# asset servicing times

The primary source of global asset servicing news and analysis

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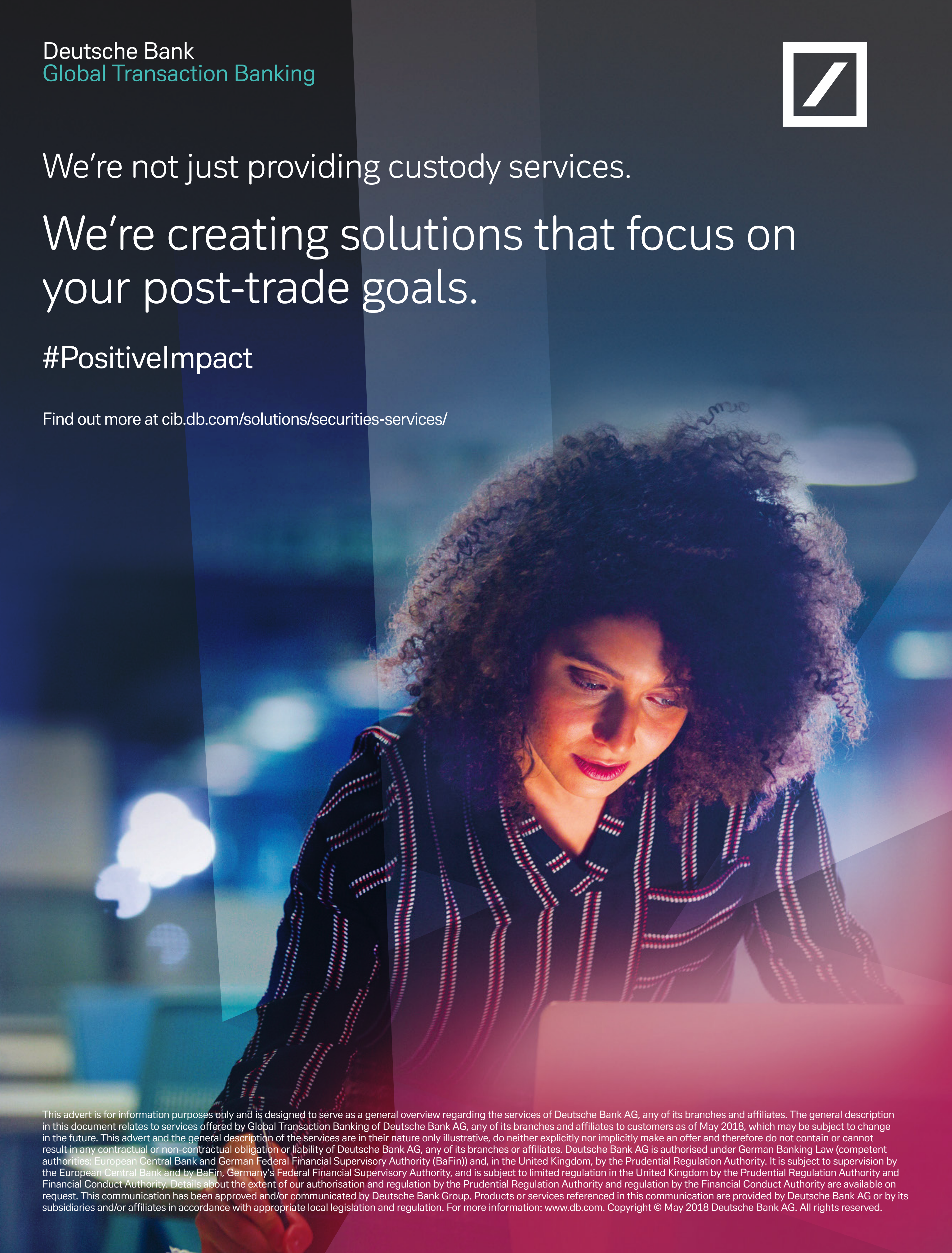
## What makes CSDR so different?

Mark John of BNY Mellon's Pershing discusses CSDR and what it means for custodians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# Clearstream to act as custodian for Deutsche Börse

Following the ongoing progress of the HQLAx target operating model by Deutsche Börse Group and HQLAx; Clearstream, Deutsche Börse Group's post-trading services provider, will act as custodian.

Additionally, Deutsche Börse is in advanced discussions with further custodians to participate.

The target operating model is an innovative blockchain solution for collateral swaps in the securities lending market and is showing significant progress, Deutsche Börse revealed.

Unlike in traditional settlement, there will be no actual movement of securities between custody accounts on the HQLAx target operating model. Instead, tokens will be transferred while the underlying securities will be kept off—blockchain and remain static.

This will help market participants to redistribute liquidity more efficiently by providing collateral mobility across systems and locations. The platform will be accessed via Deutsche Börse's Eurex Repo trading system. A trusted third party layer will be the interface between the distributed ledger technology (DLT) and legacy securities infrastructure. According to Deutsche Börse, this will leverage well-established triparty collateral management services.

Guido Stroemer, CEO of HQLAX, commented: "The interest and commitment shown by the market prove that blockchain can bring tangible benefit to our industry. In Deutsche Börse, we found the perfect partner to exploit this potential."

Jens Hachmeister, in charge of blockchain initiatives across Deutsche Börse Group, said: "This blockchain use case reveals the significance and potential of the technology. This creates higher liquidity, transparency and efficiency for financial markets in general and securities financing in particular. We look forward to applying DLT for further solutions along the whole value chain."

Philippe Seyll, CEO of Clearstream Banking, added: "We are thrilled to see the progress of the platform. It shows the technology's potential to enhance collateral liquidity management by lowering obstacles between different systems and locations."

# Contents




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## Link Asset Services to sell CPCS to Apex

Link Asset Services is set to sell the majority of its corporate and private client services (CPCS) business to Apex Group (Apex).

The sale of CPCS which provides corporate, regulatory and trust-based services to companies and individuals is subject to regulatory approvals, with completion expected by 30 September 2019.

Anthony O'Keeffe, CEO of Link Asset Services, said: "CPCS is a robust and successful business with a stable and committed management team, talented staff and loyal clients and partners. The Link Group board, after considering its broader strategy, concluded however that the business would better achieve its potential under different ownership."

He added: "Link Group is committed to continuing to invest in our other three core businesses: Link market services, fund solutions and banking and credit management, each of which is a leader in its own market."

"We are very excited about the prospect for growth in our key markets and remain fully committed to investing in that growth."

"We sell our CPCS business to Apex in excellent shape. With the trust and corporate services market undergoing change, we believe Apex has the right focus, growth trajectory and ambition to support management and fully unlock CPCS' potential."

Peter Hughes, founder and CEO of Apex, commented: "The acquisition of the CPCS business and Throgmorton is an exciting milestone for the Apex Group. The addition of these entities signifies an inflexion point for the business, moving us from one of the world's largest fund administrators into the wider global financial services market as a complete provider delivering a full global outsourcing solution."

He added: "Both the CPCS and Throgmorton teams are comprised of extremely well respected and experienced personnel that will complement our expertise across other service capabilities to complete our global financial services offering."

## Opus releases new solution to simplify KYC

Opus has launched Clarity KYC, a know-your-customer (KYC) solution.

Built on a cloud platform, Clarity KYC enables global banks to conduct KYC checks in a fraction of the time it used to take.

The product is aimed at financial services clients, providing a software-as-a-service solution that reduces the time and cost of client onboarding and improves the speed and accuracy of the customer due diligence process.

According to Opus, Clarity KYC reduces the amount of effort needed to conduct research by due diligence and identifying hidden risks.

Emanuele Conti, CEO of Opus, said: "Our banking customers have asked us for a faster and easier way to meet their due diligence and compliance needs in KYC, anti-money laundering and other related areas."

He added: "We worked with them to design this new solution, pulling in advanced entity resolution and workflow capabilities into a more modern and intuitive user experience. We are looking forward to helping all of our customers simplify their processes, save time and reduce their risks."

## Citco reaches $1 trillion milestone

The Citco Group's (Citco) global assets under administration has hit the $1 trillion mark.

Citco's biggest area of growth has been in Asia where assets under management have grown by 18 percent year-to-date across all lines of business.

According to Citco, the growth is a direct result of increasing demand from Asian managers for Citco's proprietary technology.

Citco currently operates across North America, Europe and Asia, with teams situated around the world.

## Northern Trust to provide asset servicing to AD Global Investors

Northern Trust has been appointed the sole broker and provider of foreign exchange, fund administration and custody support for AD Global Investors.

The bank will assist AD Global Investors with fixed income execution services in Abu-Dhabi, a first for Northern Trust's Capital Market's business in the region.

Northern Trust services will assist AD Global Investors to support its four new UCITS funds, these include AD global emerging market debt local currency and AD global emerging market debt hard currency, which launched in January this year.

David Rothon, CEO of AD Global Investors, said: "Northern Trust is well known by the team at AD Global Investors and we are delighted to be working with them again. The depth and breadth of Northern Trust's expertise were evident throughout the project which ensured the successful launch of our UCITS funds."

He added: "Having relationship management coverage in both Abu Dhabi and Dublin was an important factor for us and we look forward to working with Northern Trust for many years to come."

Edgar D'Mello, head of relationship and client management across Northern Trust's Middle East offices, commented: "With long-term experience servicing clients in the Middle East and more than a decade since Northern Trust opened its first office in Abu Dhabi, we continue to see significant opportunities to support our growing client base in the region."

He added: "Northern Trust's asset servicing of AD Global Investors UCITS funds is a great example of our deep collaboration between our global teams. We look forward to supporting AD Global Investors continued growth in this sector. "

Guy Gibson, head of institutional brokerage for Europe, the Middle East and Africa and Asia-Pacific at Northern Trust, said: "As the sole broker Northern Trust will help AD Global Investors manage the growing cost and regulatory pressures facing the industry."

Jay Peller, head of fund services at Citco, said: "As a private company focused on servicing alternative investment firms, we have been able to adopt a long-term mindset when it comes to investing in our people and proprietary technology."

He added: "We have leveraged that support to form relationships with clients that span decades. Our ability to deliver the right solutions in support of our clients' businesses and investors has been of paramount importance to our success story."

"As the regulatory framework increases in complexity, and investors demand heightened levels of transparency from managers, we expect our clients to increasingly rely on Citco for front-to-back technology solutions that will allow them to focus on delivering outsized returns for their investors."

## NAV acquired 140 new clients last year

NAV Fund Administration Group (NAV) acquired 140 new clients last year.

NAV offers fund services including accounting, reporting, investor servicing, and middle and back-office support to the hedge fund industry.

Nav Gupta, founder and CEO of NAV, said: "Our continuous push towards end-to-end automation has opened up tremendous room for growth. Our technology enables us to offer some of the lowest prices in the industry while delivering superior fund administration. We don't need a sales team here at NAV. We continue growing based on referrals from current clients alone."

## Maples and Calder rebrands as Maples Group

Maples and Calder and MaplesFS have consolidated their offerings under a single brand, now called the Maples Group.

The rebranding initiative, which officially took effect on 28 January, includes a new

corporate logo and website and highlights the Maples Group as a solution for legal, fiduciary, fund, entity formation and management services, as well as regulatory and compliance services.

These collective services include an international law firm, advising on the laws of the British Virgin Islands, the Cayman Islands, Ireland, Jersey and Luxembourg and global fund administration and fiduciary services.

Alasdair Robertson, global managing partner at Maples Group, said: "We have always understood the demand from our clients for a complete and seamless service incorporating the legal advice we provide, with the specialist suite of complementary services offered by our fiduciary and fund services teams, which has been a cornerstone of our growth for many years."

Scott Somerville, CEO of the fiduciary, fund, entity formation and management, and regulatory services businesses of the Maples Group, commented: "Our new corporate identity is another milestone in the evolution of the group's brand and reflects significant demand for a service provider with a holistic offering for the financial services industry."

## Hong Kong to revise settlement and servicing model

The Securities and Futures Commission, Hong Kong Exchanges and Clearing (HKEX) and the Federation of Share Registrars have issued a consultation paper proposing a revised operational model for implementing an uncertificated securities market in Hong Kong.

According to HKEX, in an uncertificated, or paperless, securities market, investors could hold and transfer securities in their own name without share certificates or other paper documents.

The digitisation of securities holdings and elimination of manual processes would enhance post-trade settlement and servicing, said the exchange, making Hong Kong markets more efficient and globally competitive.

The costs of new systems to support the revised model will largely be covered by HKEX and share registrars. The consultation period will last for three months.

HKEX said: "The proposed model strikes a balance between preserving existing efficiencies in the clearing and settlement process and providing options for investors to hold securities in uncertificated form. Implementation would be conducted in phases."

## Agora launches new blockchain solution for fund admin

Agora AltX has launched a first of its kind blockchain technology, PathchainTM.

Agora's technology and service offering, which launched on 25 January in Los Angeles, has been customised for Opportunity Zone fund administration, a new provision in the 2017 Tax Cuts and Jobs Act, which provides investors capital gain tax benefits.

The Agora AltX Platform offers a suite of products and services that lower the overall cost structure of the Opportunity Zone fund, including digital setup for subscriptions, disbursement and operating bank accounts, sub-accounting

## BBVA Compass selects Wolters Kluwer's software

BBVA Compass has chosen Wolters Kluwer's OneSumX Regulatory Reporting to provide regulatory reporting software for its operations in the US.

OneSumX Regulatory Reporting uses a single source of data for consistency, reconciliation and accuracy and includes the firm's regulatory update service.

BBVA Compass is the US-based subsidiary of Spanish multinational banking group, BBVA.

Chris Butler, senior vice president and director of financial reporting at BBVA Compass, said: "As part of our ongoing strategy to build a leading franchise in the US we wanted to take a more strategic approach to compliance."

He added: "This needed to be supported by an integrated, flexible platform capable of evolving in response to regulatory requirements and supporting broader business goals. Wolters Kluwer provides this capability through OneSumX for Regulatory Reporting."

Todd Lawrence, general manager of Wolters Kluwer's finance, risk and reporting business in the Americas, commented: "Like all firms, BBVA Compass was confronted with the challenge to respond to the rapid emergence of new regulatory demands in recent years, from increases in changes to core US regulatory reporting, incorporation of capital changes, comprehensive capital analysis and review stress testing and additional liquidity reporting."

He added: "We are excited to be working with BBVA to ensure a strategic approach is in place."

detail and documentation storage and Opportunity Zone business and investor tracking and reporting.

Agora also offers investment tools for Opportunity Zone funds to provide their investors. These tools include investor tax optimisation, charitable giving analysis, Opportunity Zone portfolio management, and streamlined know your customer, anti-money laundering and accreditation checks.

Agora AltX's blockchain technology provides vaulted data security, record transparency, and bank account validation, to keep complete and timely records, counteract fraud and abuse, and promote integrity in Opportunity Zone investments.

Nico Willis, co-founder and managing director at Agora AltX, said: "The inspiration behind Agora AltX, was to provide a disruptive technological solution that could effectively address the industry's three greatest threats—cost inefficiency, transactional accountability and data security. This will be a game changer."

## Apex partners with Institutional Shareholder Services

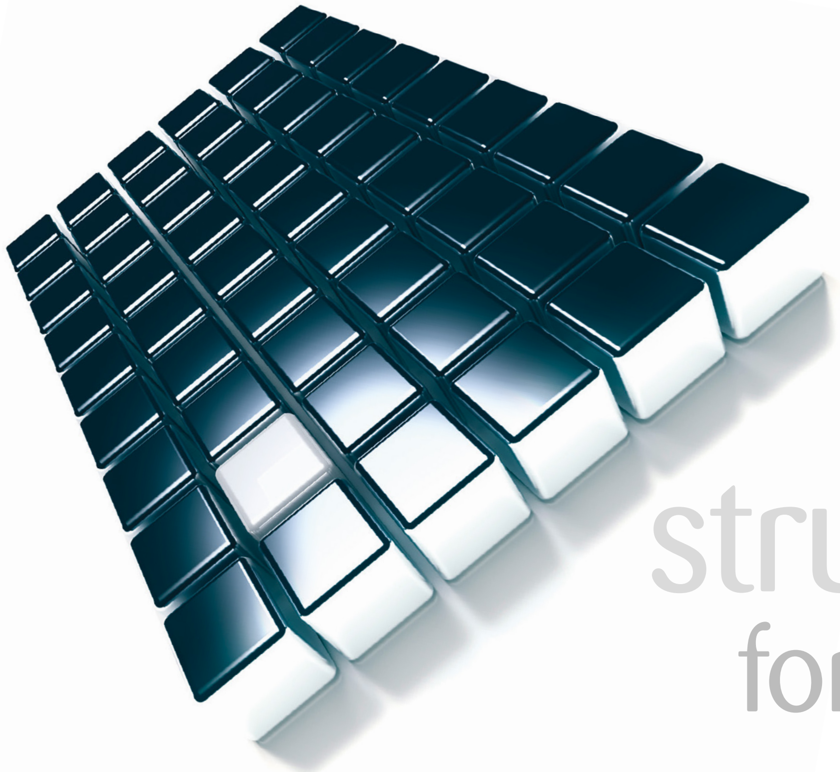
Apex Group has partnered with Institutional Shareholder Services (ISS) to deliver environmental, social and governance (ESG) reporting capabilities to asset managers worldwide.

Under the terms of the partnership, ISS ESG, the responsible investment arm of ISS, will partner with Apex to deliver ESG reporting capabilities to its global client base.

The reports will allow Apex clients to measure the ESG performance of each of their portfolio companies.

It will do this through accessing ISS' Governance QualityScores, company carbon footprints, and conduct norms-based screening through a simple intuitive system.

Peter Hughes, founder and CEO of Apex Group, said: "The world's largest asset



managers are shifting their focus towards ESG investing and many are launching ESG dedicated products and also measuring ESG sensitivity across their broader portfolios and businesses.”

Marija Kramer, managing director of ISS ESG, added: “Both Apex and ISS have flexible global operating models and combined we are able to offer this solution to Apex’s global client base seamlessly and through local delivery.”

### LSEG acquires stake in Euroclear

The London Stock Exchange Group (LSEG) is to become a shareholder of Euroclear, acquiring 4.92 percent of the firm’s total shares in issue.

The request to register the transfer of the shares to LSEG was reviewed and approved by the Euroclear Holding SA/NV Board on 29 January 2019.

Following LSEG’s minority investment in Euroclear, LSEG and Euroclear expect a representative of LSEG to join the board of Euroclear Holding.

Marc Antoine Autheman, chairman of Euroclear Holding SA/NV, said: “On behalf of the board, I am very pleased to welcome LSEG to our shareholder community.

The addition of LSEG to our shareholder base reflects the attractiveness of a neutral open architecture model to players in the capital markets ecosystem, including other financial market infrastructures.”

Lieve Mostrey, CEO of Euroclear, commented: “Through our collaborative open model, Euroclear has enjoyed a mutually-beneficial operational and commercial relationship with LSEG for many years.”

### Prime Trust to offer no-fee digital asset custody solution

Custodian Prime Trust is now offering zero asset under management (AUM) fees on digital assets it holds in custody, including bitcoin and ethereum.

## Bridging Finance selects RBC I&TS as custodian

RBC Investor & Treasury Services (RBC I&TS) has been appointed custodian by Bridging Finance for the assets of the Bridging Income Fund LP and the Bridging Income RSP Fund. RBC I&TS will also provide fund accounting and shareholder services support to Bridging Finance. Bridging Finance provides middle-market North American companies with alternatives to the financing options offered by traditional lenders.

David Sharpe, CEO of Bridging Finance, said: “We have worked with RBC I&TS for almost three years and know they possess the products, solutions and client service to help us with our needs and we look forward to our direct relationship with them as sole manager of the funds.”

David Linds, managing director and head of asset servicing Canada, commented: “Our new relationship with Bridging Finance strongly reflects our focus on partnering with asset managers to find innovative opportunities to support our clients’ growth ambitions.”

The zero AUM fee is unmatched by any other qualified custodian and reduces friction and out-of-pocket costs for portals, exchanges, broker-dealers, stablecoins, real estate investors, and many others.

Prime Trust works with institutions, exchanges, over-the-counter desks, broker-dealers, funding portals stablecoins and others involved in the digital economy to connect via the firm's proprietary application programming interface.

Scott Purcell, CEO and chief trust officer of Prime Trust, said: "When someone holds stocks, bonds, mutual funds, exchange-traded funds, real estate, private securities or other assets at a custodian such as Schwab, Robinhood, Northern Trust or J.P. Morgan, they don't pay fees based upon the market value of those assets."

He added: "It doesn't matter if you hold, for example, $500 or $50,000,000 worth of Apple stock in your account—there are no percent of asset value-based fees. So why... are qualified custodians charging to custody digital assets?"

## J.P. Morgan China launches new platform

J.P. Morgan China has launched an integrated payment solution to support corporates as they migrate their commerce activities onto digital platforms.

The payment solution offers J.P. Morgan China's clients a single integrated interface that supports both online and offline transactions as well as facilitating payments from mobile channels such as e-wallets.

According to J.P. Morgan, the solution also provides clients with consolidated reports on all transactions as well as insights on payment trends through analysis of data.

Shanghai-based cosmetics firm Amorepacific Trading Company has been benefiting from the one-stop solution, J.P. Morgan revealed.

Chris Choi, CFO of Amorepacific Trading Company, said: "The solution from J.P. Morgan has improved the efficiency of our payment processes while providing our customers with secure and seamless transactions."

"We are delighted to be working with a bank like J.P. Morgan that has the experience and advisory skills to support us as we continue to expand our business across markets."

Rani Gu, head of treasury services, China, and head of treasury services product, Greater China, added: "We are pleased to roll out an innovative solution that supports our clients' needs amid a rapidly evolving payments landscape."

### NAFAA marks its first birthday

The North American Fund Administration Association (NAFAA) marked its first birthday on 1 February.

The association was launched last year to enhance the alternative fund administration industry.

Chris Meader, founding director of NAFAA, thanked the nine firms who have become members over the last year.

They include Apex, Basiz, Centaur, Circle, Horseshoe, IPS, Stone Coast, Sudrania and Ultimus.

Meader explained that much for the first year was spending "spreading the word about the association and gathering feedback on opportunities to improve the industry".

Last year, NAFAA held two admin-only events in New York that brought

together representatives from over 35 different administration firms to discuss SEC examinations and administering crypto funds.

November saw the initiation of its member working groups where operational leaders from each member meet to discuss and agree on minimum standards and best practices for the industry as well as discuss operational risks, issues and trends that are impacting the industry.

Looking forward to the next 12 months, Meader noted that the association will continue "working groups, all industry events and work with members to identify additional opportunities to improve the alternative fund administration industry".

## IHS Markit teams up with Cobalt

IHS Markit's MarkitSERV and Cobalt are collaborating to deliver new post-trade processing services for foreign exchange (FX) markets.

As part of its alliance with Cobalt, IHS Markit has also made an investment in the firm and will partner with Cobalt to sell and deliver the solution.

MarkitSERV and Cobalt will offer a shared post-trade infrastructure designed to replace legacy technology and manual processes, increasing efficiency and reducing operational risk to the FX market.

The partnership brings together MarkitSERV's network of FX counterparties and venues with Cobalt's back- and middle-office platform which uses a combination of the shared ledger and low latency technology.

It delivers a single, shared, immutable record for each trade which, according to IHS Markit, frees up back and middle office resources from reconciliation.

The integration between MarkitSERV and Cobalt is already complete, with trade data flowing from customers and trading venues via MarkitSERV into the Cobalt platform.

Chris Leaver, managing director and head of FX at MarkitSERV, said: "This collaboration marks the start of a major transformation in FX infrastructure. This partnership is a natural extension of MarkitSERV's core strategy of centralising and normalising post-trade processing across all asset classes."

Adrian Patten, co-founder and chairman, at Cobalt, commented: "Joining forces with IHS Markit will allow us to rapidly scale our solution and deliver a state of the art shared middle- and back-office infrastructure to the global FX community, dramatically improving efficiency across the board."

He added: "For too long, FX has been burdened by an ageing, inefficient post-trade environment. Our high-performance technology has been designed to replace legacy infrastructure and inefficient processes, as well as significantly slash cost and risk for this five trillion dollar a day market."

### BNP Paribas' custody down compared to previous year

BNP Paribas' assets under custody stood at €9.3 trillion as at 31 December 2018, this was down 1.3 percent compared to the same time last year.

The bank revealed the results in its Q4 2018 result which further indicated its assets under administration stood at €2.3 trillion.

This was a 0.6 percent increase from 21 December 2018.

The results also affirmed BNP Paribas had made 24 million transactions in Q4 2018. This was a 5.4 percent increase, compared to Q4 2017.

Overall, BNP Paribas' securities services' revenues stood at € 2.2 billion euros an increase of 10.1 percent compared to 2017. AST

# On the up

Luxembourg had a successful year made up of milestones in 2018, with UCITS and AIFs continuing to grow. As we move into 2019, things are still on the up, and the country may even benefit from Brexit

*Jenna Lomax reports*

Last year was a big one for Luxembourg. The country continued to record large net inflows of various funds while the Association of the Luxembourg Fund Industry (ALFI) turned 30.

ALFI shares its birthday with UCITS, with Luxembourg being the first member state, on 30 March 1988, to transpose the UCITS Directive into national law—an important step that helped establish the country as a leader in the field of investment funds globally and build its reputation for reactivity.

On the backfoot of this milestone, Luxembourg continued to experience a high degree of success and growth in 2018.

At a recent breakfast meeting, hosted by ALFI, the association said it continues to report high levels of assets under management, ending the year 2018 at €4.1 billion.

Denise Voss, chairman of ALFI, explained: "In 2018, the Luxembourg fund industry held a steady course, despite volatile markets. Luxembourg thereby remains the largest fund centre in Europe, the second-largest in the world and the leading centre for cross-border investment funds. While we expect volatility to continue given the geopolitical environment, Luxembourg remains attractive as a domicile."

In the meeting, ALFI said it expects UCITS and alternative investment funds to be key beneficiaries of the Capital Markets Union, which, it said: "Aims to increase investment and the choices available to retail and institutional investors in Europe and to migrate some of the vast pool of deposit savings into managed investments."

ALFI added: "Looking outside of Europe, the global footprint of UCITS will surely serve us well in the coming decade as populations in many markets are encouraged by their governments to take on the mantle of pension provision."

As David Claus, Luxembourg country executive of asset servicing at BNY Mellon, indicates: "It's fair to say that UCITS are now considered the gold standard for collective investments. They are one of the recognised successes of the Single Market."

However, he adds: "Having such a successful formula—with UCITS sold throughout the European Economic Area as well as into jurisdictions outside of Europe—means we need to be very careful with regulatory changes to the UCITS regime."

"The average fund size is growing and it will need to continue to grow in order to be cost competitive, offer strong net performance to investors, and absorb increased regulatory costs."

But if the first three quarters of 2018 are anything to go by, Luxembourg needn't worry. Out of twenty registered countries, Luxembourg recorded the largest inflows (€76.1 billion) during Q3 2018.

This was followed by Ireland with €49.5 billion and France €19.7 billion. The figures show that Luxembourg is well ahead of the mark in this area. In Q3 2018, among the major domiciles, Luxembourg once again ranked as the third largest asset growth with 0.9 percent.

Discussing the growth and success that Luxembourg has seen, Chris Chancellor, senior director, Europe, the Middle East and Africa insights at Broadridge, comments: "Luxembourg UCITS funds gathered €13 billion, this was around half the flows of rival Dublin but Luxembourg remains the leader with almost triple the assets of Dublin."

In addition to the UCITS product, "there is also a range of legal structures that can support any type of investment strategy, thus allowing speed to market and flexibility", according to Jeremy Albrecht, head of global client coverage, Luxembourg at RBC Investor & Treasury Services.

He says: "We expect to see large Luxembourg UCITS funds continuing to attract new investors as well as growth in the real asset space over the coming years."

But it's not just its UCITS and AIFs results from 2018 that continue to show promise, it's also the managers it attracts and where these managers hail from.

As Chancellor explains: "As a pan-European distribution hub, Luxembourg attracts managers who have interesting strategies that are often not replicated in local markets, while at the same time attracting investors not just from Europe but globally—especially from Asia and Latin America."

### Brexit

The UK is expected to leave the EU in March 2019, notwithstanding, any transitional agreements by the UK's Prime Minister Theresa May and the EU. Until then, the rest of the world awaits the outcome of current negotiations.

The ongoing uncertainty around the UK leaving the EU has positioned Brexit as a top systemic risk concern for this year, according to a survey, published by The Depository Trust & Clearing Corporation published in 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 Brexit date quickly approaches. But, even though the aforementioned reflects myriad scare-mongering surrounding Brexit, not just in the financial sphere, many in the industry are seeing its possible benefits and haven't felt any negative effects, yet.

Chancellor affirms: "In 2018, we saw some Brexit related growth as some groups who were selling UK vehicles across the continent future-proofed their business by creating funds in Luxembourg."

And as Steve David, Luxembourg country head at Northern Trust, states: "Brexit also represents a further opportunity for Luxembourg to grow its global fund industry across both traditional and alternative products with asset managers."

He adds: "We've certainly noted an increase from fund managers looking to establish Luxembourg-domiciled funds as their gateway to European and global investors while running UK-domiciled funds to serve UK investors."

Claus states: "Brexit is attracting new players to Luxembourg, both in asset management and insurance. There is a big opportunity to build on Luxembourg's expertise and experience in private markets; the real economy needs funding, and the Luxembourg fund industry is well placed to capture that funding and allocate it."

Voss said: "Most firms have been preparing for Brexit and have put in place plans for each scenario, over the past months including a 'no deal' exit. One thing to bear in mind is that, from the end of March, UK UCITS will qualify as AIFs in the case of a 'no deal' scenario. This is an additional challenge for fund management companies with UK products."

She continued: "The Luxembourg fund centre has a long-standing relationship with the UK, evidenced by the fact that over 18 percent of assets under management in Luxembourg funds are managed by UK-based asset managers. UK fund initiators remain very active in Luxembourg, accounting for 41 percent of all new fund units created in 2018. Our efforts focus on how we can continue this constructive relationship even after Brexit."

### Technology

Buzzwords such as 'automation' and 'robotisation' seem to be a topic of every discussion within the asset management sphere through recent years. Claus indicates even though the subject has been discussed at length within the industry, its prominence has only really risen recently.

He affirms: "Digitisation and artificial intelligence are rising up the asset servicing agenda, along with the ongoing need for increased efficiency. Overall, I see a positive outlook for the long term—the funds industry in Luxembourg still has plenty of upside."

David indicates the strength of technological innovation, especially distributed ledger technology (DLT) is transforming the financial industry.

He affirms: "New technologies such as DLT or blockchain have the potential to drive major industry-wide improvements, including around data security and transparency. The challenge and opportunity for Luxembourg is to keep at the forefront of these fintech trends to become an early adopter. With its pragmatic approach to regulation and the collaborative spirit of its financial industry stakeholders, Luxembourg is well placed to succeed." AST

# All roads lead back to data

## Alex Foster of BT Global Banking and Financial Markets explains how data and technology will play the biggest part in asset servicing in years to come

*Jenna Lomax reports*

**To what extent is MiFID II affecting BT customer's day-to-day work?**

As we know, the second Markets in Financial Instruments Directive (MiFID II) is an expansive piece of regulation impacting all areas of investment banking, from making sure the interactions between banks and asset managers meet data requirements to ensuring pension fund holders and managers are interacting with the public in order to get the right information to ensure investments are MiFID II compliant.

BT's focus is on technology's capacity to improve compliance, whether that is a question of best execution or ensuring people are receiving the right advice.

In terms of MiFID II, BT is working with customers on all elements of the directive, from technology-related issues to questions of where they store their data.

Customers are also required to provide near or real-time recordings of phone calls as they must make sure their client interactions meet MiFID II standards and obligations.

We have also worked with personalising data to help to understand financial products and mitigate selling risks, while at the same time ensuring people have a complete understanding of what they're buying.

**What are some of the current challenges facing BT's clients right now?**

As with many areas of financial markets, Brexit poses a unique set of compliance challenges to our client base. For example, MiFID II was designed in response to the financial crisis to protect individuals across all 28 member states. When the UK leaves the EU in March 2019, the MiFID regime will potentially only cover 27 member states, but our clients and the wider industry want to make sure that those protections remain and that financial markets grow increasingly transparent.

In addition, as time passes, regulators will be able to reassess whether MiFID II has been effective in its aim to improve transparency in the industry. If there is indeed a need to improve transparency still, this push—along with other challenges resulting from Brexit—might lead to the initiation of a MiFID III.

**You have a strong knowledge of technology within financial services. What trends are you seeing within asset servicing at the moment, particularly custody and asset administration?**

Asset servicing organisations are focused on technology because everybody wants to offer the flexibility that comes hand in hand with new technologies by providing products and services that are easy to use and quick to adopt.

One key example often cited is distributed ledger technology (DLT). While people often associate this with cryptocurrencies, we see it as a key technology for asset servicing and provenance in order to help organisations with securities settlements and to improve middle and back-office functions. We have worked with one organisation that facilitated a set of processes that settle assets using distributed ledgers in order to speed up and improve their record keeping and transaction processing capabilities. The development of DLT will continue to be a key trend in asset servicing due to its ability to support information gathering and because of its robust, built-in security capabilities.

In addition, we will also continue to see firms move away from siloed structures—where the front-office operates completely separately to the back and middle offices—to a much more integrated system. Regulations have helped us achieve this by requiring firms to take a more holistic, unified approach to transactions so that the end-to-end management of each one is more visible and can be more easily audited.

Areas that have less investment, such as the middle office within asset management as well as the banks themselves, are really starting to have a focus on technology to achieve greater insights and scale. Once you've got end-to-end control and visibility of your transactions, you've got data, and once you've got data, you can get more insight.

Once firms improve their data management processes accordingly, they can then start to apply artificial intelligence (AI) and machine learning as well to leverage that data and develop new insights which will have significant commercial benefits.

**Has AI caused an upheaval in the financial services industry and its workforce?**

There is a certain amount of experimenting around robo-advice in the industry, particularly in asset management. In fact, a recent report from Greenwich Associates found that around 50 percent of all asset managers plan to increase the integration of AI into their investment process, but it's still too early to tell what the real effects of this will be. I don't think there are enough examples for this to be a 'Frankenstein moment' for asset managers. We are currently at the point where people are starting to use AI to investigate investor behaviours, attract more investors and hopefully uncover cybersecurity risks or fraud.

One risk that the industry thought would be posed by AI was the creation of autonomous advisers to replace human ones. However, in that field, we are seeing one of the largest shifts because asset managers have been closing their robo-advice platforms because they don't always get the traction they want. This could be attributed to the advice these platforms have given, or maybe it is because people still crave human interaction.

In our call centres at BT, AI is used to improve our customer service but it is augmented with human interaction to mitigate that kind of risk. We are finding that customers who use the technology are getting excellent customer service and so perhaps the augmentation of AI with human interaction will be the way forward within asset servicing as well.

**How do you see technology developing in the asset servicing industry over the next five years?**

Blockchain, robotisation and automisation are going to play a big part in asset servicing over the next five years. Both human and cognitive structures will also be central, with chatbots also becoming a key part of the process of assessing how cognitive technology works alongside humans. The UK needs to be more productive in this area in particular, especially in a post-Brexit era, as this will help efficiency.

Blockchain has the potential to significantly reduce the volume of paperwork in the asset servicing sphere, an industry where this has become a particular problem. Improving efficiency through end-to-end and cost-effective technology would be a great result for all organisations over the next five years, as well as the improvements that technology can make in provenance and authentication.

Overall though, all roads lead back to data, and the progress of data management and data insights will be key in the years to come. AST

*Blockchain has the potential to significantly reduce the volume of paperwork in the asset servicing sphere, an industry where this has become a particular problem*

**Alex Foster**
Head of insurance and strategy
BT Global Banking and Financial Markets

# Inclusivity for all, even after Brexit

**The theme for this year's ISITC Europe Market Innovation Summit was 'Innovation Europe—business and technology collide', but that didn't mean that Brexit was far from anyone's minds**

*Jenna Lomax reports*

The notion of 'inclusivity for all' was high on the agenda for this year's Inaugural ISITC Europe Market Innovation Summit, hosted at the Grange Tower Bridge Hotel in London on 24 January.

"Our main aim is inclusivity and to present everyone in meeting groups", according to a representative of the European Central Bank (ECB) when asked how the UK will be included in collateral and corporate actions discussions after Brexit.

The representative said after the UK leaves the EU in March, as is expected, colleagues active in the UK will "always be presented in meeting groups and kept informed about all issues."

In his presentation, 'A view from Europe', the speaker added at the moment, the ECB has established a task force specifically for securities and collateral and tri-party systems, though he stated data management still needs to be looked at, which he indicated would be based on the ISO 20022 model. The speaker also stated the Eurosystem Taskforce is pursuing harmonisation of Eurosystem's collateral management, to which he said the bank would be enhancing collateral mobility and it should be a joint market effort.

The ECB is also working on a governance arrangement for TARGET2-Securities (T2S) and convincing those in the industry the model is good for the market.

The ECB representative discussed ECB's report released in September 2017, which revealed harmonisation achievements have been made—in technology especially. Though he added, more than a year on from that report, there is still a need for interoperability and new technologies should apply in a common language.

Staying on the theme of technology and innovation, a Conservative Member of Parliament (MEP) stated: "The fear continues around innovation and the changes it will bring".

The MEP stated that this fear and resistance to change comes from a misunderstood notion that regulation stands in competition with innovation. The MEP affirmed that this notion was false and innovation should be harnessed through regulatory frameworks.

He went on to say that many innovation start-ups begin their business only after asking for regulation for certainty—so as not to fall foul of the law.

He explained that there should be a focus on embracing young people with skills suitable for the financial sector as the financial sector evolves. In particular, the MEP affirmed coding needs to become more prominent and better taught within the education system.

One audience member challenged the MEP stating that most politicians don't believe distributed ledger technology actually exists and added: "Politicians need to realise it's here."

The MEP also discussed Brexit and was confident London would still remain a global financial sector after the UK leaves the EU.

The MEP was optimistic that the UK will continue to trade with the rest of the world. He said: "The UK remains the number one country for investment in technology and a highly desirable location for business. The EU will be fearful once we have gone. Having a Norway model could be a short term solution, but we'd become a permanent rule taker, the rules may not be in our interest. The Norway solution is not sustainable in the long-term."

A representative from CCLA also gave an outlook of Brexit and personal view of current trends, especially the impact of ethical, environmental and governance factors on the industry. In his presentation, he discussed the history of economics and the introduction of world trade.

In the afternoon, a panel discussing MiFID II asked the audience of approximately 150 if they believed MiFID II had been beneficial to their business a year after its implementation, to which approximately only 10 percent said 'yes'.

One panellist said that before its introduction, primary exchanges central order books consumed 50 percent of overall business in Europe and he indicated that since January 2018, when the regulation was implemented, the level "hasn't changed that much. There's been a decline of seven percent of businesses that traded in public markets, so in this instance, you could argue primary markets have done ok".

Another panellist said that MiFID I "opened the door for competition", whereas, MiFID II is all about transparency, and he deemed that the market has not achieved that level of transparency yet. The panel then mostly agreed that regulation that drives technology doesn't always put the industry in a "positive place".

One panellist affirmed: "We are all confronted with the cost of regulation, none of us can deny the amount of reporting needs to be used better. We are seeing a change in financial services—the pricing and costing are becoming the flow model of industries across the world."

Other highlights of the day included a presentation from ISITC's North American chairman who discussed the organisation's accomplishments for 2018, which included the creation of a margin and collateral working group and the update of its name and logo, among other achievements. She also invited delegates to the ISITC's biggest event of 2019, the Annual Securities Operations Forum, commencing in Boston on 24 March.

The last panel of the day discussed whether new technologies could facilitate the agile use of enterprise data.

Panellists deliberated about the current state of data within the industry. One speaker deemed the industry "hasn't seen a change in the last 35 years concerning data and many businesses still rely on just one Excel sheet to run their entire business."

Another said: "Data has always been a problem, how you deal with it has always been a problem. People have used MiFID II to add data lakes. Some in the industry have shoe-horned it in and made it a more complicated condition that's acceptable to them."

The panellist decided and agreed on point of a conclusion that data is not being looked at holistically enough within the financial industry. AST

# What makes CSDR so different?

## Mark John of BNY Mellon's Pershing talks to Asset Servicing Times about CSDR and what it means for custodians

*Jenna Lomax reports*

**Once the CSDR standards are published in the EU's official journal, firms will have two years to prepare before measures come into play. What would you advise for custodians?**

We need to focus on understanding what it is that the regulatory authority is trying to achieve and how it affects the role of a custodian. A review of the infrastructure to see how to incorporate settlement discipline fines into their service is also necessary. From our perspective, it's very much around how we are going to receive and process information and how we are going to interpret those rules and guidelines into proper practical implementations that we can use to improve our business model as a service provider. We are looking at increased demand for securities borrowing—there could be an opportunity for custodians to identify a borrowing capability to assist clients from limiting, or avoiding, a mandatory buy-in.

A key question for custodians is whether they would ever absorb charges on behalf of their client. The industry is venturing into unchartered territory with respect to a new settlement discipline and a new way of servicing clients. This in itself will be complex, taking into consideration the levels of reconciliation required to de-mark each category of instrument, by the client, and by the respective classification of liquidity. There is no universal process for this today, so in the medium term, I would expect a huge amount of development across all market participants to achieve automated processes and procedures.

**What implications does CSDR have for custodians?**

One of the key implications of CSDR is data in the form of volume and processing power to manage new conventions and the importance of having solid and robust static data. The obligation to offer segregated accounts is an interesting operational challenge from a capacity and data management angle. It could also lead to increased settlement inefficiency. What strikes me is that by offering segregated accounts, you are putting more settlements through a system: segregated accounts create more and more buckets that represent the client or sub-client holdings.

If one needs to transact more individual transactions in order to make an overall movement of the securities, then that's creating the need for additional operational bandwidth at any custodian house. This highlights the need to have robust and accurate static data records, as well as solid trade analytics to identify known areas of current settlement inefficiencies to help maximise any potential to maximise straight-through processing (STP) in time for 2020. So, while segregation is great for transparency, it will create additional settlement flow, which will have an impact on the middle office to maintain requisite levels of settlement efficiency.

Internalised settlement can be one such way to overcome some of this friction, but that in itself will require development to ensure the appropriate reporting standards are met.

Equally, the inclusion of securities lending services will aid in the smooth process of timely settlement, but not without its own careful considerations toward introducing additional settlements to the process and thus compounding the potential exposure settlement inefficiency.

**If cash penalties are handed to custodians, are you expecting the custodian to absorb the cost or pass them back to the client?**

It will be purely a commercial choice. In the event that charges are passed on, there are multiple routes to charging, on a netted basis either by the client or by the counterpart. In the event that systems and data reconciliation prove too complex and onerous to pass charges on, then we may well see charges absorbed.

There is already evidence coming out of the second Markets in Financial Instruments Directive's (MiFID II) unbundling of research and execution commissions that have paved a way for a simplified process to pass on charges, perhaps a more generalised charging mechanism will emerge to address this issue.

**Are there any opportunities for custodians that you see with SFTR?**

For our clients, it's all about securities borrowing. There's a huge opportunity for more securities financing. However, this also exposes the potential for those would be-securities lenders to be exposed to CSDR fines themselves.

If you're lending a security to a borrower to avoid a CSDR-related fine, that could be acceptable because it's outside of the Securities Financing Transactions Regulation (SFTR). But the moment that instrument then needs to be recalled and delivered on, the reversal of that loan back into mainstream availability may actually create exposure as a CSDR incident.

There are also specific rules to benefiting from a buy-in exception, which applies to transactions that have a second or closing leg set within 30 days from the first leg. Any transaction with a term longer than 30 days, or indeed without a closing leg, will still be exposed to the settlement discipline regime.

Balancing the opportunity to increase revenues and relevance by offering this enhanced service with the potential exposure to SFTR and CSDR fines will be tricky.

This is going to be an interesting way of looking at how greater efficiency can be provided, how this can be cost-beneficial and revenue-rewarding to the buyer and the custodian, and how it can also limit the downstream impact of potential fines.

**How does CSDR differ from other regulations that the industry has been preparing for in recent years?**

It does more to harmonise settlement decisions, settlement efficiency and settlement transparency across European geography so that in practice it will look more akin to the US market. In the sphere of everything that's happened in the regulatory world of Europe (or indeed globally), where everything is driving toward transparency—CSDR is just another example of this trend with the added benefit that efficiency is increased, risk is reduced and a focused attempt to achieve finality of settlement is shared across all financial market participants.

In the transition from T+3 to T+2, the market lost a third of its processing window. The markets had time to get to grips with that tranche of CSDR, and now the settlement discipline function will really ramp up the need to get transactions settled on-time, removing risks from the system and creating transparency at the same time. This is another way of reducing exposure and ultimately reducing cost because the cost will only really come out of inefficiency.

**Looking at the next 12 months, what trends are you currently seeing in the custody space, and what are your predictions for the year ahead?**

With regulatory and political will put to one side, as an industry there is a benefit in making the best market conditions irrespective of geopolitical uncertainty. Financial markets are global. I suspect there will be continued collaboration for the good of market efficiency, global client coverage and a will to minimise geopolitical barriers.

From a business perspective, the focus remains on preparedness for the regulatory environment and the execution of it—this has become an ongoing priority now for all financial institutions. So, I think business as usual for financial institutions is very much going to continue to be: "get on with implementing the changing regulation and get on with your own plans to make sure there's proper efficiency in the system".

I would also expect that the ever-growing fintech conversation space is going to continue to have a very strong voice, especially when it comes to the collection, monitoring and reporting of data, as well as the ability to analyse it.

There will be a focus on trend analysis and predictive analysis in terms of what activities we are failing on and what information we can gather on that failed activity in order to improve it. AST

# Comings and goings at Northern Trust, BNY Mellon, HSBC and more

**Northern Trust has appointed Kimberly Evans as head of private capital fund administration in North America.**

Evans joined Northern Trust in 2010 and has held senior management roles, including global head of client valuation reporting and head of the public funds/Taft-Hartley pensions business.

Prior to Northern Trust, Evans was a senior operations executive at major financial institutions including the former First Chicago and LaSalle banks and served as a consultant to community bank executives.

She is also president of the Women in Leadership Business Resource Council at Northern Trust.

Peter Sanchez, head of North America alternative fund services at Northern Trust, commented: “Kimberly Evans’ experience with sophisticated investors, dedication to client service and proven ability to leverage the strength of Northern Trust’s global platform and expertise will be a powerful combination for our business.”

He added: “Her appointment signals our commitment to delivering innovative solutions to investment managers across the spectrum of alternative asset classes and strategies.”

Commenting on her new role, Evans said: “I am excited to take on this newly-created role, working with a talented team to support some of the world’s most innovative asset managers.”

**BNY Mellon has appointed Linda McMahon as head of UK trust and depositary, effective 18 February.**

In her new role, McMahon will be responsible for managing depositary activities in the UK that include client relationship management, service delivery and client satisfaction.

McMahon will set the strategic direction for the business and ensure that the business adheres to all relevant risk, compliance and regulatory guidelines.

Based in Edinburgh, she will report to Keith Whitelock, head of trust and depositary for Europe, the Middle East and Africa (EMEA).

McMahon, has over 30 years of experience in the financial services sector, specifically in depositary services.

Most recently, she was head of State Street’s trustee business in the UK. Previous roles at State Street include, head of governance and oversight, head of alternative depositary services, head of product and head external audit.

Daron Pearce, CEO, BNY Mellon EMEA, asset servicing, said: "McMahon joins us at an exciting time as we continue to develop our 'One EMEA T&D Model'. Her deep operational knowledge and proven track record make her ideally suited for this role."

**AcadiaSoft has appointed John Pucciarelli as director of strategic initiatives.**

Based in New York, Pucciarelli will be responsible for maximising the firm's outreach to initial margin (IM) phase 5 firms. He joins AcadiaSoft from the International Swaps and Derivatives Association (ISDA), where he served as director of market infrastructure and technology.

While at ISDA, Pucciarelli led margin and collateral initiatives for its membership. He was also responsible for overseeing the implementation of the initial phases of the non-cleared margin rules from an operations and business perspective. From 2013 to 2017, Pucciarelli co-chaired the ISDA collateral steering committee.

Prior to joining ISDA, Pucciarelli spent six years at AQR Capital Management where he oversaw the firm's middle office operational functions with a focus on treasury and collateral management as well as equity and fixed income trading operations.

Chris Walsh, CEO of AcadiaSoft, said: "John Pucciarelli's experience as director of market infrastructure and technology at ISDA is a perfect complement to AcadiaSoft's expertise as we continue our effort to become a one-stop-shop for IM compliance and sharpen our outreach effort to IM phase 5 firms."

Commenting on his new role, Pucciarelli said: "Firms who will be subject to the later phases of the non-cleared margin rules will face several compliance, risk management and operational challenges in the coming years. AcadiaSoft and its suite of innovative products and scalable solutions are poised to meet them all."

He added: "I am excited to join an organisation with such a diverse group of collateral thought leaders who understand and anticipate the needs of their clients. As I have done at my tenure with ISDA, I look forward to continuing my work with the industry and bring world-class technology to solve all of the collateral and risk management needs."

**Rafael Moral has been appointed global head of strategic business development and planning, as part of HSBC's reshuffle of its securities services team (HSS).**

Moral will be responsible for the development and execution of HSS' business strategy and will also support HSBC's sustainable growth ambitions.

Moral will report to Daniel Klier, global head of strategy and chief of staff for HSBC's global banking and markets (GBM). His new team will include employees from the strategic planning and performance function. The remaining teams within this function will report to the acting HSS global COO, John Lloyd. Carl Andrews will become regional head of Europe and will report to Thierry Roland, head of Europe for GBM.

Previously, Andrews led both HSS in the UK and the global HSS change function.

Allegra Berman and Richard Godfrey, global co-heads at HSBC Securities Services, said: "These changes are effective immediately. We are pleased to announce the following organisational responsibility changes within the HSS global executive committee."

**Eurobase International Group has appointed Paul Bryson as group operations director.**

Bryson will be responsible for product development, support and professional services for both insurance and banking. He has more than 30 years' experience in the global insurance software and services business.

Prior to Eurobase, Bryson served at DxC where he held executive management roles including COO for the European financial Services sector, and managing director of global reinsurance and life assurance software product businesses.

Commenting on his new role, Bryson said: "Eurobase has an enviable reputation for quality and successful delivery and I am looking forward to working with the team to deliver our market-leading solution portfolio to a growing customer base."

Joe Locke, CEO of banking and insurance at Eurobase, commented: "We are really pleased to have Paul Bryson join us and at such an exciting time for Eurobase. I've no doubt Bryson will be a strong asset and I look forward to working closely with him."

**Australian Securities Exchange (ASX) has appointed Sasha Conoplia as sales manager for settlement and collateral in its derivatives and over-the-counter markets team.**

Based in Sydney, Conoplia will report to Blair Harrison. Harrison is ASX's senior manager of settlement and collateral.

Conoplia will be responsible for customer growth in the ASX Collateral tri-party repo and collateral management platform. He will also help to deliver Austraclear's multi-currency payments and securities initiative.

Conoplia has more than 23 years' global markets experience across securities financing, tri-party repo, collateral management and derivatives. He has also served at Commonwealth Bank of Australia, Macquarie Bank and Bankers Trust. AST