovation Hub in pursuit of its goal to help fintech firms navigate the regulatory framework, "without compromising investor and financial consumer trust and confidence".

John Price, ASIC commissioner, said: "We are excited to partner with the DFSA to help encourage fintech innovation in Australia and Dubai. Regtech is becoming more and more important—this is a new frontier in our bilateral cooperation that will benefit both regulators and businesses."

Ian Johnston, chief executive of the DFSA, added: "Today's agreement underscores our commitment to maintaining strong channels of communication with our regulatory peers and creates a regulatory framework that supports the latest developments in fintech innovation."

"We have a long-standing productive relationship with our colleagues at ASIC, which we look forward to extending to this fast-developing industry."

Visit www.assetservicingtimes.com for the latest daily news updates

Asset Servicing Times issue 179

UK TRs face EU fee hike

UK-based trade repositories may be forced to shoulder additional third-party recognition fees to operate under EU regulatory frameworks post-Brexit, according to proposed EU Commission rules.

The commission has opened the floor to industry participants to consult on proposed fees charged to trade repositories for incoming reporting rules, with all responses required by 14 December.

Fees levied under the auspices of the Securities Financing Transactions Regulation (SFTR) and the European Market Infrastructure Regulation (EMIR) will aim to cover necessary expenditure relating to the registration, recognition and supervision of trade repositories.

For all trade repositories, the application fee will reflect the expenditure necessary to accurately assess and examine the application for registration or extension of registration, taking into account the services to be provided by the trade repository, including any ancillary services.

A trade repository that does not provide ancillary services will be deemed to have a low expected total turnover and shall pay a registration fee of €65,000, while a repository that does offer ancillary services will need to pay €100,000.

In the event that a trade repository in the UK reverts to third-party status after the March 2019 Brexit negotiation deadline, firms will see a significant increase to their annual fees, if they want to continue to operate in the continent.

A third-party trade repository applying for recognition under Article 19(4)(a) of SFTR will have to pay a recognition fee of either €20,000, or the amount resulting from dividing €35,000 among the total number of trade repositories from the same third country that are either recognised by the EU, or have applied for recognition but not been yet recognised.

There will also be an annual supervisory fee of €5,000.

Any late payments will incur a daily penalty equal to 0.1 percent of the amount due.

All fees for third parties are non-refundable in the event of the application for recognition being rejected.

The European Securities and Markets Authority (ESMA), which has the delegated power to manage collected fees, has clarified that they will only be set at a level that will cover costs, without accruing a surplus.

Where there is a recurrent significant surplus or deficit, the commission will revise the level of fees.

The commission has noted that, where a trade repository is already registered under EMIR, fees will be adjusted to reflect only the additional costs related to registration, recognition and supervision of trade repositories under SFTR.

LEIs offer major cost savings, says OFR

Legal entity identifies (LEIs) offer significant cost savings and improved transnational accuracy and transparency, according to Matthew Reed of the Office of Financial Research (OFR).

In a blog post on the benefits of LEIs, Reed described how the system "now serves as a linchpin for making sense of derivatives data stored in repositories around the globe".

Reed noted that early academic studies found cost savings associated with adoption of the LEI approached $1 billion annually.

Regulations that require the use of LEIs, such as the second Markets in Financial Instruments Directive (MiFID II) are also expected to create cost savings and greater transparency. However, the blog post noted that the long-term benefits to financial

stability from an LEI system are much harder to gauge.

"This 20-character code allows the precise identification of these firms regardless of who is seeking to identify them or where they reside," Reed said in the post.

"As a basic building block of the global financial plumbing, the LEI improves companies' risk management, clarifies counterparty exposure, and allows government supervisors to better assess market functioning."

He added: "The LEI also enables easily combining of information from different sources. In addition, the LEI answers two basic questions: who is who, and who owns whom?"

Reed noted that the lack of LEIs before 2007 prevented regulators and private-sector risk managers from seeing the total extent of exposures by market participants to Lehman Brothers.

As noted in an OFR brief earlier this year, without a basic ability to identify financial market participants and their corporate families, financial companies and the regulators supervising them would continue to struggle to understand the links and exposures throughout the global financial infrastructure.

A recent report by McKinsey and Company and the Global LEI Foundation found that at least 10 percent of operating costs for onboarding clients and trade processing could be eliminated with full adoption of the LEI.

Another $500 million could be saved by the investment banking industry in issuing letters of credit. Additional savings can be found in business cases explored in the study.

Reed's comments came a month after the European Securities and Markets Authority (ESMA) warned industry participants not to neglect a viable method to comply with the fast-approaching LEI requirements.

In a statement on the LEI requirement, Steven Maijoor, chair of ESMA, said there is no room for negotiation, where LEIs are concerned, under the incoming MiFID II rules.

Maijoor said: "LEIs play a key role under the new MiFID II data-reporting regime as well as being essential in supporting regulators' work on transparency and market surveillance."

"It is vital that investment firms and trading venues make the necessary efforts to obtain their LEIs in good time."

Industry consortium collaborates to simplify third-party risk assessments

Four financial institutions have collaborated in a bid to simplify third-party risk assessments of suppliers and partners across the industry.

The consortium, TruSight, includes American Express, Bank of America, JPMorgan Chase and Wells Fargo, and intends to deliver a "comprehensive approach", gathering information on service providers' security, technology, hiring practice and governance.

The data will be secured on a shared platform and will be verified by TruSight and made available to all financial institutions, allowing them to make their own vendor risk and engagement decisions.

TruSight will be headed up by CEO Abel Clark, previously global managing director of Thomson Reuters's financial business.

Clark said: "We are breaking new ground in the financial services industry by creating a consistent and efficient process for assessing third parties."

He added: "TruSight's unique approach brings together industry participants and harnesses their collective expertise, allowing us to ensure the same high standards are met across the board. This inclusive, cross-industry effort will also simplify and streamline the third-party risk assessment process for financial institutions and their suppliers, delivering real benefits for all."

According to Ken Litton, chief procurement officer at JPMorgan Chase, this is the first time the industry has collaborated "to mitigate risk among their vendors".

Litton added: "Financial institutions of all sizes can benefit from the confidence and added credibility that comes from using industry standards to gather and validate third-party risk information."

AFME urges integrated EU post-trading

The Association for Financial Markets in Europe (AFME) has called for a "single, integrated post-trading system" in response to the European Commission's consultation on post trade.

Responding on the final day of the commission's public consultation on post trade in the Capital Markets Union (CMU), AFME urged for the "swift dismantling of the European Post-Trade Forum (EPTF) barriers", as well as the "implementation of a longer-term strategy".

The response follows a report written by the EPTF, a European Commission working group, in May. The report called for the removal of the Giovanni Barriers, in order to increase the global competitiveness of European capital markets.

The Giovanni Barriers were identified in 2003 as issues that prevent efficient cross-border clearing and settlement in the EU.

Since 2003, derivatives markets, securities finance activities, collateral management and post-trade reporting have become much more developed, while new products and new barriers have emerged.

This means a "semantic transposition" of the original barriers would not be possible and the new barriers will be termed the EPTF Barriers.

Regarding the three legal barriers identified in the Giovanni Reports, the EPTF report said: "Progress in removing the barriers has remained limited and the rationale for such reforms is unchanged."

According to EPTF, significant operational barriers include fragmentation in corporate actions and general meeting processes, a lack of convergence in information messaging services, and a lack of harmonisation in exchange-traded fund processes—a point that did not appear in the original Giovanni Barriers.

AFME's response also references a white paper it released in 2016, in which the association championed the dismantling of the remaining Giovanni Barriers as well as a more in-depth strategy to ensure "safe and efficient European post trade".

The association also highlighted the need for particular insight on issues surrounding systematic risk, harmonisation of tax processes and collateral management.

In regards to developing a longer-term strategy, AFME suggested the creation of a specialist strategy group by the European Commission in order to deliver "comprehensive European post-trade reform".

In particular, its response highlights the legal and regulatory implications of technological developments and considers the degree to which EPTF barriers should be dismantled.

Werner Frey, managing director of post trade at AFME, said: "The EPTF report and this consultation are an important milestone in much-needed European post-trade reform."

He added: "As a next step, we are very much in favour of dismantling the narrowly defined EPTF Barriers with a view to promoting the global competitiveness of European capital markets."

"At the same time, a strategic plan for a comprehensive European post-trade reform should be developed."

In August, following the release of the EPTF report, the European Commission launched a public consultation in the hope of improving post-trade services used in financial transactions. This came as part of the CMU Action Plan, which is largely aimed at removing barriers to post-trade market infrastructure.

The initiative, taken on by Jean-Claude Juncker's commission, is seeking to create more opportunities for investors, while also boosting jobs, growth and investment across the EU.

Strate adopts Nasdaq blockchain solution for voting

Nasdaq is set to provide its blockchain electronic voting solution to South African central securities depository (CSD) Strate.

The solution will allow Strate, along with key stakeholders, to provide general meeting services, and to provide shareholders with a tool allowing them to vote remotely.

The agreement is intended to improve voting efficiencies and increase shareholder participation in South Africa.

Tanya Knowles, managing executive of fractal solutions, a division of Strate, commented: "The solution aims to service our clients' needs across the market from transfer secretaries to issuers, custodians, asset managers and those holding shares in listed companies."

She added: "Given that it is an end-to-end solution—from the time a meeting is announced and all the way through the voting process to the publishing of results—it means that all stakeholders will truly benefit within the process."

Lars Ottersgård, executive vice president and head of market technology at Nasdaq, added: "By leveraging blockchain, we are able to reduce friction in the voting and proxy assignment process and also ensure that all information is transparent to stakeholders when required and with the proper security, governance and risk procedures in place."


At your side worldwide.
Leverage our worldwide presence to increase your corporate success.
EUROMONEY
AWARDS FOR EXCELLENCE
2017
www.commerzbank.com/worldwide
The Euromoney Awards for Excellence honoured Commerzbank as Germany's Best Bank for its strategic approach that is creating a 'stable, efficient and more profitable lender' amidst challenging times for the German banking sector. Euromoney, 07/2017 issue
COMMERZBANK
The bank at your side

AMs relying on manual processes

Reliance on manual processes is becoming a bigger issue in the back office, according to a Confluence Asset Management Survey.

The survey showed that 22 percent of asset managers see reliance on manual processes as their number one challenge today, up from 14 percent in 2016 and 12 percent in 2008.

Overall, the survey showed that manual processes now rank second only to asset managers' concerns about data accuracy and consistency, named as the biggest concern by 24 percent.

Some 90 percent said they worry about manual processes and use of spreadsheets affecting their ability to control errors.

Similarly, 83 percent expressed concern about their ability to control costs for replacing manual processes with automated technology.

Centralising fund data was the third-most cited goal in this year's survey, with 42 percent of fund managers calling this a major priority.

Some 86 percent of survey respondents said it is either very important or extremely important to centralise data, in order to improve data accuracy and consistency. This is up from 80 percent in 2016.

Just over 80 percent of asset managers were concerned about their ability to minimise reporting errors, while the number of those concerned about meeting regulatory demands increased to 76 percent, up from 70 percent in 2016.

Todd Moyer, COO at Confluence, said: "While the concerns of the asset management industry in 2017 are largely consistent with what we found in 2016, the rise in urgency on display is what really explains the transformation we have seen taking place this year."

He added: "Our survey respondents clearly see that the time for automation and technical innovation has arrived. Heightened regulatory requirements are turning a pent-up desire to automate into a need to automate. And technology innovation in the regtech space is enabling this fundamental transformation in back offices across the industry."

Tobam launches bitcoin mutual fund

Tobam has launched the Tobam Bitcoin Fund, an unregulated alternative investment fund—the first of its kind in Europe.

Set up in France, the fund will offer qualified and institutional investors exposure to cryptocurrency, while allowing them to benefit from Tobam's research and IT systems, which track the value of investing in bitcoin.

According to Tobam, the fund allows investors to gain exposure to the cryptocurrency in a safer and more convenient way, while also reducing the risk of loss and theft, thanks to Tobam's cybersecurity systems.

Yves Choueifaty, president of Tobam, said: "This first move in the world of cryptocurrencies showcases our dedication to remaining ahead of the curve and to provide our clients with innovative products in the context of efficient (unpredictable) markets."

He added: "This launch is also an expression of our commitment to diversification in all its forms."

Christophe Roehri, head of business development, commented: "Direct investment in bitcoin can be operationally challenging, from dealing with the choice of the platform, to maintaining the proper security measures in terms of custody and to managing the changes made to the protocol."

He added: "Our goal is to take control of these operational challenges in order to facilitate access for qualified investors willing to gain exposure to bitcoin."

ETF platform attracts seed funding

Third-party UCITS exchange-traded fund (ETF) provider HANetf has completed a significantly oversubscribed seed funding round.

The white label provider expects to support more than 100 ETFs over the next five to seven years.

The solution offers services for US and Asian ETF issuers and traditional asset managers seeking to enter the market in Europe, including product development, compliance, operations, capital markets, sales, marketing and distribution.

HANetf was founded by co-CEOs Hector McNeil and Nik Bienkowski, who previously helped found and establish ETF Securities.

McNeil commented: "Our goal is to become a new force in ETF innovation in Europe by helping clients enter the space efficiently and without having to commit to running full-scale ETF businesses, thus significantly lowering barriers to entry."

Bienkowski added: "Since creating the concept, we have made significant progress toward setting up our platform to be open for business and this round of funding will help us rapidly scale the business and onboard clients."

He said: "After helping to bring numerous investment products to investors for the first time, HANetf is now looking forward to assisting the next wave of asset managers to issue new and innovative ETFs."

Investors in the funding round for HANetf included Peter Thompson, co-founder of Source ETF; Point72 Ventures, an asset management service; and Elkstone, a wealth management firm based in Ireland.

Citi pilots new platform for proxy voting

Citi has successfully piloted a new digital proxy voting platform, Proxymity, using a core algorithm to streamline information between intermediaries.

The platform, which is supported by Computershare, will initially be rolled out in the UK for the 2018 proxy season.

Proxymity connects and authenticates issuers and investors, which, according to Citi, makes the voting process "more efficient, accurate and transparent".

It is intended to eliminate intermediary cut-off dates, ensuring investors have enough time to

research the annual general meeting and cast their votes through the platform.

It also enables issuers to receive votes in real time and offers confirmation to the investor that the vote was received and counted at the meeting—providing certainty that their shareholder right has been upheld.

Key investors using Proxymity during the pilot included Aviva Investors, Legal & General Investment Management, Aberdeen Standard Investments and Robeco.

Okan Pekin, Citi's global head of prime, futures and securities services, said: "[Proximity] reimagines the process and flow of meeting notices and has the potential to disrupt an established market and democratise access for investors whose votes will be enabled by higher efficiency and lower cost."

Paul Conn, president of Computershare's global capital markets, added: "With advances in technology and the combined network of both organisations, we are very excited to conclude a successful pilot and look ahead with confidence to extending the deployment of the platform early next year."

MTS and UnaVista collaborate for SFTR

The London Stock Exchange's (LSE) UnaVista is collaborating with electronic fixed-income trading market MTS to offer a regulatory reporting solution for firms operating under the securities financing transactions regulation (SFTR).

The collaboration means firms trading on MTS's new global collateral management (GCM) segment will be able to use UnaVista's trade repository for things like repo trades.

Market participants with a connection to UnaVista Trade Repository that trade repo contracts on the new GCM segment of MTS BondVision will be able to match initial trade data fields. This will create an entry in the UnaVista portal, which can then be populated with additional data.

MTS's GCM segment enables the trading of bilateral and centrally cleared repo contracts between sell-side and buy-side participants.

SFTR requires firms to report transactions including repo trades to an approved EU trade repository. The proposed regulation, expected to come into effect in 2019, covers SFTs conducted by any firms established in the EU. UCITS funds and alternative investment fund managers funds will also be subject to SFTR.

The UnaVista Trade Repository went live for European Market Infrastructure Regulation trade reporting in 2014, helping clients to comply with reporting obligations.

LSE explained: "The collaboration will provide a single solution for the trading and reporting of SFTs with seamless front-to-back reporting of Unique Transaction Identifiers, timestamps, International Securities Identification Numbers and other product identifiers."

Fabrizio Testa, CEO of MTS commented: "Our new GCM segment offers customers an automated, regulated and orderly market for repo transactions."

He added: "Linking up with UnaVista to offer our clients a reporting solution for their repo trading ahead of the introduction of SFTR was a natural fit."

SGSS boosts ESG reporting

Societe Generale Securities Services (SGSS) has launched an environmental, social and corporate governance (ESG) reporting service, allowing investors to measure their impact on society.

The tool will measure investment strategies' ESG impact, allowing institutional investors and asset managers to rate their investments against ESG indicators.

These indicators include criteria such as workforce management, producer responsibility, CO2 emissions and executives' salaries. According to SGSS, investors will be able to measure the risks linked to these criteria, to identify the best and worst assets in their portfolios or funds.

From this information, investors can adapt strategies to strengthen both financial and societal returns.

Bruno Prigent, head of SGSS, said: "Asset managers are not only concerned about financial goals such as yield, security and liquidity but also—and increasingly—about their impact on society."

He added: "The new service we offer will help our clients to make the right investment decisions to maximise their positive impacts."

Volante and Open Vector partner

Volante Technologies has partnered with Open Vector, a banking consultancy firm, to create an end-to-end service of open banking policies and structures.

Open Vector's banking strategy will be combined with Volante's new programme, VolPay Channel, and will target the global banking industry. The partnership promises to ensure firms can easily adopt new application programme interface (API)-based technologies, regardless of their current banking systems infrastructure. According to Volante, VolPay Channel will enable banks to integrate their back-office servicing applications, with the front-end API management layer that provides the secure managed access to the bank's environment via defined APIs.

VolPay Channel will also offer management and orchestration of two-way communications between the API layer and the banking system's environment.

Nadish Lad, global head of payment products at Volante, said: "By partnering with Open Vector, we will be able to offer a full service approach to clients looking to quickly adopt open banking."

Carlos Figueredo, CEO of Open Vector, added: "Through partnering with Volante, we can enable clients to become compliant with regulation, and also, most importantly, help realise new commercial business opportunities and revenue streams."

"Their work in implementing APIs into the bank, helps banks with legacy infrastructures to take advantage of the opportunities in open banking."

Found in translation

Japanese incumbents have been slow to update legacy systems, but there are opportunities in fintech, and firms must evolve to survive

Theo Andrew reports

Japan distinguishes itself from the rest of the world in a number of different ways. It's a culture that holds on to its strong and longstanding traditions and retains a unique and spiritual way of seeing the world, which trickles down into all walks of life.

It also has a history of being at the technological forefront; it brought us the portable disc player and the first lithium-ion battery. However, recent years have highlighted a lack of grasp on the world of financial technology and, as has become true in wider Japanese contemporary culture, western firms are helping to overcome this.

In September 2016, the Japanese government abolished a law that prohibited banks from owning more that 5 percent of a fintech start-up, opening the floodgates for investment into the sector and giving Japan the opportunity to be a global leader the industry.

Over a year on from the decision and there has been a clear step-change in industry in Japan and the way institutions view the back office from a stable, tried and tested processor of administration, to an efficient fast-moving enabler of business.

Pelham Smithers, managing director of Pelham Smithers Associates, a firm providing market intelligence on Asian technology, with a particular focus on Japan, says it is clear that the big banks have been very aggressive in fintech investment since the 5 percent rule was lifted.

However, Smithers says that the main focus will be on blockchain, as it moves to create a parallel crypto to run next to the yen, which has the potential to enable Japan to leap to the front of eBanking.

Speaking at an event in London, Smithers said: "Fintech has allowed Japan to catch up with the rest of the world by doing all the transactions via software, the solution means you no longer need people to do the transactions—they can operate themselves and that's why blockchain in particular is taking off in Japan."

The announcement has marked the start of a charm offensive by the Japanese Financial Services Agency (FSA) throughout the global fintech market. By harnessing partnerships with countries such as the UK, Singapore, Abu Dhabi and Australia, Japan is able to keep abreast of the "global nature of innovation in financial services".

Making moves

In October, the Japan Exchange Group announced that the country will be to shortening the stock trading settlement cycle from T+3 to T+2, after "recognition of the urgency and importance" of "enhancing the international competitiveness of Japan's securities market".

The decision, based on the Final Report of the Working Group on Shortening Stock Settlement Cycle in the Japanese Market,

> *The acceptance of technological innovation, along with a willingness of firms to take on board Japanese customs, could be a key enabler for the financial services industry*

published in June 2016, was agreed upon by a consortium of Japanese institutions including the Tokyo Stock Exchange, the Osaka Exchange, the Nagoya Stock Exchange, the Fukuoka Stock Exchange, and the Sapporo Securities Exchange. The move is planned for Q2 2019.

Gordon Russell, head of the Asia Pacific region at Torstone Technology, suggests that the move is an example of the market's progress towards becoming a global hub for financial services.

"The Japanese market is becoming more focused on financial services than ever before, and this will create many opportunities for foreign firms, both financial and technological," Russell says.

However, he is keen to stress that the pace of innovation will take place very much on its own terms, and that firms hoping to take advantage of this opportunity should work collaboratively with the Japanese market to benefit in the right way. There will always be operational risks involved when moving away from old legacy systems, but now that global markets are pushing forward with more efficient processes, reluctant firms need to take note, Russell warns.

Torstone Technologies, which has offices in Singapore, Hong Kong and Tokyo, understands that the latter is a unique global financial hub, and conducts all its dealings there in the native language.

Russell says: "Traditional businesses operating in Japan need to embrace technology to thrive."

He adds: "Traditionally, middle-office systems have been quite expensive and inflexible, with high operational costs on the one side, and pressure from clients for tighter margins on the other. It's not a sustainable model, and that is what's driving change in the country."

On top of this, Smithers believes that Japan ultimately has an integrating problem in finance.

He said: "Tokyo is the only financial hub in which English is not a working language. You also have a financial sector which is hugely underemployed for the huge amount of capital that exists in the country. Japan is a long way away from other major cities and it has had a big effect on its ability to keep up with consumer trends."

Inherent problems, not to mention geographical considerations, that run deep into the Japanese finance industry are obviously not going to be easy to solve. But, the acceptance of technological innovation, along with a willingness of firms to take on board Japanese customs, could be a key enabler for the financial services industry, and one that will open a number of doors.

Room for improvement

Japan's financial market is one that is seeking change, but on its own terms. Many Japanese incumbents are currently at a crossroads when it comes to updating their legacy systems. It remains a real problem for a market that finds it hard to adapt to the modern ways of working in a global system, and many are unwilling to take on the risk associated with evolution.

The legacy systems and the need for institutions to evolve is certainly providing opportunity for Torstone. In October, Saxo Bank Securities took on Torstone's flagship product Inferno to replace its legal ledger, helping the bank meet its regulatory reporting requirements in Japan.

In March, Torstone made a number of senior appointments in the area, and it has also signed up Natixis Japan Securities to use its collateral management module. Over the next few years, the firm plans to concentrate on the securities market, which, according to Torstone, has the most issues surrounding legacy systems.

According to Russell, Japan's regulatory reporting processes are very different to other jurisdictions, whereby firms have to take into account statutory legal ledgers to standardise industry groups, but also deal with the reports, which they have to submit through local police authorities.

Russell says: "The Japanese market is evolving. It is a market that is very sustainable, but also a market that demands new products such as safekeeping, foreign bond repos and straight European fixed income. European equity, rather than Japanese equity, is also putting pressure on financial institutions solely focused onshore."

"Firms now need a combination of yen and non-yen capabilities, and that requires new functionality from the middle and back office. Having been in Asia for 15 years, I don't think I've seen a Japan market this prime for change." AST

WE ARE THE BANK
BUILDING LASTING RELATIONSHIPS

SOCIETE GENERALE SECURITIES SERVICES

TOGETHER WE FIND THE RIGHT POST-TRADE
SOLUTIONS THAT HELP DRIVE YOUR BUSINESS

SECURITIES-SERVICES.SOCIETEGENERALE.COM

SOCIETE
GENERALE

BUILDING TEAM SPIRIT
TOGETHER

The China story

While pages have been turning throughout Asia, it's China that has delivered all the plot twists, says Barnaby Nelson of Standard Chartered

Stephanie Palmer-Derrien reports

What have been the major talking points in the Asian markets in 2017?

It's been an interesting year, and one that has been fairly focused on the bigger and more mature markets, in terms of volume and flow. It's been a China-centric year, but there have been a few other significant events.

Pakistan's inclusion in the MSCI index was quite meaningful. Pakistan is a small market but it has generated a lot of flow, and that has catapulted it from being one of 'those other' markets, to a player in its own right.

Hong Kong has been the highest-performing exchange in Asia this year, in terms of growth, and South Korea and Taiwan have been successful as well. We have also seen a lot of low-level growth around South-East Asia and India. But, then we have the China story.

If you break down the activity in China, the big story is the imminent opening up of the Chinese capital account. On 1 June, MSCI confirmed that China A-shares will be included in its index from May 2018, which means we're going to see $18 to $20 billion in assets under management (AUM) moving into China next year. This is something we have been talking about for a long time, and now there is finally a date in the diary.

In Hong Kong, a lot of people have been pushing for MSCI inclusion. Now, there's an element of panic—they have to get this done. The conversation moved very quickly from 'how do we get inclusion?' to 'how do we manage inclusion?'

Elsewhere, several major indices are considering whether to include A-shares. Just one of those would bring $250 million in AUM—likely the biggest asset transition in our lifetime. All of this is coming within the next 12 to 18 months, and it really puts the recent market reform in China into context. The question is around how to move that much volume through a market that is quite restricted.

We have the Qualified Foreign Institutional Investor (QFII) and Renminbi (RMB) QFII (RQFII) schemes, with a six- to nine-month approval cycle, and the China Interbank Bond Market, which can be quite slow. Then there are the Stock Connect and Bond Connect schemes, which are the newbies, and which are arguably not quite finished.

Bond Connect and Stock Connect are the two main mechanisms we will see flow coming through for a number of reasons—not least because they're not quota-bearing, and because you can open an account in two weeks. So, we are in a rush now to get them right.

What has to be done to get Stock Connect ready for May 2018?

For Stock Connect, the biggest challenge is in the market model. Previously, the mechanism didn't offer simultaneous delivery-versus-payment (DVP)—you delivered your cash but only got your stocks four hours later. Something like 92 percent of funds distributed in Hong Kong are Luxembourg funds, and that lack of simultaneous DVP was a big issue for Luxembourg regulators, as it created counterparty risk.

Luxembourg funds had to have a third party to manufacture DVP for them—an entity that could operate both sides of the trade, making it internal as opposed to going across the market. However, the Hong Kong Exchange (HKEX) has spent a lot of money on addressing the issue and rushed through a solution to make the mechanism enabled for simultaneous DVP by the end of the year. On 20 November, however, real-time DVP came into effect, bringing best execution to Stock Connect and meaning all the Luxembourg funds will be able to use it when MSCI inclusion kicks in.

Issues like this can sound like minor post-trade technicalities, but, realistically, if you don't fix them, you could end up limiting the choice of brokers, which goes against the second Markets in Financial Instruments Directive, and creates a whole new world of problems.

Another major issue is in offshore Chinese yuan (CNH) liquidity. If you consider an MSCI re-balancing weekend, actively-managed funds only have a very small allocations, around 0.7 percent, of their total index to A-shares, and so they can move more slowly and have the option of front running.

Exchange-traded funds, on the other hand, have to move with the market—they can't have daily tracking errors. Of the $18 billion that will move into China in May next year, we expect $7 to $8 billion of it to be passive money. That will have to move from Friday to Monday, and it's a T+0 market, so you can't even pre-order foreign exchange. We have been working closely with HKEX to come up with potential new funding models, but that's still a work in progress.

The final issue with Stock Connect is that, currently, there's a limit on trading each day. If the mechanism passes RMB 18 billion ($2.72 billion) in a day, trading has to stop—buy orders aren't received any more. Again, if you're an ETF manager, that's not going to work.

So, in order to be ready for May, we need the real-time DVP to be running smoothly, we need an answer to the CNH problem, and we need all limits to be removed. I'm confident that all these things will happen, but it's an interesting time for the market. It's not often we see something that's so directional, and where it's so clear what has to happen in such a short space of time.

What about Bond Connect? Are the challenges the same?

The Bond Connect has similar themes. However, we saw that Stock Connect wasn't acceptable for Luxembourg authorities, and it was a similar story with Bond Connect. Currently, approvals coming out of Luxembourg are entirely conditional on changes.

We are seeing weekly turnover of RMB 16 billion ($2.42 billion) on Bond Connect, but none of that is coming from Luxembourg.

Another issue is simply in explaining how it works. Stock Connect has a very long FAQ document that explains, for example, how a UCITS depot bank qualifies as a CSD and how the beneficial ownership recognition process works, in a lot of detail. The Bond Connect doesn't have any of that yet.

Correcting both of these issues will trigger approvals from the likes of Luxembourg and Dublin, which means that, by the time the $200 billion comes in, the Bond Connect will be there—robust and ready to use. The timing element is very important. There's a danger that the bond index inclusion could come too fast, and that people could have to go back to the old QFII and RQFII mechanisms. That wouldn't be the best thing for anyone.

How difficult has it been to accommodate the regulatory needs of other jurisdictions?

It has become a lot easier. When Stock Connect was announced, HKEX didn't know what UCITS was, or how important it was going to be. They were completely blindsided by the fact that Luxembourg funds—so important in Hong Kong—wouldn't be able to use the new mechanism. At the same time, the Luxembourg regulator, the Commission de Surveillance du Secteur Financier, didn't know that Hong Kong wasn't a DVP market.

From the starting point, when the Stock Connect was announced, we had Luxembourg on one side and Hong Kong and China on the other, and they were quite alien to each other.

When Bond Connect launched, we knew a lot of the issues we were likely to encounter again, and that's why Bond Connect went from launch on 1 July to full approval less than six months later. It hasn't been easy, but the level of mutual understanding has improved a lot.

At Standard Chartered, we were very involved in kicking off that conversation, and I'm very proud of that. We set up, and now chair, the UCITS Bond Connect Council in Hong Kong, and that was the first time everyone sat down together around the same table—the Luxembourg, Dublin, Hong Kong and China authorities, custodians, foreign exchange banks and brokers. To date, we have got a lot done.

Now, big names are publicly getting involved in Bond Connect, and it's ramped up really quickly—we had 146 investors on day one, now we have 200.

It sounds like there is still a lot of work to do in a short space of time. How is the industry managing the challenge?

With Bond Connect in particular, what has been staggering is the absolute focus from the People's Bank of China, the Hong Kong Monetary Authority and HKEX to get it all done. I have had situations where I've raised concerns form the Irish authorities and had a solution presented within three weeks. It's unprecedented for market infrastructures and regulators to turn things around that quickly.

So, it's not just the banks working on it, it's also the regulators and the marketplaces working at breakneck speed, all to facilitate the biggest asset transition we have ever seen to date; possibly the biggest we will ever see.

That said, we're quite used to this pace in Hong Kong. The Stock Connect has been going for three years, and we've been running at this intensity for all that time. The Bond Connect was launched in six weeks, from seeing the blueprints to going live. We're always managing the fundamental questions, and managing major market change. AST

Banks, regulators and the marketplaces are working at breakneck speed, all to facilitate the biggest asset transition we have ever seen to date

Barnaby Nelson
Head of investors and intermediaries, and transaction banking for North East Asia and Greater China
Standard Chartered

Riva - the future of TA

The success of global asset administration relies upon forward thinking, cost effective, technology solutions to efficiently support the markets of today and the opportunities of the future.

Showcasing modern operations, with effective and speedy product launches in environments where regulatory compliance is increasingly demanding, Riva Financial Systems offers the Riva TA solution capable of servicing multiple jurisdictions and product types across the globe on a single platform with a low cost of ownership.

Riva
FINANCIAL SYSTEMS

For further information or to request a demonstration:

+44 1624 850140

learnmore@rivafs.com

rivafs.com

Pick up your copy of Asset Servicing Times

ALFI TA & Distribution Forum

Luxembourg

November

30

events.alfi.lu

Global Custody Forum

UK

December

06-07

finance.knect365.com/global-custody-forum

ITAS

Luxembourg

February-March

27-01

finance.knect365.com/itas

6th Edition Nordic Asset Allocation: Investing in Alternative Asset Classes

Luxembourg

March

07-09

marcusevans-conferences-paneuropean.com

i-rtm.com

intellect™
Design for Digital

INTELLECT™ OneMARKETS

Over 98%
throughput rate across asset classes

Administer/ Service
a wide range of Corporate Actions

Multi -Asset, Multi-Currency, Multi-Lingual Solution

Market Leader
in India with significant traction in International Markets

Supports
SWIFT 15022 messaging standards

Intellect OneMARKETS offers a robust, scalable and comprehensive 360-degree digital platform that supports straight-through processing, direct market access, and high speed execution across a variety of asset classes and market segments with seamless interfaces to local and international market infrastructure providers like exchanges, central counter-parties, custodians, and central securities depositories. It minimizes pre and post trade operational risk by digitizing asset servicing functions across front, mid and back offices

Analyze
statistical data related to settlement & corporate action transactions

Intellect OneMARKETS is designed to seamlessly fit into your technology landscape. It has ready connectivity with:

- 15 Exchanges
- 14 Depositories
- 06 Leading Core Banking Systems
- 02 ICSDs

A Securities Trading & Asset Servicing Platform

High Throughput Solution for Custodial Clients

Contact: +91 96194 22762 | preeti.mishra@intellectdesign.com

The latest industry vacancies

For more positions, visit www.assetservicingtimes.com/recruitment

Finance manager

Selby Jennings

Singapore

A Hong Kong securities company is looking for someone with experience in accounting and MAS. Preferably, the candidate will know how to speak and write a form of Chinese, in order to liaise with the Hong Kong office

Quantitative associate

Selby Jennings

New York

Our client is looking for a talented individual to join its growing fixed-income trading team working with a top-tier investment bank in New York City

Java developer

Alexander Ash

London

Back-end Java developers are required to work with a well-known multinational universal bank. The candidate will be working both independently and with a group to develop, enhance and support the repo market data, electronic execution and other trading applications

Scrum master for wealth management

Alexander Ash

London

A reputable wealth management firm is in the midst of a strategic technology transformation. Hence, it is looking for an experienced scrum master to not only run one of the scrum teams but also to help champion and build a world-class, agile capability

Comings and goings at SIX, Citi, Credit Suisse, Deutsche Boerse and more

SIX has appointed Jos Dijsselhof as its new CEO, and embarked on a wider restructuring of the business.

Dijsselhof will begin his new role in January 2018, replacing Urs Rüegsegger, who announced in May that he would be stepping down.

Prior to joining SIX, Dijsselhoff was at Euronext, most recently as COO. He also served as interim CEO for a spell in 2015.

Before this, he spent time working at ANZ Australia & New Zealand Banking Group, and was head of group operations for Asia Pacific for the Royal Bank of Scotland.

Romeo Lacher, chairman of the board of directors at SIX, said: "I am delighted to have found in Jos Dijsselhof an experienced manager for SIX with strong leadership qualities and an outstanding track record."

"I would also like to thank Urs Rüegsegger for his service and dedication. Under his leadership, SIX was able to lay a solid foundation, and I am confident that Jos Dijsselhof will build on this and successfully lead SIX to further successes."

"In addition, the board of directors has decided to simplify SIX's organisational structure, in a bid to create a "strong, shared financial market infrastructure in Switzerland".

Jane Karczewski has left her position as managing director of strategic risk solutions at Citi, and is set to join HSBC as head of global custody.

Karczewski had been with Citi since October 2010, joining as managing director and head of equity finance sales for Europe, the Middle East and Africa (EMEA), and becoming managing director of strategic risk solutions in April 2015. She was also co-chair of Citi Women.

Before this, she spent time at Deutsche Bank and Morgan Stanley.

Karczewski currently sits on the board of directors of the London Women's Forum, and has previously held the chair position.

In her new role, starting in January, she will report to John Van Verre, global head of custody at HSBC.

Citi and HSBC each confirmed the move, but both declined to comment further.

Elsewhere, Fiona Horsewill is set to join Citi as head of product development and strategy for custody and fund services (CFS) for EMEA.

In her newly-created role, Horsewill will be responsible for driving and executing product development strategy, working alongside the regional management, product and operations, and technology teams.

She will work on identifying products and services required to meet the needs of fund managers and institutional investors.

The CFS team will report directly to Horsewill, who will in turn report to Dominic Crowe, global head of product development and strategy for custody and fund services, and Pervaiz Panjwani, head of custody and fund services for EMEA.

Horsewill joins from Northern Trust, where she was senior vice president of the global risk analytics, and product and performance teams.

The appointment follows that of Bronwyn Fox as EMEA head of client executives for custody, fund services and agency lending. She joined from J.P. Morgan.

Fox's is also a newly-created position. According to a Citi spokesperson, the hires represent commitment to continual investment in the custody and fund services platform.

RBC Investor & Treasury Services (I&TS) has appointed Pat Sanderson as head of global client coverage (GCC) in the UK, and David Brown as managing director and head of GCC for Australia.

Sanderson will be responsible for managing client relationships and for growing market share, in line with RBC I&TS's strategy, while Brown will oversee sales and client coverage in Australia.

Sanderson joins from J.P. Morgan, where he worked on investor services sales and strategy for insurance clients.

Previously, he has held roles at Citi and Deutsche Bank, and before this he had a career in rugby union, playing for the Worcester Warriors and captaining the England team in 2006.

In his new role, he will report to Richard Street, head of global client coverage for Europe, the Middle East and the US.

Street said: "Pat Sanderson's knowledge of the industry and approach to client solutions aligns with RBC I&TS's focus on placing the client at the centre of our business."

Brown will be based in Sydney, and will report to David Travers, managing director and head of RBC I&TS Australia.

Previously, Brown was at J.P. Morgan, where he spent 20 years, most recently as executive director of sales and relationship management in Australia. He also held senior client-facing roles in Japan.

Travers said: "As we look to grow market share in the region, David Brown's proven track record for developing businesses, coupled with his deep industry experience, will significantly bolster our competitive position."

Northern Trust Asset Management (AM) has promoted Martha Fee to COO for EMEA and the Asia-Pacific (APAC) region.

Based in London, Fee will be responsible for managing international operations and infrastructure teams across the regions.

She will report to Wayne Bowers, CEO and chief information officer for EMEA and APAC at Northern Trust AM.

Fee moves from Northern Trust's Global Fund Services, where she spent two years managing relationships with global asset managers.

Prior to joining Northern Trust, she was at Janus Capital International, most recently as director of global institutional operations.

Credit Suisse has appointed Gerry Milligan as head of electronic products for the Americas.

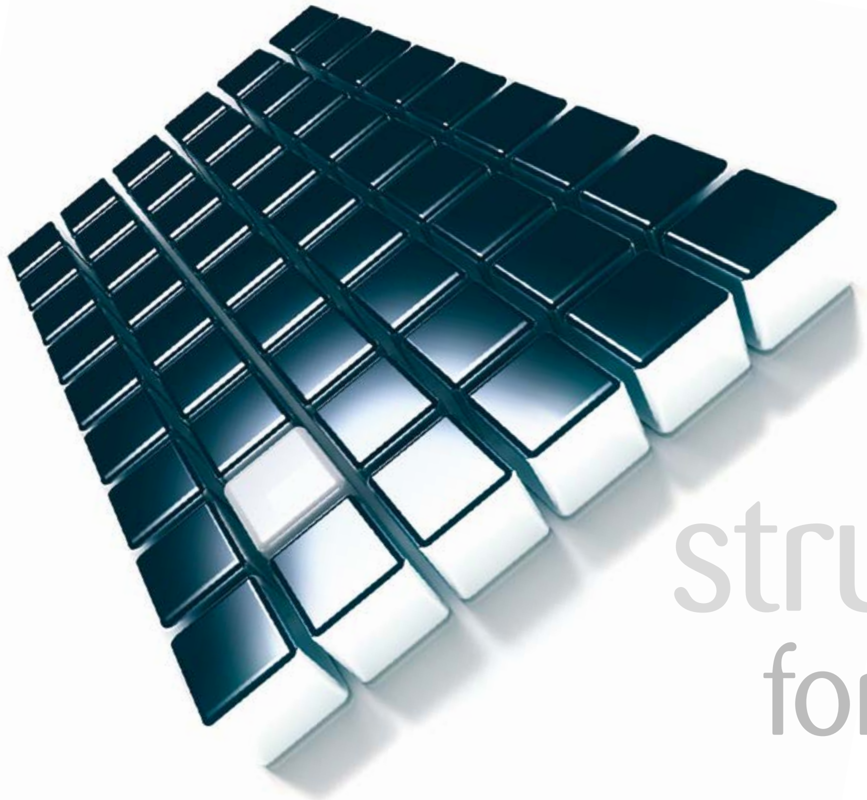
Based in New York, Milligan will start his role in January 2018 and will report to Anthony Abenante, managing director of global markets.

Prior to Credit Suisse, Gerry spent 10 years at Instinet, where he was head of programme and electronic trading services for the Americas. He also worked as part of the senior equity sales team at Nomura.

Abenante said: "With extensive experience managing complex electronic trading platforms, Gerry Mulligan will serve as a key leader and resource in further developing our electronic trading business."

State Street Global Advisors (SSGA) has appointed Marcus Miholich as its head of Standard & Poors depositary receipt (SPDR) exchange-traded funds (ETFs) for the Nordic region.

Based in London, Miholich will be responsible for evaluating the investment objectives of SSGA's Nordic client base. He will report to Rory Tobin, global co-head of SPDR ETFs at SSGA.



Prior to joining SSGA, Miholich worked at Haitong Securities as head of delta one, ETF and cash equity trading.

Before this, he held senior positions at Merrill Lynch, J.P. Morgan and Morgan Stanley.

The appointment follows the hiring of Ana Concejero to head SPDR ETFs in Spain earlier this month.

Tobin said: "While assets under management in the European ETF market currently represent less than 7 percent of the mutual fund market, ETFs represent the fastest-growing segment, with assets increasing by over 30 percent year-to-date."

Miholich commented: "Alongside traditional core equity and fixed-income exposures, investors in the Nordic region are turning to ETFs to deliver strategies that were traditionally the domain of active managers, like factor, thematic or smart beta investments."

Deutsche Boerse has secured UniCredit's Theodor Weimer as CEO for a three-year term.

Weimer begins his new role in January, and will take over from Carsten Kengeter, who will leave Deutsche Boerse at the end of 2017.

At UniCredit, Weimer has been spokesman of the management board of HypoVereinsbank since 2009.

He joined the bank in 2007 as UniCredit Group's head of global investment banking, based in Munich.

Joachim Faber, chairman of the board, said: "Theodor Weimer has strong leadership skills and possesses many years of capital market experience–I am very pleased that he will take over the CEO role."

Alongside Weimer's appointment, the board also extended the contracts of Andreas Preuss as deputy CEO and Jeffrey Tessler as head of Eurex and Clearstream.

Preuss is responsible for IT, operations, the data business and the subsidiaries EEX and 360T.

Tessler is responsible for clients, products and core markets of Deutsche Boerse's highest-earning business segments.

Kengeter announced last month that is stepping down as CEO amid an ongoing investigation into insider trading activity. At the time, Deutsche Boerse said he had taken the decision to allow the firm to focus on business, clients and growth, and to avoid further burdens caused by the ongoing investigation.

Faber said: "On behalf of the entire supervisory board, I would like to thank Carsten Kengeter, who established strong new strategic direction for the company in a difficult time and enhanced the company's competitiveness." AST

asset servicing times

www.assetservicingtimes.com

Twitter: @ASTimes_

Acting Editor
Stephanie Palmer-Derrien
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Deputy Editor
Becky Butcher
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6018

Reporter
Theo Andrew
theoandrew@blackknightmedialtd.com
+44 (0)203 750 6019

Editorial Assistant
Jenna Lomax
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

Contributors
Drew Nicol and Barney Dixon

Designer
James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)203 750 6021

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

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

Published by Black Knight Media Ltd