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Conference Special

There's something about Switzerland

As it has for centuries, Switzerland remains an essential hub for international banking. But now, its asset servicing and technology offerings make it a financial leader of the world

GMEX adds new digital asset custodian capabilities

GMEX Technologies (GMEX) has launched ForumCustody and ForumWallet, part of the GMEX Fusion product suite, to include digital custodian and vault capabilities.

The ForumCustody system is being deployed by multiple exchanges and custodians. It can be hosted and run independently from the associated trading system, with a direct blockchain adaptor interface to the ledger allowing connectivity between different nodes.

The system uses standard cryptocurrency wallets or interfaces with third-party wallet subsystems for receipt of incoming coins and transfers out to standard cryptocurrency wallets.

ForumCustody manages internal balances and locks withdrawal requests until confirmed. It also handles multiple types of digital assets, including security tokens, with inter-bank message flows to facilitate settlement downstream and upstream messaging to the exchange.

ForumWallet can be deployed by an exchange or third-party custodians linking to their internal cryptocurrency and digital asset storage, or by external third-party providers looking to provide wallet sub-systems.

All wallets are created automatically and managed by the ForumWallet subsystem. Wallet keys and key backups are stored with strong encryption including configurable periodic key rotation.

The ForumCustody and ForumWallet framework can also be used to tokenise existing securities and assets, as well as facilitate deposits into storage wallets, with trading and withdrawals into external wallets as required. The GMEX Fusion suite also includes ForumClear, the real-time risk-based clearing system, delivering functionality such as position keeping, credit checking and margining plus proven digital exchange capability.

GMEX Fusion delivers digitally-enabled hybrid trading and post-trade solutions for exchanges, clearing-houses and central securities depositories.

Hirander Misra, CEO of GMEX Group and chairman of GMEX Technologies, commented: “We are delighted to extend GMEX Fusion to provide the digital custodian product suite, which satisfies the growing demands for digitally enabled market infrastructure.”

Tony Harrop, CEO of GMEX Technologies, said: “This extension is part of the full GMEX Fusion hybrid exchange trading and post-trade product suite that addresses the increasing need for centralised and distributed technology to be implemented together.”

assetservicingtimes

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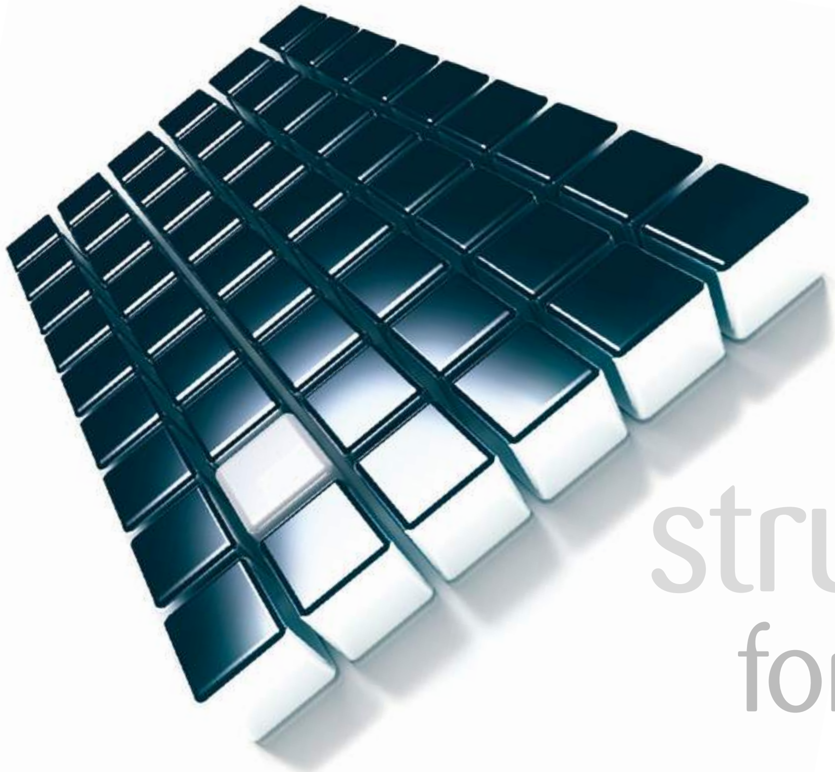

Vontobel offers new custody solution for digital assets

Vontobel is now offering wealth managers in Switzerland an end-to-end service for digital assets, Digital Asset Vault.

Swiss banks and asset managers can now issue instructions for the purchase, custody and transfer of digital assets easily and securely within the banking infrastructure.

According to Vontobel, Digital Asset Vault is an alternative for personally registering with providers of digital assets and the custody of the same. The holding of private keys is no longer required.

Clients can buy, sell or transfer digital assets by issuing instructions to their regular bank, with global and best execution. A consolidated overview of traditional and digital assets and asset classes is included in the client's statement of assets, providing a clearer list for tax purposes.

Digital Asset Vault is based on the hardware security mode technology and is integrated into its own banking infrastructure.

Vontobel is the third-largest provider of business to business services in Switzerland in the area of custody and execution.

Roger Studer, head of Vontobel investment banking, said: "Digital Asset Vault represents the logical next step in the development of our range of services for digital assets. With our innovative strength and experience, we have thus closed the gap between existing and digital assets."

He added: "By incorporating digital assets into our own banking infrastructure, we have also become the first provider to already meet the high standards required by financial intermediaries and their regulators."

Hong Kong and Luxembourg sign fund agreement

The Securities and Futures Commission (SFC) of Hong Kong and the Commission de Surveillance du Secteur Financier of Luxembourg have signed a fund agreement.

The agreement provides a framework for the mutual recognition of covered funds offered, marketed and distributed to the public in Hong Kong and to retail investors in Luxembourg.

It serves as a facilitator for the approval and marketing of investment funds in both jurisdictions.

Denise Voss, chairman of The Association of the Luxembourg Fund Industry (ALFI), commented: "Luxembourg and Hong Kong have a long-standing tradition of cooperation."

She added: "In recognition of the strength and quality of the UCITS regulatory framework, as well as the level of investor protection that it offers, many asset managers in Hong Kong have established UCITS funds which they have managed and distributed in the EU or in Asia for quite some time."

"As an open market, Hong Kong, in particular, has welcomed UCITS funds, subject to the SFC's approval. In turn, Luxembourg, as the second-largest fund domicile in the world, and a premier centre for private banking and insurance business in Europe, offers an opportunity for Hong Kong asset managers who wish to enter this market."

"This [agreement] will prove very useful to asset managers and will help to deepen the existing bonds between the two jurisdictions."

Marc-André Bechet, director of legal and tax affairs at ALFI, said: "The [agreement] brings two top-tier international fund centres closer together. It sets out clear rules for those investment funds and management entities eligible under the [agreement]."

He added: "Not only will funds benefit from a streamlined process when filing applications for approval by the local regulatory authority, it significantly reduces the timeline for approval and provides a clear advantage in terms of time to market."

Broadridge and ICJ join forces for blockchain proxy voting

Broadridge Financial Solutions and ICJ have conducted the first proof of concept (PoC) of blockchain-based proxy voting in Japan, using Quorum as the underlying distributed ledger technology (DLT).

The validation was performed in a test environment in which the role of local custodians, global custodians, the central securities depository, and local transfer agents was simulated.

The final positions of these organisations were loaded on the ledger and reconciliation was performed using smart contracts.

Broadridge said the result demonstrates that if position management is performed on a ledger for the purposes of proxy voting, the ledger could also be used as the single source of truth for subsequent data reference needs, resulting in the reduction or elimination of complex reconciliation processes.

ICJ and Broadridge concluded the project in November 2018.

According to Broadridge, blockchain is ideally suited to streamline and automate complex reconciliation processes in the chain of custody, which exists in the Japanese proxy market.

Patricia Rosch, president of investor communication solutions, international at Broadridge, said: "The successful completion of the Japan market DLT-based voting platform PoC builds on our investment in leading-edge technology solutions in the investor communications space."

She added: "The Japan project validated our view on how an interoperable blockchain platform can play a central role in raising corporate governance by creating end-to-end vote transparency and driving operational efficiency in light of the unique processing requirements in Japan."

Shigeo Imakiire, president of ICJ, commented: "The PoC is a first step to deploy and utilise this new technology, and we will continue to pursue a path in enhancing the efficiency and transparency of the voting process in Japan, which involves a variety of domestic and global market players."

SEI looks to boost analytics offering

Fund administrator SEI is focusing on leveraging investor data to boost its analytics offering.

SEI is currently working with clients to develop a proof of concept and build the product, though no launch or release date is currently scheduled.

Colleen Ruane, director of data analytics, investment manager services division of SEI, said: "Boosting our analytics offering is our next step, and we're looking to do so in a way that complements our overall product and solution strategy."

She added: "We have a well-documented strategy around building out our investor platform, which includes our reference data management platform, Investor Dashboard (part of our end-client experience) and SEI Trade, which is a product that we use to help digitise and streamline the investor onboarding process."

"We're looking to analytics as the natural evolution of that platform, as a way to tie together all of the data and information we collect and manage, and as an opportunity to extract additional value out of that data on behalf of our clients, while also prioritising and complying with data privacy regulations."

HKEX enhances DS programme

Hong Kong Exchanges and Clearing Limited (HKEX) has enhanced the designated specialist (DS) programme for its exchange-traded products (ETPs), which include exchange-traded funds (ETFs).

The programme has been enhanced to permit global liquidity providers that are not its securities market makers (SMMs) to participate in ETP market making activities. According to HKEX, the enhanced DS programme opens up new opportunities for non-SMMs to enter Hong Kong's growing ETP market while increasing the range of potential liquidity providers.

To become a DS, participants must be a corporate client of an SMM.

Participants must also have an entity licensed by, or registered with the Securities and Futures Commission (SFC) for Type 1 or Type 2 regulated activities under the Securities and Futures Ordinance, or licensed or registered for similar activity by an overseas authority having a memorandum of understanding with the SFC for the sharing of market surveillance information.

Alternatively, it should be an entity which is a licensed bank regulated by an authority acceptable to HKEX, or an entity which has maintained a current long-term credit rating of A- or above (Standard & Poor's) or A3 or above.

A participant can also be eligible if it has maintained a paid-up capital of at least $50,000,000 and shareholders' funds of at least $100,000,000.

Brian Roberts, HKEX's head of exchange-traded products, said: "The enhancement to the DS programme allows non-SMMs to expand their market-making presence in Asia and further deepen the liquidity pool in Hong Kong ETPs."

He added: "This is an important step in providing investors with a globally competitive ETP marketplace in Asia."

FCA: UK custody market working well

The UK custody market is working well in pricing bundled services, despite the small number of providers, according to the Financial Conduct Authority (FCA).

The FCA made the comment in its Investment Management Sector View, in which it surmised: "Our work in this area suggests that in general, the market is working well despite the small number of providers."

However, it suggested that some asset managers could be overpaying for bundled custody and investment administration services.

It explained: "This may be particularly relevant in some areas of service provision, such as foreign exchange transactions."

Given the current macroeconomic environment, the FCA said: "The likelihood of this concern is going to be low, as there are no anticipated changes in the custody bank or ancillary services landscape." The FCA also highlighted the potentially significant effects outsourcing providers could have on a wider range of firms that rely on them.

It said: "Outsourcing to third-party technology providers is growing, meaning that the proportion of assets potentially affected is increasing."

It added: "Any increase in levels of outsourcing, which could exacerbate the likelihood of firm or technology failure, may be offset by an increased regulatory focus on third-party service provision oversight."

Temenos partners with Bloomberg

Temenos has collaborated with Bloomberg to deliver contingency Net Asset Value (NAV) calculations to buy-side institutions.

The company will make its Temenos Multifonds Global Accounting product accessible via the Bloomberg Terminal.

It will operate with data, analytics and other investment workflow services Bloomberg offers.

The offering allows asset managers to generate NAV estimates independent of and in parallel to their fund administrators.

According to Temenos, this enables accurate daily oversight and ensures continuity of operations in the event of outages.

Jean-Paul Zammitt, global head of financial products, Bloomberg, said: "This strategic collaboration with Temenos enables us to help buy-side firms meet their need for dependable and independent NAV oversight, to support operational contingency plans and satisfy investors."

"By combining Temenos' distinctive accounting capabilities with Bloomberg's data and services, we will provide asset managers with a more comprehensive investment lifecycle workflow, support their relationships with fund administrators, and pave the way to deliver additional innovative solutions to buy-side institutions in the future."

Max Chuard, CFO and COO of Temenos, commented: "We are excited to partner with Bloomberg, whose capabilities and expertise in the buy-side space are proven and trusted."

"For Temenos there is the opportunity to grow our reach among asset managers, who already use Bloomberg's buy-side solutions, as well as alternative investment segments such as hedge funds."

Catena and CME team up

Catena Technologies has expanded the capabilities of its TRACE Reporting solution through integration with CME Group's North American and European trade repositories.

The integration with CME Group will allow TRACE customers to report derivative trades to European, US, and Canadian regulators via CME Group, building on existing support for Australian regulatory reporting. The system manages the end-to-end reporting and reconciliation by automatically capturing, calculating, enriching, transforming, and submitting the required information to trade repositories. It can also reconcile trade repository data with a firm's in-house and external data sources.

Catena TRACE Reporting manages all functional requirements for trade reporting, including cross-asset coverage, valuation and collateral reporting, reconciliation, and multi-jurisdiction support, including European Market Infrastructure Regulation and the second Markets in Financial Instruments Directive.

Randall Duran, chairman of Catena Technologies, said: "We see a major opportunity to help financial firms in North America and Europe fulfil their global regulatory trade reporting obligations and address upcoming reporting changes. Many of these firms have issues with delegated reporting and third-party trade reporting services that have limited capabilities."

He added: "Working together with CME Group, Catena is able to provide a solution that improves customers' operational workflows and provides an end-to-end solution that addresses the full range of regulatory compliance needs."

Jonathan Thursby, head of global repository services, CME Group, commented: "Working together with leaders like Catena to improve the accuracy of trade reporting and reduce operational costs will bring clear benefits to our customers. As a global leader and operator of trade repository licenses, spanning Australia, Canada, EU and the US, CME Group can offer a common experience and broad expertise to optimise trade reporting."

Aaron Hallmark, CEO of Catena Technologies, said: "TRACE's automated reconciliation, in-line data quality controls, and dashboard monitoring capabilities, together with CME Groups' strong technology and operations, can help customers overcome these challenges."

SANNE opens new Tokyo office

SANNE has opened a new office in Tokyo, Japan.

SANNE's Tokyo office was operational from the start of this year and will initially focus on servicing existing real estate clients in the region while continuing to offer core services for alternative asset managers.

According to SANNE, the opening of this new office expands SANNE's strong network of offices across the Asia Pacific region and adds further capability and scope to the services SANNE can offer its clients.

SANNE first established a presence in Asia in 2010 when it opened offices in Shanghai and Hong Kong, further opening a Singapore office in 2014.

SANNE has also appointed Mark Bennett as country head of SANNE's Japanese business.

Mark Law, managing director of the Asia Pacific and Mauritius at SANNE, said: "We are delighted to establish a new presence in an exciting market like Japan. This is in direct response to client demand and will serve to further add to our already well-established Asian office network and market expertise.As an important global financial centre for alternative assets, our new office will be key to servicing our global and local institutional asset management client base. I am also delighted to see Mark Bennett join SANNE as country head of SANNE's Japanese business. Mark Bennett brings a huge wealth of talent, experience and expertise in the institutional asset management space both in Japan and across the region."

Commenting on his new role, Bennett said: "Joining SANNE and heading up its new Japanese office is an exciting opportunity."

He added: "SANNE has been on a very strong path of continued growth over the past few years and establishing a foothold in Japan further reinforces our continuing growth aspirations. I look forward to working with my new colleagues in Tokyo and wider colleagues across SANNE."

TriOptima launches triCalculate

TriOptima has launched triCalculate IM Analytics to provide insight into the options for initial margin (IM) calculation. The new product also helps with the identification and prioritisation of in-scope counterparties and aids trading decisions to reduce future IM costs. The service supports organisations that are in-scope for phases four and five of the initial margin requirements, which come into effect in 2019 and 2020.

The triCalculate IM Analytics service supports the Standard Initial Margin Model versus schedule decision-making process and is the latest tool in a series of initial margin services offered by TriOptima.

TriOptima's triCalculate IM Analytics, triResolve and triResolve Margin services and AcadiaSoft's Initial Margin Exposure Manager work together to calculate IM inputs, manage margin calls and resolve disputes for in-scope firms.

Thomas Griffiths, co-CEO of triCalculate, said: "With less than a year to go until the next IM tranche, regulators will expect to see tried and tested IM calculation models supported by data well in advance of the September deadline."

He added: "However, many firms are currently unaware if they will be affected, let alone what they need to do to meet the demands. triCalculate IM Analytics helps clients achieve compliance, overcome challenges and evolve with the market."

RBC IT&S appointed depositary of AMOAI

RBC Investor & Treasury Services (I&TS) has been appointed depositary of Asset Management One Alternative Investments (AMOAI), the first global Luxembourg domiciled infrastructure debt vehicle, Cosmic Blue PF Lotus FCP.

Japan's AMOAI and RBC I&TS will provide depositary, fund administration and transfer agency services to the new reserved alternative investment fund launched by AMOAI. Hironobu Nakamura, CIO at AMOAI, commented: "RBC's experience servicing private debt and infrastructure debt funds in Luxembourg, as well as its broader funding and banking services, made it the right partner for our needs."

Andrew Gordon, managing director of Asia at RBC I&TS, said: "RBC I&TS is a specialist in asset servicing for real estate, infrastructure, private equity and private debt funds and provides support through every stage of the investment lifecycle."

IHS Markit and AcadiaSoft deliver IM solution

IHS Markit has partnered with AcadiaSoft to help the non-cleared derivatives community comply with margin regulation. Potentially, more than 1,000 firms will be brought into scope in phase four (September 2019) and phase five (September 2020).

In connecting their platforms, the integration will help shared customers of IHS Markit and AcadiaSoft achieve straight-through processing (STP) for the entire margin lifecycle, which includes negotiating margin terms, calculating the initial margin for each trade, and valuing and exchanging collateral daily. Key contractual terms from margin and custodial agreements generated by IHS Markit will be transmitted to AcadiaSoft's Agreement Manager, and risk sensitivities calculated by IHS Markit will power the Initial Margin Exposure Manager, part of the AcadiaSoft Hub.

Margin reconciliation data from AcadiaSoft will be channelled to users of the initial margin calculation and collateral management services from IHS Markit.

Nosheen Amir-Ebrahimi, managing director and product head, derivatives data and valuation services at IHS Markit, said: "The regulatory requirements for initial margin are complex and to meet fast-approaching compliance deadlines, phase four and five firms need to have the right technology in place as soon as possible."

Chris Walsh, CEO of AcadiaSoft, commented: "A cornerstone of AcadiaSoft's strategy is the ability to integrate with key vendors to provide effective straight-through solutions that are simple to adopt."

Darren Thomas, managing director, regulatory and compliance at IHS Markit, said: "The integration of Margin Xchange from IHS Markit to automate and structure complex margin and custodial legal agreements and store contract data with AcadiaSoft brings together all the necessary components for STP across the margin lifecycle."

Asba to acquire Soc Gen's custody services

Absa Group is to acquire Societe Generale's custody, trustee and derivatives clearing services operated in Johannesburg.

Asba agreed to acquire the related activities conducted by Societe Generale's in South Africa, notably its client portfolio, IT systems and all the employees dedicated to these activities.

The transaction is subject to the approvals of the relevant authorities, which are anticipated to be obtained by 2019. Meanwhile, the securities lending and borrowing services are not part of the transaction and will be terminated by end of March 2019.

Maria Ramos, Absa Group CEO, commented: "For Absa, the acquisition supports our growth strategy in Africa. The transaction allows Absa to re-establish a firm foothold in the custody and trustee services market and provides us with the opportunity to expand our offer to corporate clients in South Africa."

She added: "Our strategic intent is, in time, to provide these services across markets where we have a presence."

BNY Mellon sees slight drop in asset servicing figures

BNY Mellon recorded a year-on-year decline of 2 percent for its asset servicing business for Q4 2018, with revenues of just over $1.4 billion.

Commenting on the decrease, BNY Mellon stated the fall in revenue was due to "lower client assets and activity and the unfavourable impact of a stronger US dollar".

However, full-year revenues from the asset servicing business did reach over $4.6 billion, up 5 percent in comparison to the full year of 2017. The bank also recorded a decline in assets under custody.

As of 31 December 2018, BNY Mellon had $33.1 trillion in assets under custody and/or administration, and $1.7 trillion in assets under management. It said the decline in assets under custody mirrored "lower market values", as well as the impact of the US dollar.

Overall, BNY Mellon reported total revenue of $4.0 billion, an increase of seven percent compared to Q4 2017.

Total investment services revenues, which includes revenues from asset servicing as well as clearing and collateral management businesses, increased 3 percent over the year to $3 billion.

Charlie Scharf, chairman and CEO of BNY Mellon, commented: "The underlying performance of our businesses was mixed as our revenue declined, but we continued to maintain strong expense discipline. In addition, we benefited from a lower tax rate and our ongoing ability to return capital to shareholders through buybacks. As we look forward, we are cautious regarding how the economic and market environment will impact our business in 2019. We will remain keenly focused on managing our expense base. Our ongoing drive toward efficiency will allow us to continue to increase our investment in technology and infrastructure without meaningfully impacting the total cost base."

CSC extends fund administration reach into Asia Pacific

CSC has extended their private equity and real estate fund administration services into the Asia Pacific (APAC).

Liam McHugh, fund administration managing director at CSC, will be responsible for heading the expansion into Asia.

Prior to joining CSC, McHugh served in various executive capacities at Apex Fund Services and Equinoxe Alternative Investment Services in the APAC region and Ireland.

CSC explained third-party oversight of private equity and real estate funds is increasing due to the growing demand from investors for greater transparency and regulatory requirements.

Bill Popeo, president of CSC's global financial markets business, said: "A number of factors are creating opportunities in the private equity market in Asia, including strong deal growth, increasing reporting demands from investors, and pressure to commit unspent capital."

Citi appointed as custodian for Indeval

Citi has been appointed as custodian and tax services provider for the US assets of Indeval's international quotation system (SIC).

The SIC programme was created by the Mexican Stock Exchange, Bolsa Mexicana de Valores (BMV), and Indeval, the Mexican Central Securities Depository (CSD).

It was created in order to provide investors access to international securities and further develop the local capital market.

The consolidation of the US assets under Citi as the single provider successfully went live in December last year.

According to Citi, this new mandate builds on the existing relationship between Citibanamex and Indeval and represents the majority of the assets listed on the SIC.

Roberto Gonzalez Barrera, CEO of Indeval, commented: "Indeval demands the highest levels of operational efficiency and transparency. High performance is critical for our business, as we serve a large number of investors every day."

"Citi's local presence, commitment and long-term experience in the US and Mexico will help us provide the highest standard of service that our customers have become accustomed to."

Sanjiv Sawhney, Citi's global head of custody and fund services, said: "We are proud to have been selected by Indeval to provide custody and tax services for US securities." **AST**

Keeping up the pace

Industry participants discuss how the role of the transfer agent is changing because of regulatory and technological developments

How has the role of the transfer agent changed?

Clive Bellows: The role of the transfer agent (TA) has evolved significantly over the last 10 years or so. Custodians offering transfer agency services are transforming their models to meet the needs of their clients, while some are pulling out of the TA space entirely. However, asset managers and asset owners still want custodians who provide a core TA product offering. For some asset servicers, this will mean re-hauling or replacing legacy systems. For Northern Trust, this means creating solutions for our clients which are smarter, faster and utilise the most up to date technologies.

Clients also want the ability to engage with their TA providers on a range of ancillary services—from anti-money laundering (AML) regulations to new cross border distribution strategies. It is an important time for transfer agents as they deal directly with the end investor and are therefore a visible extension of the fund manager and their brand.

Mateusz Derejski: The answer depends on the time period. Over the last five to 10 years, TA processing has become bread and butter; no one complains about the complexity of TA processing anymore. Straight-through processing (STP) rates have increased to the point that 80 percent or more of transactions is now STP. The role of the TA has changed from mainly processing to value-add services, in order to provide solutions support and to provide client service. So, processing has changed from highly manual 20 years ago to fairly automated today. Global distribution has caught up with local distribution in terms of the level of automation. Global distribution has become very sophisticated; someone who can support global distribution needs to be quite sophisticated in terms of infrastructure as well because they need to support everyone from Australia to Chile. They need to be able to support order routers like NSCC, Calastone, Allfunds, Clearstream, Fundsettle and others.

AML regulation and tax regulation have changed the role of the TA significantly, as there is now a focus on AML know-your-customer (KYC) and a continuous push towards transparency. The ultimate beneficial owner (UBO) has also definitely changed TA. There used to be one person in KYC for 10 people in dealing and now it is 10 in KYC and one in dealing. There is recognition of the value TA brings to KYC now, especially in the alternative world. The next step in TA evolution will be providing KYC as a service, and in fact, this has already started happening. Certainly, on the alternative side, you have quite complex investor structures, and the value of good KYC service is being recognised.

How are transfer agents struggling to keep up with the pace of developments in technology? And do you think blockchain or other disruptive technologies will make the transfer agency role redundant?

Bellows: Innovations such as blockchain and distributed ledger technology have brought rapid change and development to the business. New entrants specialising in TA have sought to disrupt traditional custody banks, sparking discussions of disintermediation.

Despite this, it is important to note that established TAs are better positioned than newer entrants to meet the complexity and increasingly cross-border nature of clients' business and transactions. Technology must also be embraced in the same way as it is by the newer entrants. Northern Trust is currently one year into a four-year transformation programme which will provide unique client experiences. The programme will offer new services for all types of funds, particularly those offshore and provide near/real-time data visibility for all their TA activities in a format of the clients' choice, for example, desktop, tablet, mobile and app enabled.

> *Transfer agency is an area that has benefitted from innovation and it is only right that we leverage the latest technologies where possible to improve the client experience*
>
> Clive Bellows, head of global fund services EMEA
> Northern Trust

Derejski: Transfer agents are not struggling to keep up with technology because I do not see new technology being developed; rather there is just more automated replication of existing processes. Who does really have blockchain in production, except for in-house initiatives? There is no universal blockchain standard for a TA transaction for fund share between clearing houses or between exchanges. It does not exist yet. What do exist are individual standards, which do not add value, so presently it is better to just use SWIFT.

Lack of blockchain standard reminds me of the early days when Allfunds and SWIFT each had their own protocol until everyone agreed on a standard and started using SWIFT, which allowed us to reach 80 percent STP. So maybe we are five to seven years away from a blockchain common standard, but first, everyone needs to agree, and that will not be easy. Every big player now uses SWIFT so there is no urgent need.

No, I do not think the TA role will become redundant because of the blockchain, but at the end of the day, it is possible. If all the information about shares is kept in one place, then the registrar role may disappear. We first need to rethink what the share register will be—we need to rethink the whole structure. We are a long way from there.

A big change agent to TA role will be regulation around KYC and ownership transparency. The EU just introduced a universal register of UBOs. Another big change will be tax liability; TAs are waking up to this.

With fintech changing the way transfer agents operate, how can transformative technologies be regulated without stifling innovation?

Derejski: I have not seen fintech changing the way transfer agents operate yet. The only things that are starting to happen are data provision, automation of operations and better reporting. We are not yet at the point where TAs can provide a single, simplified, coherent view of all meaningful data to the asset manager. Hence data science and good data presentation will become very important. The regulation does not regulate the technology; regulators define requirements and control the way things are done in the financial sector. Technology itself is not regulated. It is the regulation of the industry that creates the need to adopt innovative solutions to help the TAs change the way they operate to be more efficient in meeting regulatory requirements. Innovation helps but innovation alone does not change the industry, the regulation does. Legislators and regulators will always be behind when it comes to technology because innovation as such is not in their focus.

Bellows: Transfer agency is an area that has benefitted from innovation and it is only right that we leverage the latest technologies where possible to improve the client experience. Much of the innovation we have seen in recent years has been at least partly due to regulation. The two must work together and the best solutions are those that have practical, compliant applications. Regulation to protect the client should not be at the expense of innovation and development and if technology can provide a more secure and efficient client experience then regulators should also benefit.

Are you seeing transfer agents merge with software firms to keep up technology developments and innovation?

Derejski: Not really. There have been some transactions over the past few years, but I do not see a trend yet. However, one notable exception is SS&C Technologies which offers both services and software in a SaaS model. They have grown through acquisitions with some sizeable transactions over the last ten years or so, and have recently acquired DST Systems. There were also some recent direct investments in fintech companies by large asset managers, but these are exceptions rather than the trend. Look at banking, traditional brick-and-mortar banking is dead. It shows you how quickly the world has changed. So I think that many big players in the asset servicing industry are now considering what their role will be in this new world. Some players are trying to catch up, and some are not there yet. The problem is that TA is not high on the priority list of big banks. The question one needs to answer is: do I buy because I want to change the business model, or because I want control? In the long run, however, I think that there will be a trend towards large groups absorbing interesting fintechs or at least working very, very closely with them.

Bellows: We have found working with best-of-breed partners to be an effective way to lead on industry innovation. It also brings new ideas to the table as well as new ways of working. For example, Northern Trust's technology transformation programme started with the launch of a new TA portal—'UX2020'. In short, it will offer enhancements including paper-free onboarding, enhanced functionalities in online dealing, enquiries, reporting, electronic document storage and data, as well as improvements to oversight, compliance and security. This development has worked to the scale it has due to the right partnership.

With increasing levels of manpower and cost associated with regulatory compliance, it may become difficult for the smaller transfer agents to keep up. Will this result in a concentration of the transfer agency industry?

Bellows: Balancing the need to innovate with the equally important requirement of regulation can be a challenge. We have seen some providers sell their TA businesses in recent years, in part due to the cost of necessary compliance measures and others due to changing business priorities. Northern Trust remains dedicated to finding the right technologies within a regulated landscape. The test will be whether clients want to engage with smaller transfer agents and have the additional burden of managing multiple vendors.

Derejski: Yes and no. For example, just because you're a bigger agent does not mean that you can do manual regulatory compliance cheaper or faster, as it is still a manual process. The bigger agents have to train people and have controls in place. The cost of regulatory compliance is finally being recognised and appreciated. If you're a small agent, you can still do it better than a large agent, especially in the alternative space. Some smaller transfer agents found their niche in private equity because of the need for specialised (still manual) service and also because the cost pressure is a bit less intense there. So, this may result in the concentration of plain vanilla services, but for specialised services no, I do not see it. The only way large transfer agents can effectively automate manual processes around KYC, KYD, and transparency is to use technology to transform those processes in the first place. This is costly and requires going out of your comfort zone, so only a very few are doing it. There are not many small TAs left anyway.

> *I think that transfer agents will still exist not only in five years but in ten or more, because someone needs to perform AML, KYC and onboarding*
>
> Mateusz Derejski, country head of Poland
> Metrosoft

How do you see the transfer agency role changing over the next five years? And do you think it will still exist in five years' time?

Bellows: TA providers should be able to offer strategic insight into market nuances for clients around the world. They should be considering cross border distribution and a truly global model that can be delivered locally via real-time services. Speculation of TA's disintermediation or even extinction is exaggerated. Investors want to work with custodians who not only provide the solutions they need, but who are strategic partners. They want to see service providers integrate systems, standards and people to create tighter and better efficiencies. They want their providers to be flexible, responsive, and attentive.

Derejski: The role will not change dramatically; the increasing focus on regulatory compliance will continue. On the transactional side not much will change, STP will increase a bit but will not reach 100 percent. Some percentage of manual transactions will remain because of new markets one goes into or because of some immature buyers. On the registrar side, the main change will be in regulatory compliance: there will be more work, more transparency requirements, and more reporting. I do not think that industry standard blockchain is going to happen in the next five years.

Yes, I think that TA will still exist not only in five years but in ten or more, because someone needs to perform AML, KYC and onboarding. Eventually, there needs to be recognition of the value TA adds to be compliant with regulators. There is really no choice, you are either compliant or not. AST

There’s something about Switzerland

As it has for centuries, Switzerland remains an essential hub for international banking. But now, its asset servicing and technology offerings make it a financial leader of the world

Jenna Lomax reports

Switzerland boasts a strong financial industry. Like many other financial hubs across the world, it remains conscious of cost pressures but, at the same time, is extremely capable of keeping up with the latest technology.

As Marc Briol, CEO of Pictet Asset Services (PAS), states: "Switzerland has a long-standing banking tradition. The country boasts a highly-developed and well-regulated financial market."

Briol adds: "The custody industry, and to a larger extent, the whole financial sector has been transformed by the development of digital. Fast access to accurate data is now seen as a competitive advantage. Investment managers need, and expect, a consolidated overview of a large amount of data, without any loss of information."

Wim Van Ooijen, country head Switzerland at Northern Trust, explains that there is an "ongoing desire" for further efficiency in the "cost-conscious" Swiss custody market.

Van Ooijen suggests: "The custody market is evolving rapidly. New technologies and solutions such as distributed ledger technology enabling blockchain is a good example of this."

Another financial trend growing in Switzerland is the broader need for transparency, from both a cost and investment reporting perspective, according to Briol. While another consideration is the need for environmental, social and governance (ESG) awareness.

Briol reveals that one of Pictet's key focus areas for this year will be the release of ESG reporting to its institutional clients.

Pensions

As aforementioned, Switzerland is also using the advancements of technology across its fund structures, including for pension funds.

Briol suggests that there is a growing demand for "hybrid solution such as fund structures, combined with global custody solutions for pension funds or setups for asset managers that are managing both high-net-worth individuals portfolios and mutual funds".

He adds: "The whole industry will go through more difficult times and we must at Pictet make sure that our pension funds and asset managers can fully focus on their core business while we handle the main asset servicing related challenges ahead."

"Given the sophisticated pension fund landscape in Switzerland, clients are rightly so extremely demanding and sharp in their expectations concerning reactivity, asset servicing expertise, analytics and IT solutions."

Technology

The industry has experienced a global technology revamp in recent years with the introduction of new technologies and products, however, Pascal Thorens, managing director, Switzerland, global client coverage, RBC Investor & Treasury Services, explains that Switzerland is considered to be "a world leader regarding blockchain technology, with global players located in Zurich and Zug".

> *The industry has experienced a global technology revamp in recent years with the introduction of new technologies and products*

Van Ooijen suggests that this is down to the "very high quality and knowledge of industry professionals and asset servicing talent".

However, he explains that further professionalising the entire value chain of investments and utilising the full possibilities of modern and new technologies is a generic challenge which Switzerland faces.

He adds: "Asset servicing, in general, is a highly technological driven business requiring continuous investment to stay in line with clients, regulatory and broader infrastructural requirements. The possibilities new technological advancements are bringing are really exciting."

"At Northern Trust, we understand our clients continue to face pressures that impact their business models which offer both challenges and opportunities in Switzerland. The winning providers will be those that can sufficiently focus on asset servicing as a real priority in light of these increasing demands and have the required and appropriately suitable, scalable and flexible technology infrastructure to support it."

Valerio Roncone, head of product management and development of SIX Group, says that Switzerland's outstanding competitiveness is down to "the innovation strength of the domestic and foreign companies domiciled there, which invest heavily in research and development to supply leading-edge technology for world markets".

He continues: "This success also stems from a series of economically beneficial factors and attractive operating conditions that help to persuade a large number of international companies to relocate to Switzerland. Switzerland is now one of the highest-performance financial centres in the world. We want this situation to continue."

SIX announced in July last year that it is building SIX Digital Exchange, a fully integrated trading, settlement and custody infrastructure for digital assets.

Roncone states: "SIX Digital Exchange will be the first market infrastructure in the world to offer a fully integrated end-to-end trading, settlement and custody service for digital assets."

He adds: "The service will provide a safe environment for issuing and trading digital assets, and enable the tokenisation of existing securities and non-bankable assets to make previously untradeable assets tradeable."

Brexit

The ongoing uncertainty around the UK leaving the European Union has positioned Brexit as a top systemic risk concern for this year, according to a survey, published by The Depository Trust & Clearing Corporation published late 2018.

Close to half of the survey's respondents (49 percent) cited concerns around the significant risks attributed to Brexit as one of the top five risks for the industry in the coming year, as the March 2019 Brexit date quickly approaches. However, Switzerland is not a member state and is not part of the EU, so to what extent will it be affected, if at all? Briol explains that Brexit is not a major worry for Switzerland. He said: "From a Swiss perspective, we are not really concerned as Switzerland is not part of the EU. We also believe that bilateral solutions with the UK will be set up to handle the issue."

A question of equivalence

Switzerland was held with bated breath before Christmas, as time was running out for Swiss equivalence. The one-year period previously granted in December 2017 was set to expire on 31 December.

Anne Plested of Fidessa explained its importance to the country in a blog released on 3 December 2018, in which she affirmed: "Switzerland needs equivalent third-country status in order to preserve the status quo and allow EU trading participants bound by the second Markets in Financial Instruments Directive to continue accessing the Swiss market locally in the EU. The Swiss government's Federal Council continues to believe that all the conditions, assessed as recently as [2017], are still met for recognition by the EU. They have been holding out for a timely extension, but as yet despite this faith, no equivalence of Swiss stock market regulation has been granted nor promised."

The agreement has now been extended to June 2019, but Swiss banking associations continue to fight for an indefinite recognition. AST

Firms must embrace digitisation to remain relevant

Vincent Kilcoyne of SmartStream reveals his technology predictions and why no one within the fintech industry can afford to stand still where innovation is concerned

What technology trends are you seeing in the asset servicing space at the moment?

There's greater uptake in cloud-hosting capability. Because there is an increasing focus on cost ownership, people in the service capability sphere are increasingly wanting to develop relationships with organisations, such as SmartStream, that not only specialise in software but also software services.

Previously, organisations would go through lengthy decision making, with a lot of concern around implementation timeframes, footprint and budget, but now the main concern is supplying faster services. Many firms have cloud strategies in place as there is more of a willingness to look at the direct benefit to the business.

There are also regulatory initiatives, but they'll never change. However, there's also operational excellence, and an interest in taking industry best practice approaches—not only across the buy-side but across the sell-side too.

How is the digital payment space evolving?

Extremely quickly. We recently announced a new initiative called TLM Aurora, to provide new standards in digital payments control. Financial institutions are at an evolutionary point. The industry itself is changing radically. There's also an incredible growth of the disintermediation community who are predominantly looking at payments and transfers.

The banks need to evolve to be able to compete with them, even though they're providing services to those services providers. As a bank, it's possible that my services are being provided to you by an intermediary and they are getting all of the margin, and I'm having to do the operational part.

So what are the concerns or challenges of this?

The concerns are margin erosion and a recognition that the only way in which organisations can survive in this new emerging economy, is for them to have high levels of automation and extreme agility, with the ability to onboard a new service provider, a new payment gateway and new formats with extremely high levels of service.

A fintech or intermediary doesn't have the same loyalty challenges as customers—they measure the relationship between themselves and a bank who are increasingly seen as utility providers, from the quality of service, the speed of turnaround and service level agreements. They are much more quantitative in their assessment of the relationship. The banks have to be able to meet that level of demand.

There's also the challenge of different speeds of evolution and innovation geographically. East Asia and China, versus what's happening in Europe for example. In Europe we have multi-speed and this is being embraced by one demographic, but you have another part that won't embrace it.

Banks have to be able to operate in a multi-regulatory jurisdiction in a multi-speed customer environment and a multi-demand disintermediation environment. That's a lot of pressure. That's very much why SmartStream released TLM Aurora. We thought we would be well suited to help organisations embrace this change, service it profitably and protect the growth of the bank.

What else are you currently working on?

TLM Aurora is very systematic of what we're seeing. We talk to a lot of organisations and industry experts who say, even themselves, that it's complicated. In reality, it is. But SmartStream is utilising TLM Aurora to create a best practice implementation. You're now able to get organisations into a return and investment model very quickly. To get them back into business as usual, rather than business as unusual—getting them up to speed quickly.

Being the global head of products I'm looking at how we can help organisations understand technology changes from a practitioner and operational perspective. We're engineering our solutions now to come with a best practice approach, whether that is corporate actions, cash and liquidity or other solutions. This is very much where we're going. A lot of organisations are tired, weary and wary of multi-year implementation programmes that go live with a solution to a specified two years beforehand. They don't want to get into a massive change control programme that may never go live. They want to get operational quickly and start to gain real benefit from everything that they do.

How is SmartStream adhering to development in AI?

I spent five years working with a fintech innovator. A lot of fintechs are coming to market with credible ideas. And sadly some don't pass the relevance test. Whereas, what we do is set down with product managers for every single one of our products and discuss problems and challenges within their business line that we can use our technology to solve.

When we speak to financial institutions, they see this as being an operationally relevant implementation of the technology. We ask "what is the benefit of using this technology in reconciliations, corporate actions or cash and liquidity?". We make use cases relevant and communicate them, and position them as the value they deliver to the business. It's an incredible technology stack, that has become more relevant recently because of the sheer volume of data and the computational capability. Artificial intelligence (AI) techniques are incredibly computationally extensive. Previously, you could run an AI model that would tell you what was going to happen within an hour, the problem was, it would take you two days to do it.

Technology is so fast now, we're able to deliver the decisions, advice and guidance from an AI model in an actionable timeframe—that's the difference. The technology is making it possible to deliver within actionable time. We make sure that advice and guidance are right and relevant.

What are you working for the year ahead?

We can't stand still. One of the things that I focus heavily on is BSC248—the cash and liquidity requirement for intraday liquidity, a global requirement with local regulatory elements. We have a solution that has been approved across financial institutions. We're seeing an uptake and huge interest in that. There's also a focus on integration, this is something that we're finding a lot of senior people who traditionally used point solutions are interested in. There's been a move toward a more holistic view to see how we can leverage the capabilities of those multiple assets and multiple business lines operationally, to deliver real balance sheet benefit to the business by reusing the information within those systems. This is the combination of reconciliations, cash under liquidity and collateral to drive collateral optimisation in the front office. If you do it right, you'll lower your operational overhead because you'll have fewer margin calls—you'll reduce the margin erosion.

So fundamentally, if we're not optimising, and helping organisations optimise elements of their business, then we're not focusing on the right thing. Everything must fundamentally be an optimisation.

Do you have any predictions for this year? Are there indications concerning what way the market will go?

Digital will be one of the main elements, and there will be real growth in the volume of that business. Traditionally, people have looked at new programmes as being the risk assessment. Very few people are concerned with it all going wrong, but what if it all goes right?

People are pessimistic and wary of what might go wrong, but they don't prepare themselves for what is typically seen in the fintech community as a scale-up problem. What happens if they're very successful? Can they cater for the growth, volume, variety and the geographical and regulatory diversity? This is a real problem that the banks are encountering. I don't necessarily think they are approaching it in the right way. Increasingly they're looking at the technology providers because the speed at which they themselves can respond is not quite optimal, or sufficient.

When you engage with an institution like SmartStream, you're seeing it through the eyes of somebody who has worked with over 2,000 institutions.

That's a very different perspective. We're able to give geographical diversity. This is the change I see—the way in which banks realise they need to be able to pivot to address the geographical disconnects.

When you engage with an institution like SmartStream, you're seeing it through the eyes of somebody who has worked with over 2,000 institutions

Vincent Kilcoyne
Executive vice president of product management
SmartStream

One-stop shop

With the market facing inevitable change, Maciej Trybuchowski, CEO of KDPW, explains how the firm can help

Europe's financial market is facing an inevitable change caused by the impending Brexit. Many providers of capital market services have so far been based in the City of London. Their clients are now looking for new vendors, including providers of services under the extensive EU legislation.

A complete package of post-trading services is also available in cities other than traditional financial hubs such as Paris or Frankfurt. The services are also offered on the Polish market by the KDPW Group.

Looking at the financial market and its infrastructure it is really worth noticing how the KDPW Group built Central Europe's leading clearing and settlement infrastructure. Thanks to services offered in KDPW—the Polish central securities depository (CSD)—and KDPW_CCP—the clearinghouse—the quality and safety of the Polish financial market and its attractiveness to international investors were strongly improved. KDPW Group offers the services of an authorised central counterparty (CCP), including over-the-counter (OTC) clearing, a registered trade repository, a global numbering agency (international securities identification number, classification codes, financial Instrument short name) as well as legal entity identifier (LEI) assignment and is in the process of CSD authorisation.

However, the post-trade solutions are offered are not only for the domestic financial market. With the European authorisations and registrations KDPW Group is open to foreign clients. Raiffeisen Bank International has opened an omnibus account direct in KDPW. ABN AMRO Clearing Bank, KDPW_CCP's first foreign participant, has started to clear transactions on the Warsaw Stock Exchange's (GPW) cash and derivatives market in June 2016. As a general clearing member of the KDPW_CCP, ABN AMRO opens access to the Polish capital market for investors using the bank's global post-trade services. KDPW trade repository has participants from UK, Italy, Czech Republic, Bulgaria or Romania.

Clearing services

KDPW_CCP is authorised under EMIR (PLN and EUR) and has broad experience in extending the scope of its services. In view of its current levels of trade clearing and taking into account future volume growth and the potential to offer its services in the CEE Region, KDPW_CCP holds the necessary level of own capital, which currently stands at €55 million. The CCP's own capital is the last line of defence in the face of member insolvency and the higher the capital of the CCP, the lower the risk exposure of the remaining members. The clearinghouse performs a broad range of services in the financial market. For the regulated market, KDPW_CCP clears equities, fixed income and other cash market instruments, as well as derivatives such as futures and options based on indices, equities, bonds, currencies and interest rates. It also offers clearing of securities lending and borrowing and derivatives from the interbank market.

KDPW_CCP started providing clearing and the guarantee of OTC derivatives and repo trades as of December 2012. KDPW_CCP began in this way to process interbank trades, mainly aiming

to reduce the risk of default by trading counterparties and, consequently, to generate growth in this market sector.

KDPW_CCP added new types of acceptable collateral to the collateral management service including collateral posted as margins or contributions to funds, both in organised and non-organised trade. The new functionalities added to the existing collateral management structure include contributing cash in Euro as well as bonds denominated in Euro as collateral.

The Polish clearing house offers netting mechanism, which allows KDPW_CCP to generate one settlement instruction sent to KDPW or another settlement institution (for securities and/or cash settlement) for all operations, which credit and/or debit a designated settlement account. The implementation of netting and aggregation (directional netting) of debits and credits in securities arising from cleared transactions—concluded on the regulated market or in an alternative trading system—implies improved operating standards of the clearing process. This results in a significant reduction of the number of instructions sent for settlement while reducing the cost of trade settlement.

Trade repository services

KDPW_TR was one of the first trade repositories in Europe to be registered by the European Securities and Markets Authority (ESMA) in confirmation of compliance with all international standards, which guarantee the highest quality of service.

KDPW_TR has participated in the implementation of EMIR from the very beginning and is engaged in active dialogue with all market participants: regulators, other trade repositories, as well as reporting participants. KDPW_TR aligns its services with the legal requirements and the ESMA guidelines and follows the needs of market players covered by the reporting obligation.

KDPW_TR offers the reporting of derivative trades via a user-friendly secure website interface or over automatic direct connections. Derivatives trades are reported in messages developed in line with the scope of information required under the EMIR Technical Standards. They include all data necessary for the trade repository to identify trades and process reports as required by ESMA.

As counterparties will be required under the Securities Financing Transaction Regulation to report details of their transactions to trade repositories, KDPW is preparing to provide market participants with a new service enabling them to meet this obligation. KDPW has operated for more than two years as a trade repository under the EMIR and has the necessary experience, expertise, resources and a range of technological and procedural solutions necessary to accept and maintain trade reports. In addition, as a trade repository authorised by the ESMA under the EMIR, KDPW_TR is eligible for the fast-track authorisation procedure under the SFTR.

The ARM service

On 3 January 2018, KDPW launched its approved reporting mechanism (ARM) service.

The ARM service consists of sending trade data to the relevant supervisory authority on transactions executed as part of trading in financial instruments on behalf of entities obliged to report such data under the Markets in Financial Instruments Regulation.

Owing to delays in the implementation of the second Markets in Financial Instruments Directive, KDPW will be offering ARM services on the basis of provisions of national law incorporated in legislation on the distribution of insurance services, until KDPW obtains official authorisation from the Polish Financial Supervision Authority.

An ARM is authorised to provide services throughout the whole EU. Reports are sent by the ARM to the relevant supervisory authority, depending on the domicile of the entity with the obligation to submit reports.

LEI assigning

According to the Regulatory Oversight Committee's decision on 27 December 2013, KDPW became a local operating unit authorised to issue LEIs. Since then, KDPW has issued approximately 14.8 thousand codes to entities.

The main advantages of the KDPW LEI service include:

- Customer service in English and Polish
- Very competitive fees for the issuance and renewal of LEIs
- Prompt processing of orders
- Individually dedicated account manager for each order, available to the client at every step of the application verification process
- Automatic communicating of all events in the processing of orders
- Highly competent staff dedicated to customer service and an excellent understanding of the specificity of the Polish capital market including local legal requirements

KDPW provides LEI management services including filing applications for the issuance or transfer of an LEI with KDPW; reviewing and processing of issued LEIs, including data updates and corporate actions; reviewing of order history including payment details; downloading invoices; user account management.

Island of funds

Rebecca Xuereb of BOV Fund Services explains why Malta should be considered as the EU alternative fund domicile of choice

With uncertainties still surrounding the major political disruptor that is Brexit, it is no surprise that many financial industry players have started taking action toward creating a secure presence within the rest of the EU, while settlement over final negotiations is still awaited.

Choosing an alternative fund or fund-management domicile is no easy task and can, in fact, be considered as one of the biggest challenges facing industry players today.

There are a number of fundamental considerations involved in such decisions and Malta has positioned itself as an ideal contender on many fronts in this regard, offering a number of opportunities and advantages.

The key considerations listed below are in fact also the factors which have contributed to the growth in Malta's fund industry over the past decades, thereby making it a jurisdiction surely to be considered.

Location

The geographic location of a domicile has multiple ramifications on various other business aspects and operational considerations including the location of the end investors and ease of access to the jurisdiction in terms of flight connections and time-zone.

Located in the centre of the Mediterranean, Malta has historically always been an extremely coveted island. With both English and Maltese recognised as official languages, and multiple daily flight connections to the largest European financial centres including Switzerland, London and Germany, the island is well-positioned as an ideal gateway to Europe while leaving an open door to the financial services businesses of the Arab world.

Economic stability

The economic stability of a jurisdiction is important both in terms of the development of the fund industry itself, as well as for the reassurance of the end investors according to their risk appetites. Over the past few years, Malta has seen strong growth in its economy, with a large current account surplus which may be attributed to the country's internationally-oriented services sector. The growth in the country's GDP is forecast by the European Commission to be among the highest in the EU, at around double the European average. In fact, the country was ranked first in economic stability 2017/2018 by the World Economic Forum.

The strong economic expansion, increased employment, and favourable macroeconomic performance set to continue have also led to Malta receiving a first time, unsolicited A+ credit rating from a number of agencies including Scope Ratings and German Creditreform Rating.

Legal and regulatory framework innovation

Again, these considerations are important both from an operational perspective in terms of how the fund or fund management company can operate, as well as from the end-investors' perspective in assessing the security of their chosen investment vehicle. In this regard, it must be remembered that Malta has been a member of the EU since 2004 and is therefore fully compliant with all the relevant regulations, often being among the first EU jurisdictions to successfully adopt new EU directives. That being said, however, there is still room for variety and innovation across jurisdictions; an area in which Malta certainly does not lag behind.

With the introduction and implementation of the Alternative Investment Fund Managers' Directive (AIFMD), the Malta Financial Services Authority (MFSA) announced that although it implemented all European Securities and Markets Authority's (ESMA) guidelines on remuneration policy, it decided not to transpose ESMA's controversial guideline that AIFMs should be required to impose equivalent remuneration policies and restrictions on its sub-manager and other delegates. This renders Malta the only member state that enables outsourcing of day-to-day investment management without the risk of claw-backs of management fees paid to the delegate.

In recent years, Malta's fund industry has seen most of its growth occurring in the alternative space, through the professional investor fund (PIF) regime. This regime has easily become Malta's strongest selling point and the most popular fund structure for de-minimis managers who fall out-of-scope of the full onerous AIFMD requirements, thereby benefitting from more flexibility and a lighter regime. PIFs target 'qualifying investors' with a minimum investment of €100,000 per investor and are attractive in that they can be self-managed by a fund-appointed investment committee. There are also no leverage or investment restrictions, no custody requirements beyond adequate safekeeping arrangements and PIFs can host all alternative strategies—for example, hedge funds, private equity, real estate, distressed debt.

Notified alternative investment funds (NAIFs) are another innovative fund type, this time benefitting from the AIFMD passport, unlike PIFs. NAIFs may be seen as a fast-track solution for alternative investment fund managers (AIFMs under AIFMD), based in any EU country, to set up and launch AIFs in Malta. Here, the MFSA provides templates for the application documentation. Once such an application is submitted by the AIFM, the AIF will be included in the list of notified AIFs in good standing within ten days, subject to satisfactory vetting by the MFSA.

NAIFs are essentially unlicensed and not subject to ongoing supervision by the regulator, rather the due diligence and ongoing monitoring responsibilities are vested within the AIFM filing the notification.

Malta is also widely embracing the digital advancements within the financial services sector. The MFSA has issued a supplementary PIF Rule Book for Virtual Currency Funds, while the local government is committed to supporting Malta's positioning as a global leader in the blockchain sector with the approval of relevant legislation by the Maltese Parliament, namely: Virtual Financial Assets Act, Innovative Technological Arrangement and Services Act and Malta Digital Innovation Authority Act.

One of the most valued benefits of the regulator in Malta is the visible pro-business approach the MFSA has adopted.

The MFSA continues to be an accessible regulator and maintain a degree of flexibility in suiting the funds' needs when these fall within the relevant regulation and are still fully compliant with EU rules.

Operational and service framework

Aside from the regulatory framework, funds also necessitate a jurisdiction with a highly developed operational and service infrastructure. The quality of service providers present is important to investors and managers alike as is the availability of experienced and competent support services such as legal and accounting firms.

In Malta, this framework continues to grow with the presence of no less than 26 fund administrators, 188 company services providers and 11 depositaries/custodians. Notable is also the strong presence of all the 'Big Four' accounting firms, as well as a large number of highly specialised law firms.

Workforce

A highly skilled and competent workforce is therefore also important to maintain the good quality and reputation of the service providers present. Malta is certainly not lacking in this regard. With the presence of an excellent education system and a growing number of students continuing on to pursue tertiary education and beyond, Malta boasts a highly-skilled, hardworking and multilingual workforce.

Time-to-market and set-up and ongoing costs

The speed of set-up from fund conception to launch is another significant consideration. Moreover, the set-up and particularly the ongoing fees charged to funds are of utmost importance, especially when it comes to smaller, de-minimis structures.

Malta is an ideal domicile for such smaller funds and managers, offering less onerous and more efficient solutions both from a timeliness perspective, as well as in terms of costs.

With reference to the above key considerations, Malta clearly ticks all the boxes as an alternative European fund domicile of choice.

With no less than 600 investment funds currently based on the island, Malta has firmly established itself as the EU alternative fund domicile of choice. It is very attractive to the de-minimis fund managers who often find setting up in the more traditionally established jurisdictions such as Luxembourg and Ireland, somewhat more challenging. It is, therefore, no wonder that the island is becoming an increasingly popular choice among fund promoters and managers from all over Europe, and some other parts of the world too, with redomiciliations of offshore funds to Malta also generating increased interest over the years.

Within this context, BOV Fund Services, Malta's leading fund administrator, and a fully-owned subsidiary of the country's largest banking group, Bank of Valletta, is well-positioned to provide its suite of services to fund managers seeking to set up and/or redomicile their funds or fund management companies in/to Malta.

BOV Fund Services currently services €3.8 billion in assets under administration, representing over 30 percent of the local market.

Being local pioneers in fund administration, BOV Fund Services has the necessary skills and experience to be able to provide funds with myriad specialised services, allowing fund managers to focus on their core business.

"With the presence of an excellent education system and a growing number of students continuing on to pursue tertiary education and beyond, Malta boasts a highly-skilled, hardworking and multilingual workforce"

Rebecca Xuereb
Business development manager
BOV Fund Services

The other side of the hype

Tom Casteleyn of BNY Mellon suggests DLT will not radically transform the business model in the next three to five years, however, it will see small-scale solutions in areas where significant problems exist today

How are DLT technologies changing the custody industry?

It's interesting because there has been an evolution in how the industry is looking at distributed ledger technologies (DLT). DLT was all the talk of Sibos in Singapore four years ago and everyone thought it was going to completely transform the industry. Now, a few years later, we have all spent a lot of time and energy approving concepts and experimenting with the technology, and over that time we have seen a few strategies come and go. However, we now have a better view of what DLT can and can't offer.

The first thing to understand is that DLT is just a technology. Initially, we thought it was a technology that was going to completely rip up the business model, but we're now seeing DLT implementations that actually make sense; often these are a technology solution to an existing business model without having to disrupt it. We see this when we work with clients on concepts; initially, they start off wanting to completely rethink the business model when they are, for instance, putting tokenised bonds on a private blockchain. Once you workshop that through a couple of times, you find that you come back to the existing business model because it is there for a reason, it has been developed over many years as the business evolves. It is what I call a finely-tuned ecosystem of responsibilities and liabilities that are laid off in a chain of people that work together.

So we believe DLT will not radically transform our business model in the next three to five years. However, we will see small-scale DLT solutions in areas where significant problems exist today, and that's why I think DLT has taken off in trade finance. In securities processing, we've experimented with proxy voting and corporate actions. It works on DLT and that's good, but the benefits are not really there. There are two main reasons why it's hard to achieve benefits there. Firstly, the problems with standardisation are not solved by the technology—on the contrary, technology makes it even starker that you don't have standardisation in some of these areas. Secondly, there is the problem of adoption. Even if I've built something where 10 percent of my flow goes through, I've now built a new system for 10 percent of my flow and I still have my old system for the 90 percent. So instead of making it simpler, easier and more efficient, I've actually increased the complexity, cost and amount of reconciliation that I need to do.

Some of the hype over DLT was because people didn't really understand what it was; they had only heard about it. The potential of the nirvana that's out there is quite impressive, but how do you get there from where we are today? That is going to be a rocky road because you need full adoption for it to work, and you don't get full adoption without a big bang—is the business case really there to justify that migration pass for five to 10 years to get there, and who's going to fund it in the meantime? I don't think those business cases exist.

We know the endgame, and all the consultants have done work around calculating what that business case looks like, but the adoption plans are going to be very hard.

What developments are you seeing around technology in the custody space, and how do you see it changing in the next five years?

If we talk about technology in the custody space, there is more than just DLT. One of the things that is incredibly important to us is the way in which we deliver data to our clients. Historically, we've had SWIFT, our proprietary communications platform, where the clients log in and see the activity.

We are now investing much more into application programming interfaces (APIs). We have many clients live on this already on some of the basic functionality of settled transactions, positions for cash and securities. In addition, we are running API trials with clients for income postings. I see the API side as really growing for us. This area is not the next five years but next year.

Are there any particular countries that you see as ahead of the game with that technology in custody? For those that are lagging behind, what do you feel they need to do to step up their game?

Technologies differ for each client, not necessarily depending on their country but depending on their business proffile. That distinction is not around countries, but at the same time for sub-custodian clients, communication is almost exclusively SWIFT. Significantly, some of that communication is migrating from ISO15022 to ISO20022.

It's really more a case of the type of client, and that's why it's important that we, as a global bank, have the right tools available for our clients to communicate with us. For those on SWIFT, we communicate on SWIFT, for those who prefer to use our own proprietary channel, they can do that too. Those that are sophisticated enough to take APIs, we can communicate with them in APIs.

Looking forward, what's next for BNY Mellon regarding custody, looking to the year ahead?

There are always many projects going on but they can probably be grouped into four themes. One is around efficiency; although we are a people-intensive business, we're always trying to find ways to further automate the efficiency of processes. We have initiatives on corporate actions, tax processing and client onboarding to make these areas more efficient.

The second theme concerns the areas where we have to adapt to regulation. While the waves of regulation may have quietened down a little bit, there's still plenty coming down the pipes—for example, the Central Securities Depositories Regulation (CSDR), Shareholders Rights Directive and Money Market Fund Reform.

The third theme is around product development, as there are new markets that are opening up where the ways to connect into them are constantly evolving.

China is a very good example, of course, where we go from stock connecting to bond connecting to the bond market, etc.

That will continue to evolve, and is a continual area of investment for us because we want to give our clients access to those asset classes.

We are also making some big investments into the way that we process funds for clients that want to buy and sell open-ended funds. There is also development in terms of access to new asset classes and new markets, etc.

The final theme concerns the fintech innovation space, where we are working on blockchain concepts. We see significant business potential in some areas but we need to ensure that we understand how we need to adapt our business. For example, bonds and equities on blockchains: we continue to experiment in that space, and we are also investigating the crypto space.

Crypto is a new asset class, but is it an asset class that is ready for custodians to come into that space? Or is it an asset class that we should leave on the side for the crypto websites to deal with?

That is something under investigation that we've spent quite a bit of time on because, if you crack that nut, it could be quite significant, but equally if you do it in the wrong way, the fallout could be quite significant as well, so we have to tread carefully.

There is a technology challenge around crypto, a challenge around managing keys and a number of regulatory challenges—our main regulator is the Federal Reserve, but there are many regulators globally that need to agree on the specific and definitions of regulation—and operational risk considerations around all of this.

The main point is that some of the big players in the industry are interested in this space but we have our own list of things that we need to check off before we want to enter into a market, and those things cannot be traded off against each other. AST

A new settlement regime

After CSDR entered legal force in 2014, Bob Santangelo of Broadridge explains that the regulation has and will continue to have a considerable impact on firms

The Central Securities Depository Regulation (CSDR) is one part of a far wider EU regulatory reform created in the aftermath of the 2008 financial crisis. It was implemented by the European Commission in efforts to strengthen the EU financial system.

CSDR, alongside the second Markets in Financial Instruments Directive (MiFID II), ensures that systemically important securities infrastructures are subject to common EU rules.

To that end, CSDR's aim is to improve the functioning and stability of financial markets in the EU by enhancing the legal and operational conditions for cross border settlement.

CSDR was published in the Official Journal of the EU in August 2014 and is gradually entering into force.

It applies across all EU central securities depositories (CSDs)—including the international CSDs, Euroclear and Clearstream—as well as market operators, in the context of all their market settlement operations.

The principal way that compliance with CSDR will be enforced is through authorisation of CSDs (by the home member state Competent Authority), a process which began in the first half of last year.

The European Commission is overseeing CSDR with the technical standards being defined by the European Securities and Markets Authority (ESMA) in cooperation with the European System of Central Banks (ESCB).

How responsibilities are mapped out

An overriding priority for CSDR is to harmonise the different rules applicable and establish a level playing field among European securities depositories.

Another imperative is to increase the safety of assets and improve the operational efficiency of securities settlement, leveraging enhanced infrastructure and more robust, consistent discipline measures that will encourage timely settlement.

The principal way European regulators aim to achieve this is by insisting that CSDs and ICSDs ascribe to a single set of rules that are consistent across the EU 27 markets.

With TARGET2-Securities (T2S) we have already seen the transition of settlement cycles to a T+2 settlement regime, and a move to dematerialisation, where an investor's physical share certificate is converted to an electronic format, that brings us to nearly 100 percent book entry form for securities.

Under CSDR, CSDs will additionally be bound by regulation to perform a daily reconciliation of securities balances, with support and data from market participants.

They are also required to maintain the segregation of client assets throughout the settlement and safekeeping process.

As such, CSDR aims to enforce a more rigorous process and calculation of cash penalties for any settlement fails. Reporting such fails will impact all participants in the transaction process and enforce buy-ins for participants' delivery fails. This is a significant change, as many markets have never applied such disciplines from a regulatory mandate.

Implications for market participants

The new regulations imposed by CSDR carry clear implications for the wider securities industry in Europe and will mandate changes in a number of the steps in the process lifecycle.

The goals of efficiency, consistency and risk reduction are all addressed by the CSDR requirement for T+2 settlement for all European CSDs.

Completing settlements for all on-exchange trades two days following their transaction date brings all CSDs on to a harmonised model for finalising the settlement cycle (this requirement was fulfilled when Spain migrated in September 2016).

Some of the biggest changes under CSDR have primary impacts beyond the CSDs themselves, to institutional market players and custodians. These changes involve the settlement process. Chief among these is a newly restyled settlement discipline regime, which targets timely and efficient settlement in two steps—through the introduction of cash penalties, and by implementing a mandatory buy-in procedure.

Cash penalties and mandatory buy-ins are components of a settlement discipline regime to address and prevent settlement failures, with the aim of encouraging the timely settlement of transactions by all participants (including indirect participants) at a CSD, monitoring settlement fails and providing regular reporting to the respective regulators.

This will apply as a single model across the EU. CSDs can also suspend customers that consistently fail to deliver securities or impose limitations on such customers.

Daily reconciliation is another area of focus. To ensure and validate the integrity of issues in the market, CSDs will be expected to take appropriate reconciliation measures, on a daily basis, that verify the number of securities making up an issue submitted to the CSD is equal to the sum of securities recorded on the securities accounts of the market participants.

This action will fall upon both the CSDs and market participants to complete, as participants will need to provide the CSD with all information required to ensure the integrity of an issue and work with the CSD to solve any reconciliation breaks.

CSDs will also be required to enable the full segregation of securities between participants, and between participants and their clients. They must offer both omnibus and individual client segregation. Requirements placed on CSDs are:

- Enable the segregation of securities for one participant from securities of another participant
- Enable a participant to segregate their securities from the securities of that participant's clients
- Enable a participant to hold in one securities account the securities of different clients of the participant (omnibus client segregation)
- Enable a participant to segregate the securities of any of the participant's clients (individual client segregation)

For market participants, the segregation requirement is to offer clients the choice between omnibus and individual client segregation, as well as advise costs and risks associated with each option.

How can the market prepare?

While many key deadlines for CSDR have passed, starting with its publication in the European Journal in August 2014, this is a continual process with key milestones still to come.

The next deadline approaches on 12 July 2019 where the first internalised settlement report is due to national competent authorities, and then the settlement discipline comes into force in 2020.

Further down the line, the CSDR's requirement for new issues to be represented in book-entry form will apply from 1 January 2023, and this is followed by a 1 January 2025 deadline for all transferable securities to be in book-entry form.

In order to prepare for these dates, steps need to be taken in order to meet requirements.

CSD/ICSDs, issuers, brokers, intermediaries and asset managers should set themselves clear self-assessment checklists.

For example, market participants will need to consider improving settlement processes to avoid daily late settlement penalties and mandatory buy-ins and consider how they will approach the various options for client securities segregation.

Ultimately, whether you are a CSD, broker, issuer, intermediary or asset manager, CSDR has had and will continue to have a considerable impact.

In order to mitigate risk and remain compliant, practices need to be reviewed. AST

"The next deadline approaches on 12 July 2019 where the first internalised settlement report is due to national competent authorities, and then the settlement discipline comes into force in 2020"

Bob Santangelo
President, international sales
Broadridge

The time is now

With the final phases of initial margin approaching, David White of TriOptima explains how his firm enables you to meet your IM obligations with ease

Step one: the ground work

Is my firm in-scope for initial margin, and if so, when?

The first task is to determine if your firm is in-scope for initial margin (IM). If in-scope, you must understand when you need to start exchanging IM. This depends on the structure of your group and the overall size of your derivatives portfolio.

To determine when you are subject to IM you must calculate your aggregate average notional amount (AANA) outstanding for all non-centrally cleared derivatives during the months of March, April and May each year. The frequency of your AANA calculation will vary depending on your location; in the US the calculation is done on a daily basis during the specified time period, whereas in the EU it is calculated monthly.

Regardless of where you are located, all non-cleared bilateral derivatives including physically settled foreign exchange (FX) forwards and swaps, as well as non-cleared intra-group transactions, should be included in the AANA.

For corporate groups, the above calculation must be performed and aggregated across all members of the group. It's important to note that investment funds are generally considered distinct legal entities, as long as they are not collateralised by or otherwise guaranteed by other entities, funds or advisors for insolvency purposes.

Once you have done this calculation, refer to the chart to determine whether you exceed the threshold for any given year. If so, you will be subject to regulatory IM as of 1 September for the year in which the threshold is exceeded.

Threshold Amount (USD, EUR or CHF)	Threshold Amount (JPY)	Threshold Amount (CAD)	Threshold Amount (SGD)	IM Phase in Date
3 trillion	420 trillion	5 trillion	4.8 trillion	Sep 1, 2016
2.25 trillion	315 trillion	3.75 trillion	3.6 trillion	Sep 1, 2017
1.5 trillion	210 trillion	2.5 trillion	2.4 trillion	Sep 1, 2018
750 billion	105 trillion	1.25 trillion	1.2 trillion	Sep 1, 2019
8 billion	1.1 trillion	12 billion	13 billion	Sep 1, 2020

Step two: the practicalities

Which counterparties do I need to contact?

Once you have determined your firm's compliance date it's now time to confirm which counterparties you need to interact with.

You will have to be set up to exchange regulatory initial margin with all your counterparties who fall into any phase-in date up to and including your own.

All counterparties need to be contacted and you should work together to confirm the mutually effective dates, and also to determine which tri-party agent(s) you will each use to manage the IM segregation. Ensure you begin this discussion well in advance, as the custodial account control agreements and the credit support annex (CSAs) covering IM exchange take time to negotiate.

You must also consider that custodians often set deadlines well in advance of the annual 1 September date, by which time the account control agreements must be in place to ensure the custodian can operationally on-board them in advance of the IM exchange effective date. This insight is often mentioned by existing in-scope firms, so is an important "lesson learned".

Step three: the number crunching

How do I calculate initial margin?

The regulation stipulates that you can calculate margin in two different ways: scheduled-based calculation and regulatory approved model-based calculation.

So far, the industry is united on using the International Swaps and Derivatives Association's (ISDA) Standard Initial Margin Model (SIMM) to calculate IM. ISDA members worked together to develop this sensitivity-based approach to provide ease of calculation, transparency and effective dispute resolution. Risk factors and sensitivities form the inputs, while risk weights, correlations and aggregation formulae produce initial margin amounts.

As a starting point for the initial margin calculation, the model requires firms to calculate sensitivities in accordance with ISDA SIMM for all in-scope trades. This can be a significant data exercise in itself. Trades need to be identified as being in-scope, labelled correctly and appropriate sensitivities must be calculated for each trade. With an average of 20 sensitivities applicable to each trade and 150 or more sensitivities applicable for more exotic trades—the effort required for this step should not be underestimated and preparation is essential (see step four).

Firms must consider whether they will build internal processes to calculate the SIMM sensitivities themselves or whether they wish to have a vendor provide this service. Since the SIMM model will evolve, consideration should also be given to the ongoing internal development and testing required for model changes over time.

TriOptima's centralised web-based service, triCalculate, can calculate trade sensitivities for you. Easy to integrate to and requiring limited data, SIMM inputs can be produced in-line with the latest SIMM model. Once you are able to calculate sensitivities the SIMM model can be applied to calculate the daily initial margin pledgor and secured amounts.

Once the task of calculating sensitivities has been completed, you then need to calculate your IM amount. To date, the majority of phase one, two and three firms have leveraged AcadiaSoft's IM Exposure Manager to generate IM numbers. The AcadiaSoft service, which is powered by TriOptima, calculates and returns IM exposure from both the perspective of secured party (where you must collect IM) and pledgor party (where you must pay IM). The service also solves the significant challenge of reconciling each parties IM inputs, trades and sensitivities; allowing firms to investigate and resolve any differences in their respective IM calculations.

Step four: the analytics

What can I do in advance to ensure a smooth go-live?

Now you're familiar with the post-go-live number crunching, it's important to consider what should be done now to ensure a smooth go-live.

Firstly, you need to decide if your firm will use the schedule or SIMM calculation methodology pre-go-live as it needs to be agreed and communicated with your counterparties. triCalculate supports both methodologies and can help in the SIMM vs. schedule decision-making process with analytics on the effects of each methodology on your IM costs.

Secondly, you should understand what your initial margin cost will be before going live so you can manage expectations. It is difficult to predict your exact trading behaviour for trades eligible for initial margin, however, you can make an educated guess.

By working with triCalculate, you can identify a suitable portfolio for your first weeks, months, and years worth of trading and simulate your SIMM initial margin cost across all eligible relationships, allowing a more accurate depiction of what you can expect post-go-live.

Finally, it's important to recognise where you stand with the thresholds for exchanging initial margin. You will have to actively exchange initial margin with all in-scope counterparties that exceed the threshold, however, you do not need to physically post initial margin until your IM amount breaches this threshold. Therefore, after go-live, you may have many in-scope counterparties that will not require the immediate posting of IM.

triCalculate helps many firms to generate analytics on their previous trading behaviour, allowing them to prioritise setting up IM agreements with counterparties that are likely to imminently breach the threshold.

Step five: the streamlining of the collateral process

How can I make the collateral management process more efficient?

Integrating the initial margin calculations with your collateral process, exchanging and agreeing on the collateral amounts with your counterparty and establishing a dispute resolution workflow are the next steps you need to consider.

With margin notification times moving earlier in the business day, and a need to agree on margin calls ahead of custodian cut-off times, it is crucial to establish an efficient workflow process for exchanging and agreeing on margin calls with your counterparty. triResolve Margin, TriOptima's collateral

To achieve full compliance with ease, leveraging existing out-of-the-box industry tools to reconcile your inputs and automate the process is highly recommended

management solution, automatically captures IM amounts from the AcadiaSoft IM Exposure Manager—or allows upload from other sources—where they can be processed alongside those for variation margin on a single platform. All calls can be exchanged in real-time using MarginSphere—AcadiaSoft's Hub electronic messaging service.

Perhaps the biggest challenge for the industry is having a dispute resolution method in place with counterparts for initial margin amounts. Due to the way that SIMM is structured, disagreements will arise when you provide different inputs. The sheer volume of sensitive data will likely mean you have a large number of small differences. AcadiaSoft's IM Exposure Manager allows you to pinpoint meaningful differences, enabling you and your counterparty to work together to resolve them and minimise your disputes. This is increasingly important as this is now a regulated part of the market.

To achieve full compliance with ease, leveraging existing out-of-the-box industry tools to reconcile your inputs and automate the process is highly recommended.

Step six: the governance

How can I keep pace with the evolving SIMM model and demonstrate my compliance?

Once you are set-up with your SIMM initial margin daily workflow, you then need to consider your ongoing commitment to your SIMM governance.

ISDA carry out revisions to the SIMM model at least once a year. As a SIMM user, you will be obligated to keep up-to-date with an implementation of the latest SIMM model. If you are using TriOptima's solution, this obligation is taken care of for you.

Further, as a SIMM user, it's likely you'll be required by ISDA or your regulator to demonstrate the suitability of the SIMM model for your trading portfolio. This can be achieved through backtesting and benchmarking.

triCalculate supports two methods of backtesting. With a simple trade file submission triCalculate can run backtesting for you and generate the respective reports in the format required by ISDA.

triCalculate's backtesting approaches:

1. Comparison of actual portfolio level PnL moves with IM generated from SIMM either a 10-day SIMM to 10-day actual PnL moves, or one-day SIMM to one-day actual PnL moves.

2. 1+3 Standard: To assess whether a spike in risk factor volatility causes a SIMM margin coverage shortfall under the "1+3 Standard," backtesting is needed that reflects one year of stress and three years of most recent continuous portfolio market conditions.

Step seven: bringing it all together

How can I calculate my inputs, manage my margin calls and resolve my disputes?

TriOptima has helped many phase one, two and three firms meet their IM requirements. We understand the complexities and are best placed to help you overcome them with our seamless solution that requires only one simple trade file.

David White
Global head of sales
triResolve

MiFID II: a year on

As MiFID II celebrates its first birthday, how has the industry adapted to the changes, and what challenges is it still facing?

Jenna Lomax reports

Just before its 3 January 2018 implementation date, less than half of attendees of the Global Custody Forum felt they would be compliant with the second Markets in Financial Instruments Directive (MiFID II) in time for the deadline.

MiFID II regulates firms that provide any services to clients linked to financial instruments and venues where these instruments are traded.

Firms prepared for the implementation of the initiative throughout 2017 and adapted their business models throughout 2018—this will no doubt continue as we move into 2019.

Peter Moss, CEO of SmartStream Reference Data Utility, says: "Last year, was a year of settling down the regulations, the processes and the data quality for the market as a whole."

He adds: "The European Securities and Markets Authority (ESMA) is continuing to look at the quality of the data being published and where necessary they will make changes or push participants to align to ensure the regulator's goals of market transparency are achieved."

Back in 2017 and throughout 2018, many industry participants raised concerns about the scope of the changes and the uncertainty surrounding the directive, with many suggesting it had been the biggest challenge of the year.

As Chris Turnbull, co-founder of Electronic Research Interchange, surmises: "With the MiFID II regulation now reaching its first birthday, it is interesting to look back at a year that many thought would bring substantial change for the asset management industry."

He adds: "In hindsight, it may have been naïve to expect quick-fire change from an industry that has operated in a certain way for decades. The overwhelming majority of firms were unprepared for the changes last January, and the state of confusion continued throughout the year."

As Volker Lainer, vice president of product management at GoldenSource, mirrors: "The regulatory technical standards were continually changing as late as Q3 last year. As such, banks, brokers and fund managers alike were backed into a corner and had no choice but to adopt sticking plaster solutions."

This was felt just a month before the implementation date when ESMA delayed the enforcement of the legal entity identifier (LEI) requirements by six months to July 2018. MiFID II requires all legal entities involved in a trade to include their LEIs in European trade reporting. The six months adjustment period was introduced since not all firms succeeded in obtaining LEIs in time for the January deadline.

Similar to the LEI delay, firms had to make other amends to their existing systems and processes based on the varying feedback they received from local regulators. In addition, banks and asset managers had to centralise and check their data thoroughly—many are still in the process of achieving this.

As Moss indicates: "The biggest challenges were the inconsistencies between how standards were applied by various participants. ESMA definitions differed from Association of National Numbering Agencies (ANNA) definitions and market participants contributing data all had mixed interpretations."

Brian Charlick, risk and regulation, financial services at CGI affirms that another challenge was remaining compliant with the General Data Protection Regulation.

Charlick highlights: "Trader details are required and only the reported fields were to be consumed and stored as an audit trail is essential. To get around this, the client had to ensure each of the traders and clients provided authorisation for the client to use and maintain the relevant data for regulatory and auditory purposes."

Other members of the industry were concerned about reference data. David Farmery, vice president of message automation at Broadridge, suggests: "The biggest challenge was around reference data needed to determine whether instruments were reportable or not."

He adds: "There was significant uncertainty very close to go live date around how the regulations and the market infrastructure would work, particularly around trading on a trading venue (ToTV)."

"This resulted in market infrastructure providers such as approved publication arrangement withdrawing eligibility services very late in the day."

And as Ben Duckworth, head of business development at Simplitium, mirrors: "Reference data has been the biggest challenge for us and our clients. The ToTV instrument universe was a problem in Q1 and Q2 but has significantly improved. However, a gap that remained was the systematic identifier (SI) status of market participants. Understanding the SI status of your counterparty for each instrument traded is a critical requirement for accurate reporting, however, no mechanism is defined in the MiFID II framework to make this data available."

Are we still not ready?

Although the implementation date was on 3 January last year, the industry has still been working on the regulation with post-implementation work.

As Farmery explains: "Ahead of the MiFID go live, regulators were strongly suggesting banks should keep their project teams intact for a good six months post go live. This has proven to be wise advice."

A recent survey, released in December last year and conducted by Cappitech, found almost 30 percent of those asked said they are only "fairly confident or not confident at all" in keeping up with MiFID II changes.

More than half said they were not ready, or not reporting correctly when MiFID II first went live in January.

The survey, entitled 'MiFID II and best execution: headache or opportunity', asked approximately 100 capital markets firms to assess the extent to which they had been affected by the new directive.

To help solve this, 50 percent of respondents said they plan to employ a dedicated member of staff to manage their regulatory reporting.

A further 45 percent of respondents said transaction reporting was the most challenging element of the MiFID II ruling, while 29 percent said they found best execution reporting and monitoring accounts a challenge.

Another report from the International Capital Market Association (ICMA), said European bond markets are still waiting to experience the benefits of MiFID II and Markets in Financial Instruments Regulation (MiFIR).

The report highlighted that while the European bond markets continue to function, MiFID II/MiFIR is yet to deliver on its objectives of improved investor protection, greater transparency, and a more competitive landscape.

One of the main objectives of MiFID II/MiFIR was to encourage more trading on regulated venues rather than in the over-the-counter (OTC) market, and there is evidence that this has been the case, ICMA noted.

However, ICMA suggested that the liquidity and market functioning appear to have been maintained in the wake of regulation despite ongoing issues. These issues are particularly related to the transparency regime and the accessibility and quality of pre- and post-trade data.

While it is accepted that this will improve over time, the implementation of MiFID II/MiFIR seems to have missed an opportunity to provide a utility based consolidated tape for fixed income, ICMA revealed.

Unbundling

A new study conducted by Plato Partnership in December last year found research unbundling is already going global—53 percent of buy-side respondents have already implemented a global policy and a further 20 percent will do so within the next five years.

"In Europe, the change may be regulatory driven, but across the rest of the world it is being led by end investor demand", Plato Partnership said.

Rebecca Healey, head of Europe, the Middle East and Africa market structure and strategy at Liquidnet, says: "It isn't surprising that unbundling is a global phenomenon just one year after the implementation of MiFID II."

She further indicates: "Across the world, there has been a growing demand from end-investors to be assured that they are getting value for money, and a need for greater transparency is a direct consequence of this. Ability to track research providers, the type of research they provide and at what cost unlock possibilities that weren't previously available, all leads to increased value for end-investors."

However, Turnbull says a year on from MiFID II unbundling, there's still slow progress and a long way to go.

He says: "[After the MiFID II implementation], asset managers were expected to become more transparent and reveal both their research costs and how they are paying for them. But many pre-MiFID II behaviours, such as deciding on the value of research after consuming it, have not changed."

"It is easy to see this as a disappointment and ultimately a signal of MiFID II's struggles, but things are starting to move in the right direction."

Looking to the future

Commenting on the industry's seeming lack of confidence in some areas, Cappitech concluded: "Keeping abreast of changes in regulation takes skill, time and resources. Not everyone feels confident to take on this task."

As Moss affirms: "Complying with regulations is an ongoing process. Since the 3 January, ESMA has implemented a range of additional MiFID requirements on a regular basis, this included the double volume cap, the no LEI, no trade rule, the SI mandatory regime for equities and fixed income. In March 2019, this will be extended to incorporate OTC derivatives. At SmartStream we have continued servicing our clients with the ongoing implementations with each of these ESMA deadlines. MiFID II was ambitious in the scope and detail of the definitions that it imposed on the market; other regulators have learned from this approach and are revisiting some of the regulations, for example, such as Dodd-Frank in the US."

As Matt Smith, CEO of SteelEye, affirms: "If the Financial Conduct Authority delivers on what it promised, to begin crackdown on non-compliance in 2019, then we will likely see a domino effect of firms taking action to comply—and as a result, a more transparent, competitive and efficient industry should emerge."

"Hopefully, once clarification is provided and regulation requirements are gradually met, the entire market infrastructure and those who participate in it will be more in control and stronger than ever before."

To improve meeting deadline targets for implementation dates, Christian Voigt at Fidessa, says: "If MiFID II teaches us anything it is that we shouldn't have such large regulations in the first place."

"Instead of consulting and negotiating for ten years on texts exceeding 1.7 million paragraphs, how about lawmakers work on a steady stream of smaller changes."

"Faster time to market, better impact assessment, lower implementation costs, reduced risks, the benefits for everyone could be tremendous." **AST**

An evolving post-trade space

David Pearson of FIX Trading explains why repo, FX and other asset classes are the firm's main focus points, looking forward

How are you promoting new post-trade business workflows that improve efficiency and reduce costs? And can you tell me more about these workflows?

This is an amalgamation of two things that are the most important here. There's an ongoing need to provide education and evangelisation of the capability of the workflows that we define as a standard that the industry can understand and follow. We also want to ensure at the detail level that these standards meet people's expectations and that we can answer their questions accordingly. This includes particular nuances of the workflow across multiple asset classes.

One of the primary responsibilities we have is to make sure we are looking outwards to the industry, educating the people that we meet. That's part of the role that I have.

As in any industry, and especially those involved in marketing, it's about generating momentum and seeking the adoption of the product that you're trying to promote. We have to keep doing that to make sure these things are understood—while we're defining the standards in their own right.

What trends are you currently seeing in post-trade right now?

We've seen the adoption of post-trade workflow using FIX within the securities world of equities and fixed income as asset classes. The road to success and the continued adoption we see has spurred on further aspects of post-trade operations that could equally benefit from a FIX standardisation.

Moving away from regular cash securities, we're looking at cleared products like exchange-traded derivatives, which is a great example where the industry is benefitting hugely from the FIX-defined workflows and is rapidly gaining adoption.

The next asset class focus for the FIX post-trade group is FX, and the work is going on now to define the standards required by the industry practitioners to adopt a workable working practice. We are now also putting a working group together to start a similar deep-dive into the requirements for repo, which is essential for borrowing money and leverage for assets.

These are increasingly important areas, especially in the context of regulation. These regulations aim to make sure people have the correct and appropriate levels of collateral, ensuring the stability of the financial system as a whole. That's a real challenge for asset managers where operation processes need to be improved.

Our work is very important in this context because it allows new systems and processes to be implemented based on an industry standard that is adopted by many participants. We are also seeing more movement into the back-office, in particular, the settlement process because you have other parties involved in this workflow. With custodians and clearers, there's an increased push to include the back office participants as a whole.

If a large organisation makes a significant investment in the technology that uses FIX as its standard for workflow and messages, it's natural for firms to want to use it more and leverage their investment in technology. And so they'll look further through the business operation chain to seek new areas where that's utilised, whether its technology, IT skills, reports, resources, support, service or maintenance. Successful firms will want to use it more both within the buy-side and sell-side.

What are the biggest demands/concerns you are hearing from your committees, subcommittees and working groups right now? How have you met these concerns and addressed these issues?

The post-trade group has a big membership, and this provides us with multiple threads of activity. So providing focus and momentum around each thread, and maintaining that through the inevitable detail required to produce a workable solution takes time. So the hardest part is the time it takes to get it right.

Part of the continuing focus for our members is the ongoing need to provide your client with the best possible service. Areas within a post-trade environment where you can achieve a better client service through automation, or at least the 'electronification' of a process, are something seen very positively. Getting the standards defined is the stepping stone to members starting their internal projects, so we are on the critical path.

At the start of 2018, FIX Trading Community created guidelines to help firms meet cybersecurity requirements. How much of a threat does cyber-crime have on post-trade services?

Post-trade is no different to any other area in the industry, this is also true for an organisation like Fidessa and of course, we see cyber-attacks as a real threat. We also recognise that the transmission of data between counterparties is fundamental. You have to be aware of why you traded, how you traded and where you traded and how much you paid for it, thousands of times a day.

All those different post-trade participants have got to communicate. It's not about putting data in a safe, locking it up and throwing the key away, you have to maintain security on a communication level as well.

All of our members will have their own security policy that covers the implementation of workflows that will use FIX, and we maintain a close dialogue across different groups in the FIX community to provide the best opportunity to provide secure systems, services and communication.

How competitive is the technology space around post-trade?

It's increasingly competitive. The spotlight has been shining brightly on the operational side for many years now. A decade and more ago, many firms just focused on revenue in the front office. The way to earn more money was to gather more clients and more revenue.

Now with extra pressure from regulators, coupled with shrinking margins, the operation departments have had to focus on their efficiency and accuracy.

People have had to take a fresh look at the operational side of the business and how much it costs to run those particular operational processes, and where workflows can be improved with new technology. They've also had to look for areas where significant savings can be met. It all feeds back into the profitability of the business and the capability of that business to remain competitive.

This brings to the fore the question, "why is post-trade of more interest now?". It's because people now seek efficiency, automation error reduction and aim to improve client service at a post-trade level in a way people never really considered 10 years ago.

Where do you see the future of securities finance heading with so much talk around AI, robotics and blockchain?

We are in a technology evolution in machine learning, robotics and AI across the full spectrum of services that a broker or asset manager provides, and this applies to the post-trade space all the way through to clearing and settlement. Increasingly, there are exciting technologies now available that you just didn't have even five years ago including technologies, computing power and memory data. But now, it's starting to take a really interesting shape.

Blockchain is something that I'm less convinced about. I'm not convinced it has a problem to solve. It creates problems that people in the industry have been trying to get away from.

Data has got to be accessible and you've got to be able to use it, and a blockchain application will have to integrate into the existing ecosystem of a bank or broker. This poses significant challenges to firms that don't want to fund big IT integration projects in order to implement a new system or service.

The chatbot is where people are looking at improving client service and operational efficiency, where you've got machines opposite each other, talking to each other. That could genuinely solve problems and issues in the workflow. I think we'll see that ongoing trend and it will have a very positive impact on the way people manage their post-trade operation and more so when the data is electronically processed.

What's next for FIX? How is 2019 looking?

Repo, FX and other asset classes including the settlement process are our main focus points, looking forward.

In 2019, I think we'll make good progress in other asset classes and we'll continue down this track and will see the evolution in that space over the next 12 to 18 months—moving forward with advanced projects within the machine learning space. AST

We are in a technology evolution in machine learning, robotics and AI across the full spectrum of services that a broker or asset manager provides, and this applies to the post-trade space all the way through to clearing and settlement

David Pearson
Head of post-trade, Fidessa,
Co-chair FIX Global post-trade working group

Comings and goings at State Street, BNP Paribas, BMO and more

State Street has appointed Ian Martin as head of the Asia Pacific in addition to his current responsibilities as head of global services in the region.

Martin has been at State Street for 25 years and has a deep knowledge of the firm's clients and strategy having held several leadership roles across the firm and in multiple locations in the region.

Martin succeeds Wai-Kwong Seck who, after eight years in the role has decided to pursue other opportunities closer to his hometown of Singapore. He will continue to be based in Hong Kong and will report to Andrew Erickson, head of global services worldwide.

Erickson commented: "Ian Martin has led the majority of State Street's businesses in the region throughout his career including investment servicing, trading and research within global markets, and our data and analytics businesses."

"With his knowledge and experience across our businesses, I am very confident that Martin will build further on our business growth in Asia Pacific by delivering high-quality solutions and services."

Martin added: "I am excited to lead State Street in the region at this time. I look forward to partnering with our clients to deliver integrated solutions for their business and investment needs, which will include the development of the industry's first-ever global platform connecting the front, middle and back office."

BNP Paribas Securities Services has appointed Mostapha Tahiri as head of Asia Pacific, effective 1 February.

In his new role, Tahiri will continue to expand BNP Paribas Securities Services' business in the Asia Pacific region.

Based in Singapore, Tahiri will report to José Placido, global head of client development for BNP Paribas Securities Services, and to Eric Raynaud, member of the BNP Paribas group executive committee and CEO for the Asia Pacific. Additionally, Tahiri will join the executive committee of BNP Paribas Securities Services and the BNP Paribas regional executive team.

Most recently, Tahiri was head of institutional investors and head of digital transformation for the Asia Pacific.

Tahiri began his career 20 years ago with BNP Paribas Asset Management, before transferring to BNP Paribas Securities Services in 2005. He moved to Asia in 2009 to develop and expand BNP Paribas Securities Services' buy-side franchise in the region.

Tahiri succeeds Philippe Benoît, who will relocate to Paris on 1 February to take up his new position as head of strategic business development and transformation. He will report to Patrick Colle, general manager of BNP Paribas Securities Services and is a member of the executive committee of BNP Paribas Securities Services.

Mary Jane Schuessler has joined BMO Capital as director of global equity finance, effective 14 January.

Based in Toronto, Schuessler will report to John Loynd, managing director at BMO Capital Markets.

Prior to BMO, Schuessler was a director and desk head-North America of securities lending at RBC Investor & Treasury Services (RBC I&TS).

In her position, she managed the global front office team who work to optimise lending revenue on behalf of RBC I&TS' custodial clients.

Additionally, Schuessler worked closely with business management and sales teams globally to develop growth strategies and deliver on the strategic direction of the securities lending programme.

Schuessler has 13 years of experience in the securities finance industry in Canada, spending two years working on the lending desk at RBC I&TS' office in Sydney.

BMO Capital Markets believe that Schuessler will be integral to the continued expansion of its equity finance platform globally.

Universal-Investment has appointed Jochen Meyers as its new head of relationship management for institutional clients.

With more than 20 years of industry experience, Meyers will report to Katja Müller, member of the board of Universal-Investment and head of sales and relationship management.

Prior to Universal-Investment, Meyers was managing director of the sales and relationship management team at Société Générale Securities Services in Frankfurt, where he was responsible for clients in Germany and Austria.

At Société Générale, Meyers was responsible for insourcing solutions for a broad client portfolio such as banks, insurance companies, asset managers and institutional investors.

Before Société Générale, Meyers served at BNP Paribas Securities Services and BNY Mellon, where he held various positions in sales and customer support for securities services as well as custody services.

Commenting on Meyers new role, Müller said: "By 2023, we want to become the largest European fund service platform for all asset classes.

Thanks to his wealth of experience and sales network, Jochen Meyers will help us to achieve our goals in the growing client segment of institutional investors."

Circle Partners has appointed Nick Neri as vice president of business development for its US subsidiary.

Circle Partners is an independent fund administrator, providing a range of administration and corporate services to hedge funds, fund of funds, real estate funds, private equity funds and cryptocurrency funds. Neri will be responsible for the overall planning and execution of Circle Partners' US business development strategies. Neri has more than 20 years of industry experience with an emphasis on hedge funds, private equity, crypto-currency, emerging managers, family offices, and technology platforms.

Prior to joining Circle Partners, Neri was head of client relations, North America and COO for Mainstream Fund Services (formerly Fundadministration), which has offices in New York and Florida.

Commenting on Neri's new role, Gerben Oldekamp, global head of business development, said: "Although we have a global footprint and have rapidly grown the company over the past years, our US operation still could improve its visibility in the US market. We are pleased to have Nick Neri on board and are confident he can play an important role in this respect."

Standard Chartered has hired Martijn de Jong as global head of digital channels and data.

Previously Jong has served as chief digital officer and chief marketing officer at Aegon, a customer-centric and artificial intelligence-driven digital life insurance firm.

Prior to Aegon, Jong served as part of the Jio executive launch team as senior vice president for digital channels and chief of digital marketing.

Euroclear has appointed Willem Meijer to the board of directors for each of its Euronext-zone Securities (ESES) central securities depositories (CSDs), Euroclear Belgium, Euroclear France and Euroclear Nederland, subject to regulatory approval.

Prior to Euroclear, Meijer was CEO of The Order Machine (TOM), an options trading platform. Meijer has also served as CEO of SNS Securities, a securities subsidiary of SNS Reaal Group. Meijer currently serves as an appointed director and mediator by the enterprise division of the Amsterdam Court of Appeal (Ondernemingskamer).

Francis Remacle, chair of the ESES CSDs at Euroclear, commented: "I am delighted to welcome Willem Meijer as a board member of our ESES CSDs. Meijer's management level experience and post-trade and IT expertise will bring value to the board."

Meijer said: "I am really looking forward to working with the Euroclear teams and assist them in dealing with the continuously evolving and challenging financial market landscape."AST


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Despite the challenges facing the German banking industry, there are bright spots, notably in serving the local and international needs of Mittelstand clients, and in the ability to provide more efficient and better service to retail and corporate clients through online channels. Germany's best bank, Commerzbank, is focusing on both these opportunities.
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