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# Clearstream enters Australian market

Clearstream is to acquire Ausmaq Limited, a Sydney-based specialist managed funds services business owned by National Australia Bank Limited.

The acquisition marks Clearstream's entrance into the Australian market and is part of Deutsche Börse's Roadmap 2020 strategy to bring a focused and disciplined approach in selected growth areas, one of which is investment funds.

Clearstream will expand on the service offering currently available to Ausmaq customers to also provide Australian custodian banks, wrap platforms and wealth managers with access to its global funds processing platform, Vestima.

Ausmaq customers will gain additional product reach with direct access to international funds and alternative funds.

The acquisition is expected to be completed in the second half of 2019, subject to regulatory approval.

Bernard Tancré, head of investment funds services at Clearstream, said: "Ausmaq is a perfect fit for Clearstream's strategy in the Asia-Pacific region. As an established provider of fund processing solutions, the acquisition allows us to broaden our fund service offering in Australia and to provide our international customers with integrated solutions for the domestic market."

Ravi Subramaniam, CEO Ausmaq, commented: "We're thrilled to be joining an organisation of Clearstream's calibre—a recognised global leader in post-trade services. Our clients can expect to receive the same exemplary service that they've become accustomed to over the years, with increases in the service offering to be introduced over time."

# Latest News





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W: **www.assetservicingtimes.com**
T: **@ASTimes_**



**Editor: Becky Butcher**
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6026

**Reporter: Jenna Lomax**
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

**Reporter: Maddie Saghir**
maddiesaghir@blackknightmedialtd.com
+44 (0)203 750 6019

**Contributor: Barney Dixon**

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

**Publisher: Justin Lawson**
justinlawson@blackknightmedialtd.com
+44 (0)203 750 6028

**Associate Publisher: Joe Farrell**
joefarrell@assetservicingtimes.com
+44 (0)203 750 6024

**Office Manager: Chelsea Bowles**
accounts@blackknightmedialtd.com



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## Magnetar Capital chooses Northern Trust for fund admin

Northern Trust Hedge Fund Services has been selected by Magnetar Capital to provide its middle- and back-office fund administration services and regulatory reporting.

Founded in 2005, Magnetar Capital is an Illinois-based alternative asset manager.

Ernie Rogers, Magnetar Capital COO and CFO, said: "Given the volume and intricacy of our strategies, we needed a partner that could evolve alongside our operational demands and support a wide array of investor services. We selected Northern Trust for its unique combination of technology, operational excellence and industry expertise."

Jeff Boyd, CEO of Northern Trust Hedge Fund Services, commented: "In this fast-paced market, fund managers need innovative solutions that support their growth and fit their company's needs now and in the future."

He added: "We are thrilled to be able to work with Magnetar Capital, offering client-tailored services to support their evolving needs."

## Calastone launches blockchain-enabled DMI

Calastone has launched its blockchain-enabled distributed market infrastructure (DMI), which sees the migration of Calastone's global funds network of more than 1,800 customers across 41 markets onto the blockchain-based network.

The DMI allows financial services organisations to access a mutualised global funds marketplace whereby the trading, settlement and servicing of funds is conducted in real-time, Calstone revealed.

Campbell Brierley, Calastone's CIO, commented: "Through Calastone's blockchain-enabled market infrastructure all participants across the fund's world can work together seamlessly and view trading activity in real-time."

"Information now ripples instantly across the market, a step change from the previous, fragmented model. Financial services firms worldwide can, via the DMI, utilise new services, enhanced capabilities and new investment opportunities, allowing them to evolve their proposition to one that will be more competitive and valuable long-term."

Julien Hammerson, Calastone's CEO, added: "The launch of the DMI today marks an important step for the entire funds industry, creating a friction-free global marketplace for funds. By leveraging the latest technology we are able to provide the investment management community with the tools they need to control risk and cost while meeting the evolving needs of investors."

## Koine acquires Recruitable

Koine, an institution for custody and settlement of digital assets, has acquired Recruitable. Koine is scheduled to launch next month with its custody and real-time settlement services for digital assets for institutional clients. Koine plans to make a number of acquisitions of tech-based, intellectual property owners in order to fast-track the integrated end-to-end services that its clients are demanding.

Recruitable trades as 'hireabl' and is a pre-launch, fintech company with a platform for automated client onboarding.

Hugh Hughes, chairman and CEO of Koine, said: "Koine has recently completed its second round financing and we are poised for launch and dramatic growth. With this acquisition of talent and technology, we are investing in the client onboarding experience, for the excellence of our customer service and for rapid expansion in our client base."

Jason Mochine, CEO at hireabl, and now head of sales at Koine, said: "We are convinced of the business and technical synergies of integrating our scalable client on-boarding capability into the Koine global offering. There is massive client interest in the provision of institutional custody and settlement of digital assets. Clients and prospects are impressed at gaining the ability to increase their capital efficiency and reduce settlement risk through real-time interoperability with multiple global trading venues on the single Koine custody system."

## Fenergo and Refinitiv join forces to accelerate client onboarding

Fenergo has partnered with Refinitiv to streamline know-your-customer (KYC) verification and anti-money laundering (AML) screening.

Fenergo's integration of Refinitiv's World-Check One allows customers to quickly identify potential risks and respond to threats.

It also allows users to create and maintain a model inventory and a clear evidence trail of the acceptance or rejection of changes, report on governance status, sign-offs, supporting attachments and related issues all from a single platform.

Marc Murphy, CEO of Fenergo, said: "In partnering with Refinitiv, we can automate data collection bringing huge efficiencies to client onboarding and account opening processes, increasing time to revenue and reducing client outreaches. Our complementary solutions enable the shift from time-based client KYC reviews to a perpetual and continuous KYC review model."

Phil Cotter, managing director of risk at Refinitiv, commented: "Through the combination of Fenergo's customer lifecycle management solution and Refinitiv's World-Check One, financial institutions can better manage increasing amounts of regulation that require them to collect more data and documentation from clients."

## Alexander Forbes to end current operations in Uganda

Fund administrator Alexander Forbes Group Holdings is to exit its current operations in Uganda.

Alexander Forbes revealed that it would cease operations in its strategic review of the business and operating model on 26 March, through an announcement to investors and the market on the Johannesburg Stock


## FundRock opens new branch in Singapore

FundRock has opened a new branch in Singapore that is to be headed by Timothy Walkley, managing director of Asia markets.

Walkley has more than 20 years of experience in investment management, with knowledge of Asian markets.

Most recently, he launched a China A-share exchange-traded fund in partnership with FundRock for a large Chinese investment manager.

Walkley has been actively involved in China-focused investment activities since 1999, covering private and public equities.

Xavier Parain, group CEO of FundRock, said: "The establishment of a FundRock branch in Singapore is part of our strategy to expand our business in the Asia-Pacific region and complements the cooperation agreement we signed in September with Perpetual Corporate Trust of Australia."

He added: "Our clients are always in the centre of what we do and Tim Walkley's significant experience of dealing with Asian-based managers will allow us to broaden the solutions we can offer them in the region."

Tim Walkley commented: "FundRock has a long track record of offering solutions to Asia based managers and understanding the specific challenges they face. Following a significant increase in the number of Asian investment managers setting up funds in Europe, the establishment of a branch in Singapore allows us to better serve our existing clients and expand our client base."

Exchange News Service. The strategic review outlined the company's vision for servicing its clients across Africa through its solution platform, Arrive.

The pan-Africa solution is aligned to local regulations and based on global best practices. The company said it is committed to an orderly exit from Uganda and will maintain levels of service and advice to its clients.

## Northern Trust selected by Smithson for asset servicing solutions

Fundsmith has selected Northern Trust to provide fund administration, depositary and global custody services for the Smithson Investment Trust.

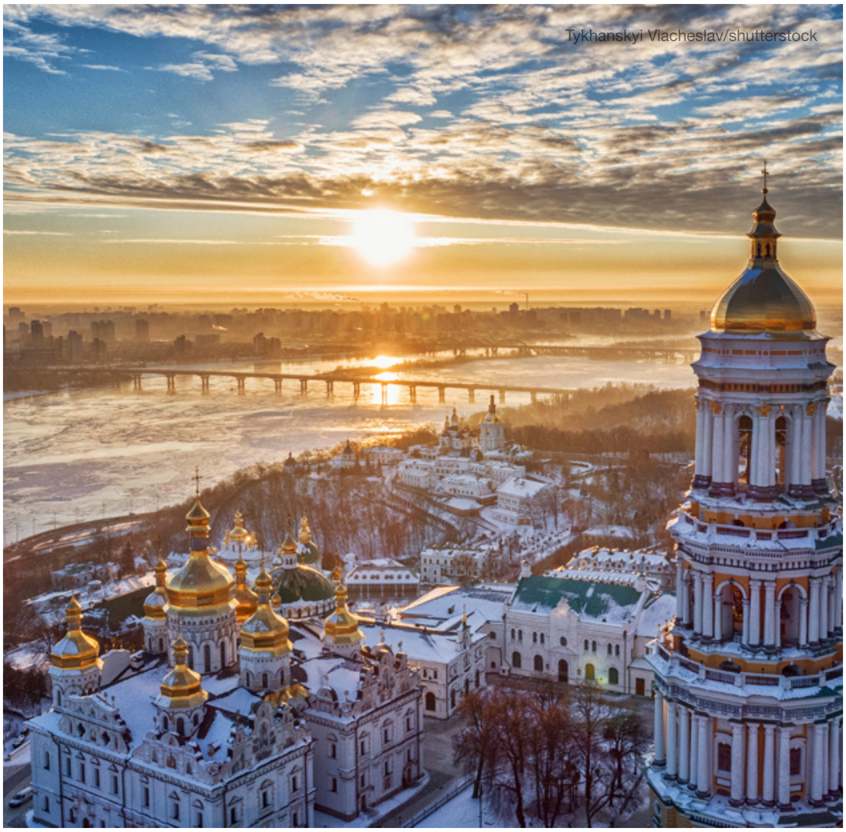
It is also utilising Northern Trust's outsourced trading capability, Integrated Trading Solutions, which combines worldwide trading services for equities and fixed income with access to global markets, trading locations, high-quality liquidity and an integrated middle and back office services.

Simon Godwin, CFO at Fundsmith, commented: "Outsourcing trading activities across our funds to a trusted and expert provider supports Fundsmith's focus on delivering first-class investment analysis, portfolio management and customer care."

Guy Gibson, global head of institutional brokerage at Northern Trust Capital Markets, said: "By delivering global trade execution, matching, and compliance reporting through Integrated Trading Solutions, Northern Trust is actively supporting our client's commitment to delivering value and cost-efficiencies for investors."

He added: "Our trade execution middle office solution is helping the Fundsmith team free-up capital and resources, while allowing them to exercise the high levels of oversight and governance that they and their investors demand."

Laurence Everitt, head of global fund services, UK at Northern Trust, commented: "Northern Trust has a comprehensive range of asset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## Clearstream to connect to the Ukranian market

Clearstream is to connect the Ukrainian market to its network and make Ukrainian government securities eligible in its system.

Citi will act as cash correspondent bank and local operator of Clearstream's account at the National Bank of Ukraine (NBU).

The connection will enable settlement of all government bonds denominated in the local currency hryvnia through the international system of Clearstream.

According to Clearstream, the Ukrainian government will benefit from a wider range of sources of long-term funding and a lower cost of borrowing, improving efficiency at international standards.

The offering will also improve the currency structure of public debt and transmission mechanism of the NBU monetary policy while contributing to the further development of the Ukrainian capital markets.

Jan Willems, head of global markets at Clearstream, commented: "We are looking forward to connecting the Ukrainian markets with our international customers. Being able to enter emerging markets via a stable post-trade environment is very attractive to investors all over the world."

Oleg Churiy, deputy governor of the NBU, said: "The NBU launched the project on establishing correspondent relationships with Clearstream three years ago and now it has been officially implemented."

He added: "Creating easy access for foreign investors to Ukrainian government securities will foster long-term investments in hryvnia instruments, reduce the state's need for financing in foreign currency and respective currency risks."

servicing and trading solutions available to support Fundsmith's requirements as they grow and evolve. We are delighted to have this opportunity to build on our partnership together."

## Clearstream launches new fund distribution support services

Clearstream is to expand its investment funds service offering by merging Vestima funds processing services with distribution support services, under the umbrella of its Clearstream Fund Desk.

Clearstream Fund Desk services will cover distribution contract negotiation, compliance support services for eligibility control, anti-money laundering, know-your-customer, exchange fund data from asset managers to fund distributors and vice versa, as well as a distribution commission management service.

Using its existing Vestima account, fund distributors and asset managers can access the new services to expand their international distribution networks.

After the acquisition of Swisscanto Funds Centre in October 2018, the services were renamed the Clearstream Fund Desk and fully integrated into Clearstream's investment funds services product range.

Bernard Tancré, head of investment funds services at Clearstream, said: "We are thrilled to be able to offer fund distribution support services to our customers worldwide. This service enhancement was strongly driven by client demand. It supports market participants in facing regulatory and other market challenges around fund distribution, such as the second Markets in Financial Instruments Directive in the EU and having full control over distribution chains."

## PwC predicts more fund administrators will enter the crypto space

As the cryptocurrency market has matured, more fund administrators are becoming more open to servicing crypto assets and could begin working more with clients in the near future, according to a new report by PwC.

This has been aided partly by the development of the lending market, allowing these funds to take short positions and utilise market-neutral and a variety of other strategies.

Although PwC's research on crypto hedge funds cited the challenges of accurately valuing a crypto fund as public information, the fund landscape remains scarce and existing data is often inaccurate.

The PwC report also found that crypto hedge funds had median returns of -46 percent during 2018.

Results also highlighted that funds tend to be domiciled in the same jurisdictions as traditional hedge funds, with the top three jurisdictions named as the Cayman Islands, the US and the British Virgin Islands.

It further discussed there is a lack of 'traditional' fund administrators in the crypto asset space as most funds use relatively small fund administrators for net asset value (NAV) calculations.

The report explained that because "an independently verified NAV is crucial information for the fund auditor as well as investors, we expect to see more developments in this area as these functions 'institutionalise' further. Today, there are only a limited number of fund administrators servicing the crypto space. But this looks set to change over the coming months as the industry matures and some of the more established players become more comfortable with crypto assets and decide to move into this space."

"While the lack of traditional custody offerings for crypto funds has been widely discussed due to security concerns and the requirements of institutional investors, fund administration has seldom come under the spotlight."

## Wowoo Exchange selects Onchain Custodian for digital asset storage

Wowoo Exchange has selected Onchain Custodian (ONC) to provide a secure, compliant solution for the storage of its digital assets.

Wowoo Exchange, which launches next month, is building a platform that focuses on meeting global compliance regulations and providing security for customers. The partnership with Wowoo Exchange follows ONC's onboarding of a series of clients, including Ontology Foundation, Tembusu Partners and Timestamp Capital, among others.

Onchain Custodian is backed by Fosun, DHVC and Sequoia Capital, the US-based venture capital firm.

Willie Chang, CEO of Wowoo Exchange, said: "The partnership with Onchain Custodian supports our vision of building a highly-secure exchange where our clients can buy, sell and trade cryptocurrencies with confidence."

Alexandre Kech, CEO of Onchain Custodian, commented: "Onchain Custodian is honoured to have been selected by Wowoo Exchange as its third-party custodian."

He added: "We are looking forward to growing our respective business together while delivering two critical pieces of infrastructure to investors in the Asia Pacific and beyond, a compliant exchange with a secure custody solution."

## CFA UK launches a qualification in ESG investment

Chartered Financial Analyst UK (CFA UK) has launched a new qualification in environmental, social and governance (ESG) investing, which will be available to investment professionals later this year.

The certificate in ESG Investing will be recognised and supported by the principles for responsible investment (PRI).

The certificate will be the first formal qualification on ESG investing available sector-wide in the UK.

Its introduction follows a surge of interest in ESG from investors in recent years and will help to meet the investment sector's increasing demand for further education, guidance and standards around ESG.

The qualification sets out the fundamentals for ESG investing and will equip professionals with the skills and knowledge to integrate ESG issues into their day-to-day work. It has been designed for investment professionals in all roles, from asset management to sales and distribution, as well as students seeking a career in the investment sector.

The syllabus covers the development of ESG investing and narrower, technical issues such as portfolio construction. The skills learned will be applicable to all asset classes.

The qualification has been modelled on and extends to, CFA UK's existing Investment Management Certificate, which is considered the benchmark entry-level qualification for the UK investment profession.

A pilot exam is scheduled to take place in early September, at which point general registration will open. The first official open sitting of the exam will be available from 1 December 2019.

Will Goodhart, chief executive of CFA UK, said: "CFA UK's purpose is to make sure that investment professionals are technically and ethically competent to serve their clients well. The certificate will help professionals to build and demonstrate expertise in ESG investing and investment firms to extend their resources and illustrate their commitment. We are pleased to support the development of the sector's skills and competencies in this critically important field."

Fiona Reynolds, CEO at PRI, commented: "We are very pleased to build on our previous collaborations with CFA Institute to support CFA UK with the launch of its new certificate in ESG investing. We welcome CFA UK's decisive step to engage and educate investment professionals in the UK on responsible investing."

## Maple-Brown Abbott selects Northern Trust for custody services

Maple-Brown Abbott has selected Northern Trust to provide global custody, middle-office trade matching, fund administration, foreign exchange and associated services for its global investment products and portfolios.


## Voyager selects Ledger Vault's custody solution

Voyager Digital (Canada) has selected Ledger Vault's multi-authorisation cryptocurrency wallet management solution to increase the security of its crypto holdings. Ethos, a Voyager company, utilising Bedrock, will create unique addresses for Voyager customers who request to deposit cryptocurrency to their Voyager account. The assets customers transfer to these addresses will be held in Voyager's secure crypto custody solution, powered by Ledger, and will be available to users of the Voyager app to trade as soon as the blockchain transaction is confirmed.

Ledger Vault provides the technology infrastructure for firms to manage and control their cryptocurrencies, allowing firms to securely store and instantly trade their digital assets.

Steve Ehrlich, CEO at Voyager, said: "Security is at the heart of everything we do as a crypto company. Ledger Vault ensures best-in-class security of our customer assets on the Voyager platform without compromising the speed and liquidity they've come to expect from Voyager. It's also a crucial step in our efforts to deliver crypto wallet transfers."

Demetrios Skalkotos, global head of ledger vault, commented: "From our very first conversations with Voyager, it was clear that keeping their customers' assets safe is their top priority".

"By incorporating Ledger Vault's technology, Voyager is sending a clear message to their community that they do not compromise when it comes to security."

Maple-Brown Abbott is a specialist in investment portfolios across Australian equities, Asia Pacific (ex-Japan) equities and globally-listed infrastructure securities.

Northern Trust is a full-service provider to the Australian and New Zealand market and delivers solutions for institutional fund clients, including global custody, Australian investment accounting and tax, unit registry services, investment operations outsourcing and capital market solutions.

Maple-Brown Abbott Funds has also appointed Northern Trust as administrator and depositary for its Irish-domiciled UCITS funds.

Richard Grundy, COO at Maple-Brown Abbott, said: "Northern Trust's long-term experience in delivering asset services to leading investment managers, its global operating platform and the firm's demonstrable excellence in client service, made them an obvious choice."

He added: "With our investment portfolio spanning multiple international jurisdictions and investment classes, our partnership with Northern Trust will ensure we continue to deliver value for our investors."

Angelo Calvitto, country executive of Australia at Northern Trust, commented: "Maple-Brown Abbott's appointment is the latest in a series of new asset servicing wins for Northern Trust in Australia."

He added: "As part of this extensive mandate, Maple-Brown Abbott will benefit from Northern Trust's CompleteFXTM solution that offers end-to-end straight-through execution and processing of foreign exchange transactions, driving cost reduction and transparency."

## IHS Markit launches new solution to reduce onboarding process

IHS Markit has launched Onboarding Accelerator, a new solution to help banks and other service providers open accounts with institutional clients more quickly.

The new programme enables firms to reduce onboarding time to as little as one day and is suitable for custodians, fund administrators, trade repositories, technology platforms as well as providers outside financial services.

The technology allows service providers to define which documents and data they require for any type of account or client.

Clients and service providers are able to see what information has been delivered, apply exception management processes to improve operational efficiency and quickly identify the root cause of any delay in the onboarding process through dashboard tracking.

Onboarding Accelerator is built on Counterparty Manager, a service used to centralise the exchange of documents and data related to know-your-customer (KYC), account onboarding and maintenance.

Brittany Garland, director at IHS Markit, said: "Same-day onboarding is within reach for the industry. The analytics we offer show account status to both clients and service providers, bringing much needed transparency to the information black hole that plagues onboarding. Our goal is to lead the market toward digitising institutional identity, enabling system-to-system communication for onboarding and other KYC and regulatory processes."

## JSE launches new clearing solution

The Johannesburg Stock Exchange (JSE) has launched a new integrated trading and clearing solution to ensure better integration and cross-market harmonisation across the derivative and equity markets.

The new solution enables JSE to allow for centralised risk management as well as utilisation of assets and clearing efficiency.

Trading in all derivatives and cash bond markets at JSE are to be migrated to the MilleniumIT trading platform while for clearing, all markets are to be migrated to the new Cinnober real-time clearing solution.

According to JSE, this technology enhancement will drive efficiencies and integration across markets to better service the needs of its clients, leading to greater cross-market harmonisation and a swifter technology platform.

Nicky Newton-King, CEO of JSE, said: "The successful launch of what has been a multi-year project enables our products to trade on robust technology using world-class functionality and risk management techniques which we expect will enable our clients to lower their end to end cost of trading those products."

She added: "This has been a long journey and I want to express my gratitude to all our clients for their exceptional commitment to getting here with us."

# The slow train to innovation

## Metrosoft's Janusz Lorenc discusses the issues holding the industry back in technology innovation and how change needs to happen

*Jenna Lomax reports*

**What do you think are the necessary changes within the fund industry right now?**

Firstly, the industry is lagging behind in terms of innovation; there is no question there. Almost everybody is lagging behind. So it's up to the industry to look at the outdated processes that are inefficient and see how these processes can be changed using the data and technology available. Once these processes are redesigned to use available data and technology, then they can really spark a transformation that makes the industry more efficient.

Secondly, the industry tends to look at local problems. If there is a problem with know-your-customer (KYC) process, for example, the industry tends to address the problem by automating it. Instead, we need consideration of how the local problem fits into our end construct and learn what to change to achieve a broader result, fixing the local problem along the way.

Thirdly, the industry is lagging behind with the way that data is exchanged and exposed to the outside world. We still see the process of sending a file then uploading the file to the other system. Very often, the information is not in real-time. We live in a digital world where instant access to data is expected. Firms should look at how they can deploy application programming interfaces (APIs) across their systems to share data with the outside world, similar to what Amazon has done.

After all who owns the data? Investors and intermediaries are acting on their behalf.

### What processes does the fund industry need to change?

There are a few. Changing them would help tremendously. Client onboarding is one, with a highly manual KYC process. The same can be said about onboarding a new distributor with manual due diligence (KYD). These processes rely on paper, or at best on web questionnaires. They may be somewhat automated but still require a lot of costly manual work, therefore, it is difficult to provide efficient oversight. Everyone is talking about how we need to focus on improving KYC processes now, especially in Europe, but also globally. There are new initiatives in Dublin and Luxembourg but the problem seems to be that the focus is on the KYC process alone.

But, at the end of the day, you need to look at the entire process from the first contact to the point where you truly understand the risk and are then able to mitigate that risk. To make the process manageable you should use data that is publicly available and limit manual entry first. Secondly, you should employ automated risk scoring that will enable you to produce a meaningful view of risk. The law and anti-money laundering (AML) regulations allow for direct data use. In the future, once the data collection is efficient and KYC data is available, you may want to test machine learning to further aid in accurate risk assessment.

Another example is that each large asset manager needs to handle hundreds, sometimes thousands, of distribution agreements. Agreements are executed on paper and amended quite often. It is cumbersome to manage paper-based contracts even if they exist as electronic documents. It is time-consuming to extract relevant data from the documents to feed calculation engines and to keep updating the feeds manually. Instead, the agreement data (terms of an agreement) should be stored. Then data should drive document generation, updates and data should feed calculation engines.

### How should people change the way they operate and their habits within the fund industry to meet the demands of the future?

In terms of processes and technology, it should be process first, technology second to support the process. But people's habits should also be considered. The industry needs to think of how to approach this aspect as well.

Because this industry is so heavily regulated, it is only natural that many people are risk averse and this is why some actions are not taken. You need to understand that risk, but also understand that there is a risk in not taking the action. If you do that, and if you look beyond local problems, you can improve operations and change the industry.

You need to have a broad understanding of the problems; you need to have a vision and then take small steps to lead you to that vision. Everyone talks about disruption in the industry but I don't think that comes from within the industry. But disruption has to happen even if just vision is disruptive and delivery is incremental.

> ***You need to look at the entire process from the first contact to the point where you truly understand the risk and are then able to mitigate that risk***

Another element to consider and work with is human nature—most humans rely on their past experiences, meaning they understand a situation based on their own past knowledge, and they build solutions based on that knowledge.

But they need to consider seeking outside opinion about the design of the solution from different people and being open to criticism.

You should present your concept and seek criticism from people; if people doubt your concept and tell you why it's wrong, only then will you be able to make progress.

If you only confirm what you already know, then you will move slowly, if at all. If you don't go outside your comfort zone or knowledge or understanding, it's very difficult to create a compelling vision.

A compelling and coherent vision is most important. If you take the entire organisation into account, what people do today is what they understand and what they are comfortable with; so why would they change? Change is outside of their comfort zone. But if everyone—people at all levels—better understand and believe in a vision, understand where the firm is going, they will support the change. One cannot underestimate the value of a clearly communicated vision. There are firms that understand this and they are transforming themselves and the industry by tapping the talents of their people.

### How is Metrosoft meeting the new demands of the fund industry?

We have been working in the fund industry for almost 20 years and deliver transformative solutions for TA. Two examples are web transactions and paperless statements in 2002 and mobile interfaces for access to TA in 2010. We continue to deliver.

We set up paperless statements in 2002 and people originally moved very slowly toward them because of regulations, habits and cultural aspects–the adoption in recent years, of course, become widespread. This example shows how slow the transformation is.

We have been in the forefront of proposing and using APIs for quite some time. Web portals that asset service providers offer were very attractive and valuable five to ten years ago. Today, since most global asset managers have relationships with more than one service provider, asset managers want all data in the same place and preferably as soon as the data is available. This is why exposing the data from underlying systems via APIs is so critical today.

As long as the data can be exposed through APIs, anywhere down the chain—through a distributor, or investor or manager—anyone, can get the data in real time. Since 2002, we have been loading and consolidating data from many TA systems in real time, exposing it on the web portals and providing reporting and analytics. Now it's all about APIs. It is an API economy.

Today data processes and functionality are often scattered between many incompatible systems and there is a significant barrier to the proposal of radical change (perceived risk, resistance to change, often inability to see long-term benefits). We participate in industry conferences and we are trying to educate others, always looking to influence where change is needed. We educate and, where we can help to see a broader picture and help redesign systems incrementally in all aspects of transfer agent operations.

**Is automation, machine learning and/or AI causing challenges or providing opportunities within the industry?**

Automation, especially robotics, doesn't actually add any value to any process, other than speed and reduction in the number of errors, so it does not on its own transform the industry.

If applied to a process that is clean and not faulty, you could say it adds value, but any automation added to a process that is outdated or faulty creates more problems, so you need to look carefully at the processes used to automate.

We see and observe this within other places in the industry. With artificial intelligence (AI), on the portfolio management side especially, there are firms using machine learning. We are mainly concentrating on the administration side, where we do not see as much if any application of machine learning yet.

We are looking at how to improve risk-based compliance with AML/CTF regulations, particularly transaction monitoring, but that's at a very early stage. Over time this is where AI can provide immediate value. The one challenge with machine learning applied to AML/CTF processes is how to explain to operators and/or regulators why a particular decision was made. With black-box methods of machine learning, it's very difficult if not impossible to provide an explanation when AI suggested that answer or reason. Regulators today need a very straightforward answer. White-box methods, on the contrary, are easier to understand by humans even though their predictability levels are generally lower. Their explainability will help in their adoption soon.

**What can Metrosoft offer in terms of fund administration? What makes the company so different in this space?**

We started in the US, then expanded to Europe, then the Far East as well as Australia, so we know and understand global challenges of the global players: asset managers, service providers, distribution platforms and investors.

We have real-time interfaces to many TAs. We consolidate and standardise data in real time. Based on that, we provide APIs, data feeds, dynamic reporting, and analytics, and we are approaching the practical implementation of white-box machine learning. Our products help to tackle actual operational needs and understanding of risks.

We have a suite of applications on one platform that make old systems work in a modern way or are able to replace one or more applications. Step by step, we are changing the industry, focusing mainly on APIs, analytics, data feeds and data flows in a new way. At the end of the day, it's all about helping the industry transform the way it operates.

**What are your predictions for asset servicing over the next five years?**

I think that service provider portals will become less important. Exposure and provision of real-time data will become critical to stay ahead of the game. I also think that explainable AI will become acceptable to regulators in a relatively short time.

Change needs to happen. Those that do not change will stay in the same place, shrink or even disappear. It's all about the coming together of data, explainable AI, and humans. **AST**

**Janusz Lorenc**
CEO
Metrosoft

# Prepare, adapt, overcome

## Industry participants discuss the European asset servicing market's current trends and challenges, as well as how to prepare and adapt for the future

**What trends are you currently seeing in the European asset servicing market?**

**Daron Pearce:** We are seeing clients consolidating their service providers. Previously, multinational organisations would often choose asset servicing providers on a country-by-country basis, now they are looking at regional and even global mandates. It's a trend that's been picking up speed in recent years. For example, a sovereign wealth fund client recently reduced its custodians from seven down to four. I'm happy to report that we were one of the four. The reasons are straightforward. Using fewer asset servicers helps to streamline clients' internal processes and gives them more leverage on price and service levels. But as long as we can demonstrate the quality and value of the services we provide, we see this trend as more of an opportunity than a risk.

An interesting trend is the divergent strategies being taken by asset servicing providers. With its purchase of Charles River, State Street is looking to provide a single, front-to-back office asset servicing platform. At BNY Mellon, we are taking an open architecture approach, enabling integration with the best of the financial services and technology ecosystem. An example of this is our alliance with BlackRock Solutions to integrate BNY Mellon's data insights, accounting, and servicing tools into Aladdin, BlackRock's investment and operating platform for investment managers.

**Ulf Noren:** Providers of services are changing following several dimensions, many of them mandatory due to regulation. We are also seeing risk factors, investment appetite, IT development and integration play a part in directing the market.

Another trend is the increasing liabilities for custodians meaning tighter controls, re-negotiation of financial and contractual terms. Clients spend considerable resources on these kind of activities—in addition to expanding audit and compliance areas as well.

It normally means a somewhat more expensive environment, a slight reduction of flexibility in what can be offered, but if, in the end, it leads to better controls, sophisticated asset protection and loss reductions, it is all for a good cause

We are also seeing custodians develop the role as a gatherer, holder and refiner of information. In addition, this, to a great extent, is driven by the trend of investments going into real estate, private equity, infrastructure and tokenised investments.

**What have European revenue sources shown over the past 12 months?**

**Noren:** For the past five years, shifts from standard models being dependent on transaction levels and asset values to models of more granular nature have been evident. We notice, though, that a comparable large portion of revenue streams are emanating from those two components.

Regulatory and prudency needs have definitely had an effect on revenues increasing in activities supporting those activities and activities that can mitigate risk exposure. We see rapid growth in collateral management revenues as one example of such activities but also tighter rules surrounding clearing in a broad horizon is developing positively. We would also like to mention that we see initial growth in insourcing non-core business components from third parties and also to measure flows and provide independent analysis starts to take off somewhat.

We see a definitive trend of increasing the cost from European infrastructure driven partly by (TARGET2-Securities) T2S and partly by the Central Securities Depositories Regulation (CSDR). It is difficult to increase fees towards clients even though the downward pressure has slowed down slightly. This will be a catalyst for further change, it will trigger further consolidation and we also think that pass-on cost models to protect against infrastructures cost hikes will be very common. There are befits and risks with the trends in this field and balancing those is one of the most important missions a quality provider is facing these days.

**Pearce:** Revenue streams for the investments industry are closely correlated to market values and transactions. So while last year was fairly strong for the industry, the falls in both market values and transactions since December made Q1 of this year one of the toughest for some time. The markets are showing some signs of sustained improvement, but it slow and fragile.

**What are the biggest regulatory challenges facing European asset servicing right now?**

**Pearce:** The Shareholder Rights Directive II (SRD II) is affecting many financial services companies right now. SRD II comprises a set of regulations that increase transparency and strengthen the position of shareholders through disclosure requirements. Where asset services act as intermediaries, they are in the scope of the obligations

> *The industry as a whole and regulators should strive for an even closer and better co-operation to define, analyse and breakdown components in each and every upcoming new or changed regulation*

**Ulf Noren**
**Global custody sales**
**SEB**

regarding the transmission of information both from the issuer to the shareholder—to facilitate the exercise of shareholder rights—and to the issuer—when it requests to identify its end shareholders.

Although not strictly speaking a regulatory issue, the ending of the London Interbank Offered Rate (LIBOR) brings significant challenges across the industry. Because LIBOR is embedded in so much documentation and systems, it is a major project to identify and then replace with the secured overnight financing rate (SOFR).

**Noren:** CSDR and SRD II are the two most important. Together with these in importance comes local tax initiatives and changes. We believe SRD II will be a very important and difficult regulation for both investors, issuers and intermediaries.

One of many issues in SRD II is that high-level design is available but the detailed market requirements and guidelines for practical implementation are not even near to finished. The demand for providing information, and the possibility, to act to investors will be demanding. For all participants in the value chain. It is also important for investors to prepare to be ready for a more active corporate governance function. The most challenging part might be for issuers, issuer agents and central securities depositories (CSDs). All communication should be in ISO format and our estimate is that no more than a handful of issuers in our region is ready to do that—the Nordics are normally far ahead in transparency matters and IT so there is a reason to raise the flag with a question mark on European readiness. As a provider, we plan to support ISO20022 for disclosure requests and responses, some of the proxy voting and meeting messages but what will come in addition will be market triggered and are in unknown territory right now. We do not foresee a supply of ISO20022 messages for corporate actions due to SRD II.

**We saw the implementation of MiFID II last year and there are others approaching. What can members of the European asset servicing sector learn from MiFID II that they can apply to help them prepare for future regulations?**

**Pearce:** The second Markets in Financial Instruments Directive (MiFID II), with its broad impact across all areas of asset servicing, demonstrated the importance of setting up a collaborative, cohesive, cross-functional programme. It showed the value of a change management programme encompassing expertise from operations, middle-office and front-office working together.

**Noren:** The industry as a whole and regulators should strive for an even closer and better co-operation to define, analyse and breakdown components in each and every upcoming new or changed regulation. MiFID II was very comprehensive and covered a lot of areas but it was not all that clear what was expressed in the regulations various phases it actually meant in practice. That is something the aftermath of the adoption and especially reporting levels and content is coloured by.

**Last year was a big year for DLT/blockchain technology. How do you expect the pace of innovation to change in the coming years?**

**Pearce:** We see blockchain as a fundamental part of the securities service industry because the technologies can sort out many of the inefficiencies in the securities and funds business. Progress is definitely being made, but there are two major challenges slowing that progress. The first is adoption. A fundamental problem with many process improvements is you have to do them in parallel with old processes. So you double up on the processes while the pay-off is only once there is a 100 percent shift to the new process, which could be some years off. This makes the business case for blockchain change harder. The second is standardisation: we live in a world of different regulations, market practices and interpretations, which is not a good match for the black-and-white of blockchain. Our industry has some way to go on standardising processes before we can take full advantage of blockchain technologies. There are lots of experiments and proof of concepts for blockchain processes going on right now—we are involved in many of them—but we may be a year or more away from real momentum in the mainstream adoption of blockchain solutions.

**Noren:** During the next few years a number of the distributed ledger technology (DLT)/blockchain initiatives will go live but it will not be the enormous change that has been discussed. Blockchain will be used in selective areas and over time will continue to grow. It will not be likely that it will change the major infrastructures like CSDs and central counterparties (CCPs) in a major way. In the whole value chain, we will continue to see IT-driven development continue with high pace. This is driven by customer expectation on better efficiency, both in processing and in cost. We do believe that machine learning will continue to play growing roles in importance, that robotics will replicate human interactions in inefficient processes and become

*The future will require a more data-centric 'open' platform approach in which providers offer access to a range of optional services*

**Daron Pearce**
**EMEA CEO of asset servicing**
**BNY Mellon**

tactical solutions in other more specific areas while root causes for issues are being fixed. We also see that IT development driving and securing better end client experiences, no matter who in the chain is the final recipient benefitting from improved reporting. Those aspects can be achieved by the use of application programming interface's (APIs) and communicated via chatbot solutions.

**What should the European asset servicing sector be doing to survive and adapt for the future?**

**Noren:** Continue to invest in technology to decrease the total cost of operation for all investors, by doing so, the margin pressure becomes less hurtful and the end processing more efficient. The sector should furthermore never lose touch with the fact that this industry indeed is a true people's business and only through its people can an asset servicing provider ensure accountability in front of its demanding client, the quality of the people working the relationship will secure alignment between organisations so that responsibilities towards all stakeholders are properly handled and participants in the sector viewed as the champion spearheads securing next generations and the society's wellbeing.

**Pearce:** Asset servicing providers will need to transition into aggregated data service providers. This involves investing extensively in technology infrastructure, leveraging new platforms, network capabilities and technologies. The future will require a more data-centric 'open' platform approach in which providers offer access to a range of optional services. Pricing models will be unbundled, allowing clients to select and subscribe to services. In effect, the custodian becomes a hub for service provision and data flows.

**How well-placed is Europe in the asset servicing market, compared to its main competitors, America and Canada?**

**Pearce:** The European and North American asset servicing markets are markedly different from each other. What asset servicing providers—and their clients—can benefit from is in bringing the experience of one to the other. Europe is inherently complex—with different languages, different regulations, different currencies and different tax systems. Asset servicers active in Europe have had to learn how to deal with this complexity and deliver a scalable, efficient service within a heterogeneous environment. In place of complexity, the North American market has the experience of scale and volume. Asset servicing providers in North America have built processes that can routinely deal with volumes rarely seen elsewhere in the world.

The differences in the two markets offer providers such as BNY Mellon, with our strong presence on both continents, with an advantage as we develop services for clients. We can bring our experience of complexity to the North American market for developing solutions for clients for the servicing of new and complex asset classes. And we can bring our experience of dealing with scale and volume to European clients looking to consolidate their providers and extend the size of mandates.

**Noren:** Very well placed and are competing successfully with American players.

Ulf Noren
Global custody sales
SEB

**Daron Pearce**
EMEA CEO of asset servicing
BNY Mellon

# Costs and regulations spur managers to overhaul operations

## Gary Casagrande of Confluence explains why asset managers around the world are moving to reshape their operations amid unprecedented cost pressures and a constantly evolving regulatory environment

For buy-side firms, last year was an unmitigated challenge. It was a year marked by sustained margin pressures and compounded by steadily rising compliance costs from regulatory changes across multiple countries. Dealing with a variety of regulations is one thing, but it's quite another thing—and more expensive—when regulations cut across different jurisdictions. With the world getting smaller and investment markets becoming increasingly intertwined, the cost of compliance has become a growing burden for asset managers. But for many of these firms, it's the industry trend toward low-fee or even zero-cost passive funds that have hit their margins the hardest. Last year, Fidelity Investments became the first fund company to offer zero-cost index funds and in March this year, J.P. Morgan announced that it was launching the lowest-fee exchange-traded fund (ETF) on the US market. Fidelity's loss-leader product and J.P. Morgan's ETF, which is one basis point lower than similar offerings from BlackRock and Charles Schwab, represent a continuation of the trend to fight for shareholder assets using fees as a differentiator.

With firms competing on price in what the Wall Street Journal has called "an ETF race to zero," it is not surprising that headline-making moves to cut expenditures have swept the global asset management industry, with the trend continuing unabated this year.

Cost, for most money management firms, equals people. As such, there have been drastic layoffs throughout the industry, with more tipped to be coming. In January of this year, State Street announced it would cut around 1,500 of its 40,000-strong employee base across its Boston, New York and London offices; in May of this year, State Street also announced it would axe 101 jobs in Luxembourg as part of outsourcing plans. BNY Mellon has said it has set aside severance funds for its layers of managers, and last year BlackRock, the world's largest asset management company, announced 500 job cuts.

While these tensions are not new, the intensity and consistency is unprecedented—so much so that Martin Flanagan, chief executive officer of Invesco, warned that one-third of money managers could disappear over the next five years, as increasing fee pressures and costs become the catalyst for fund closures and consolidation. With these unparalleled pressures, what is the buy-side looking for from service providers, and how can these service providers continue to help their clients succeed and prosper?

To put it simply, the only thing that matters is cost.

At our firm, we have a close-up view of asset managers' current back-office challenges. Confluence delivers data-centric solutions to automate back-office processes for top asset managers and global service providers, and we see clients demanding more return on investment, more value and more flexibility from the systems they use.

Managers that want greater cost savings overall require increasingly automated capabilities, reviews of output, faster processing speed and flexibility to service multiple product types—all while being cost-efficient and predictable.

### The emergence of data initiatives

With these changing needs as a backdrop, many firms in 2017 and 2018 began to seriously imagine what the industry's digital future could and should look like, and how they may need to change to stay competitive.

For one thing, asset managers have come to realise that there isn't a single way to solve all their data problems. Defining this so-called "data strategy 2.0" is made even more challenging as the lines between the front-, middle- and back-office continue to blur.

There is also no sign from global regulators that reporting demands will slow down, so fund management firms realise they need a strategy to make their data-related processes more efficient. Asset managers are looking at service provider offerings from an end-to-end solution perspective, but also looking at how well products can access data from individual solutions and use it in multiple ways.

### Improving the shareholder experience

Running parallel to this need to cut costs and improve efficiency is a prevailing desire from firms to improve the overall shareholder experience. Regulators in the US are mulling over what sorts of information funds should be forced to disclose, and because of the speed of technological change, regulators seem to be open to discussing delivery-agnostic approaches to information disclosure.

The overall theoretical vision is getting clearer—provide instant access to real-time investment information anytime, anywhere and from any device for all industry participants, and get rid of nearly all the paper.

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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.
COMMERZBANK
The bank at your side

Asset managers are still theorising the best way to turn the multitude of fund data into consumable pieces of information for the end shareholder. But what firms do know is that shareholders want to see the difference between the information they receive at the start of the sales process and what they get during their ongoing interaction with the fund. Added to that, there are many automation, data flow, responsive design, user experience and connectivity issues the industry still needs to figure out; there is much more to come on this topic.

### The digital journey continues

As asset managers look ahead to this changing landscape and consider methods for delivering investment information to investors, more and more innovative investment firms are dipping their toes into the digital waters. They are making strong progress on disintermediating humans, automating both human-readable and machine-readable outputs using unified data platforms and strategies.

More asset managers are investing in robotic process automation (RPA). This technology encompasses tools like screen scrapers, which allow companies to launch a variety of pre-programmed rules across structured and unstructured data to automate workflows.

Artificial intelligence (AI), of which machine learning is a strand, is also receiving a substantial amount of funding.

In a sign of the times, last year John Hancock Life Insurance Co, one of America's oldest insurance companies, partnered with a leading global technology research and advisory firm to deploy software bots to streamline workflows on legacy platforms which had previously relied on a high level of repetitive manual work.

Also, earlier this year, UBS' head of group operations, Chris Gelvin, said the Swiss investment banking giant was planning to add 500 robots this year, as part of a plan to reduce manual processes by 10 percent.

In golfing terms, at Confluence we believe that RPA is the short putt and AI is the long putt, with firms able to achieve real cost-savings via automation. Savvy firms will be looking for service providers that incorporate AI into their solutions and are able to articulate that as part of the technology development plan they offer to their clients.

### Regulatory change drives compliance agility

There is no doubt a range of regulatory reforms on the horizon and the need to comply with more stringent rules are hitting asset managers hard, both from a time and a cost perspective. For example, following the introduction of the second Market in Financial Instruments Directive (MiFID II) in 2018, firms had reportedly put aside tens of millions of dollars to shoulder the cost of research instead of passing it on to clients.

But MiFID II is not the only regulatory regime that fund management firms in Europe must contend with. Others include:

- Cross-jurisdictional programmes like Alternative Investment Fund Managers Directive (AIFMD) Annex IV, Solvency II, Packaged Retail and Insurance-based Investment Products (PRIIPs) key information document (KID), and the upcoming European Securities and Markets Authority (ESMA) Money Market Fund Reporting. While the underlying data is typically similar among these programmes, the individual reports and templates may vary.

- Administrator-level reporting in various jurisdictions like Luxembourg, Ireland, Switzerland, Netherlands, and multiple German regulators. Again, similar data, but distinctly different reports.

- Brexit: The industry faces the single biggest impact on cross-border financial services. The three main regulatory regimes that Brexit impacts are AIFMD, UCITS Directive and MiFID II.

While there are challenges and cost in managing through regulatory change, at Confluence we are buoyed by what the transition can mean for firms in the bigger picture. By working through the fundamental process changes that asset managers associate with new regulations, these firms have the chance to gain something of value—compliance agility. For example, in the US, back-office teams in 2018 were in a sustained heads-down grind to ensure preparedness for N-PORT and N-CEN processes, key planks of the Securities and Exchange Commission's moves to enhance transparency and modernise reporting requirements for registered investment companies. This year, as a result of this process, firms now have the chance to use new thinking, technologies and processes as a strong base to prepare for any new regulations from around the world. By successfully going through the process of complying with new regulatory requirements, fund management firms can look forward to easier accommodation of new data delivery and management requirements. For service providers, ensuring firms have the technology and support to step through the changes will be paramount as they grapple with ongoing regulatory transformation and threats to their margins.

**Gary Casagrande**
Vice president of global market strategy
Confluence

# Hearts and heads drive the need to act on climate finance

## Dr Andy Sloan of Guernsey Green Finance explains why green and sustainable finance is starting to accelerate in the investment world both for ethical and business reasons

Recent months have proved to be extraordinary for climate discussion and green finance.

The contributions of Sir David Attenborough, Greta Thunberg and the Extinction Rebellion protesters have put climate change and green issues on the front pages of newspapers and at the forefront of politician's minds.

Into this space, the specialist global financial centre of Guernsey remains keen to respond to the need for urgent action in financial services to tackle climate change.

In May we celebrated a momentous week for our jurisdiction, when we confirmed agreement for Guernsey to work more closely with the London Green Finance Initiative.

Its Chair, Sir Roger Gifford, a former Lord Mayor of London, also spoke at the Guernsey Finance Funds Forum, and then chaired a green finance discussion at the City of London Corporation's City Week Conference, where I was a member of the panel.

Guernsey's links with Gifford and the London Initiative date back some two years, when he paid a visit to the island to promote green issues.

That is a cause that Guernsey has run strongly with ever since, establishing the world-leading Guernsey Green Fund, the first regulated green fund product, and, with the assistance of the London Green Finance Initiative, securing recognition, and then membership of the United Nations' Financial Centres for Sustainability network, alongside 21 other major global finance hubs.

We were delighted to have the opportunity, through our relationship with Gifford, to meet and discuss ways to work together to promote and develop sustainable finance initiatives. Guernsey, which has a long-standing symbiotic relationship with the City, is keen to play a natural complementary role in supporting the City and UK global leadership in green finance.

In our joint public statement committing to working in partnership, Gifford said: "There is no greater imperative for bankers and investors than financing the transition to a low-carbon future. The UK has demonstrated global leadership in green and sustainable finance time and again, but collaboration is key. It's both natural and necessary, therefore, to combine with our colleagues in Guernsey, and we welcome working with Guernsey Green Finance in support of climate finance."

And at our Funds Forum, he restated that financial services did have a massive contribution to make in the climate change debate. "I do believe in the power of money to change the way that we live," Gifford noted.

Guernsey may currently be taking "baby steps" in this space, but we are clearly on the same journey. It might be early, as Gifford alluded to, but much is happening. Green finance is transforming society already.

Gifford added that the global warming issues are cross-border, and so the possible solutions can be too. Guernsey's links with the UK on investment funds are well-established and can only develop further if the Guernsey Green Fund and other initiatives can come to the fore.

The Guernsey Green Fund was launched almost exactly a year ago, offering green certification for Guernsey-based funds which meet agreed international criteria for green and sustainable investment for at least 75 percent of the assets of the fund.

The first registered Green Fund, ADM Capital's food and agriculture-focused Cibus Fund, immediately attracted further investment on the back of its designation. Since then we have seen established managers with strong green credentials and London-listed funds secure registration.

Martin Gray/shutterstock

Our Funds Forum event in London discussed the green finance space, particularly in relation to investment funds.

What was clear from our experts on the panel is that not only is there a compelling environmental case for action, the business case for green investment also stacks up. There may be a massive finance gap for the transition to a low carbon economy, but that also represents huge opportunity.

What we may know as "business as usual" today is clearly not sustainable. Mark Carney, governor of the Bank of England, and Michael Bloomberg, the UN Secretary-General's special envoy for climate action, have both warned that climate change has moved from an ethical and environmental concern to becoming a financial stability risk.

Now, even in the US, we are seeing sustainable investment growing, not because it is being supported or driven by the government, and not for moral reasons, but because it makes good business sense. Investment in renewable energy and associated infrastructure is probably leading the way in this market today. Investors are not involved for charitable reasons—they see a decent business proposition.

Maybe a decade ago, or even less, investors were attracted, in part, by a good dividend offer and a promised high yield, despite a fairly high-risk new and alternative offer.

That market is changing and is now seen as much more mainstream and a maturing market. There is no doubt that renewables are here to stay, and the very good investment proposition is boosted by both the dividend offer and its green credentials.

Our hearts tell us we need to act, and now our heads tell us that, for example, in food, consumers are looking for cheap prices, but also provenance. As a result companies in this market which are not operating sustainably will get a lower multiple, while the sustainable operations can expect above-average returns.

There is the expectation that as the inter-generational transfer of wealth continues, younger investors and the millennial generation will be more enthusiastic to get into this space and further enhance the market.

Research has shown us the three biggest barriers to success in this market are demand, supply, and confusion over taxonomies. We want to be at the forefront of the ecosystem, offering a transparent platform product to provide certainty to help us move from today to where we want to be tomorrow.

If we can help to create an environment which gives confidence to invest and develops expertise, that is our contribution to tackling climate change.

And for Guernsey, global collaboration is key particularly working with the city, which will be crucial to help us deliver for the wider green and sustainable market.

**Dr Andy Sloan**
Chair
Guernsey Green Finance

# Canada vs the world

## Canadian institutional investors are focused on alternatives, seeking fee compression, greater transparency and incorporation of ESG factors, according to new research. Jon Lofto of CIBC Mellon explains more

In recent years, global institutional investors have made increasing allocations to alternative assets, such as private equity, real estate, infrastructure and private debt.

Against this backdrop, we surveyed some of the most sophisticated investors on the planet—Canadian institutional investors—to gain insights into their current alternatives exposure and future plans.

As our survey parallels recent global research commissioned by BNY Mellon, CIBC Mellon's "Race for Assets, Canada vs. the World" survey has enabled us to identify trends where Canadian institutional investors align to global peers—as well as to point to some areas where Canadians diverge.

Taking an active approach to managing their portfolios, Canadian investors have been at the forefront of the shift towards alternatives: some of them have been in alternatives for decades, while others have moved up the experience curve rapidly by building dedicated professional alternative asset management teams, and we see some very large allocations, for example, the Canada Pension Plan Investment Board has one of the largest weighted allocations to alternatives globally, with 47.7 percent of their approximate 392 billion allocated to private equity, real estate, infrastructure and other real assets at the close of last year.

Canadian investors have a wide range of allocations on average to the different sub-asset classes within the alternatives space.

Real estate is the dominant type of alternative investment, currently accounting for 42 percent of Canadian investors' alternatives portfolio.

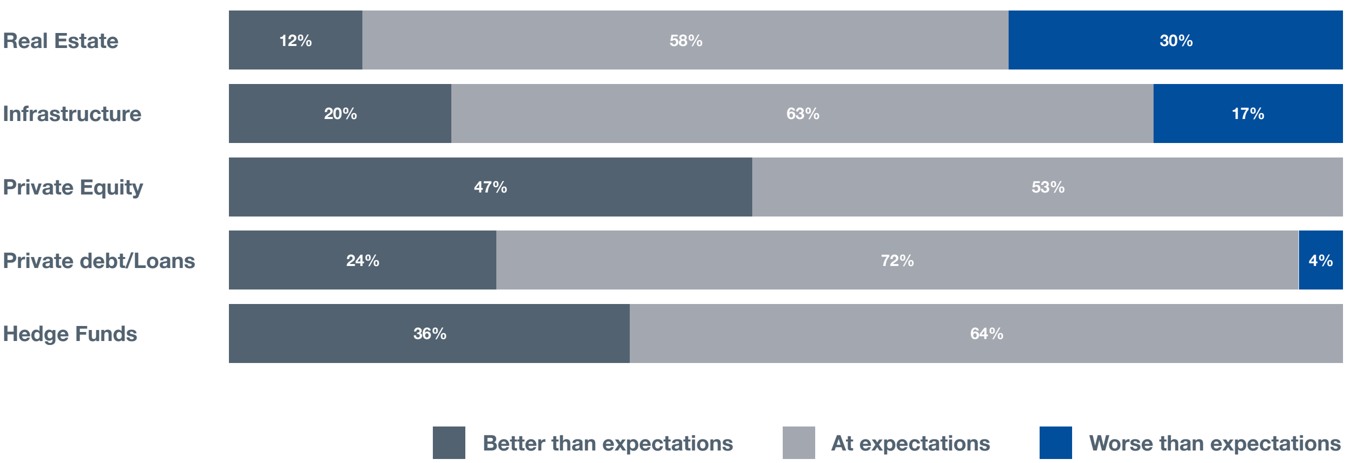
The predominance of real estate can be attributed to strongly rising property markets globally since the global financial crisis.

That said, Canadian investors expect their real estate exposure to fall as a proportion of their alternative investments over the next 12 months, to an average of 38.8 percent.

This may also reflect some disappointment with returns: nearly a third of respondents (30 percent) said real estate had performed worse than expected over the past 12 months—a far higher percentage than for any of the other alternatives—particularly private equity, private debt and hedge funds, all of which performed at or above most respondents' expectations.

## Satisfaction by asset class

**For each of these alternative investment types in which you are invested, how have they performed over the past 12 months relative to your expectations for the asset class (inclusive of funds and direct investments)?**



One notable finding was that Canadian institutional investors have been comparatively successful in avoiding home bias in their investment activities; for example, in private equity, 79 percent of those that invest in this area had exposure to Europe, 42 percent to Asia-Pacific, 35 percent to Latin America and 5 percent each to the Middle East and Africa.

The geographic spread is similar for real estate, albeit at smaller proportions, with exposure in Europe among 38 percent of real estate investors, followed by Latin America and Asia-Pacific.

Canadian respondents' international exposure to private debt, meanwhile, is focused mainly on Europe at 54 percent. This may reflect the relative nascence of this type of alternative investment outside North America and Europe. Building on that, we also found that despite relatively high levels of global exposures, almost universally our respondents (more than 95 percent) plan to further increase their international exposures through alternatives.

Canadian investors view infrastructure as a means to gain exposure to emerging markets. Outside North America, infrastructure opportunities in the Asia Pacific are the most popular choice, with 39 percent saying they have investments in these markets and 15 percent saying the same for Africa.

There is some diversity between classes. Canadian investors in our survey had a much lower allocation to hedge funds than their global peers: hedge funds accounted for just 1.4 percent of Canadian investors' average alternatives exposure, as compared to 6.8 percent of alternatives exposure going to hedge funds among global investors. Among those exposures, hedge fund exposures were very focused on developed markets.

As one respondent said: "We have invested in every market based on the opportunities and challenges and the best fit for us. For private equity, we have invested in multiple regions as the opportunities are good internationally and we are comfortable with global exposure. For hedge funds, however, we restrict investments to North America as we are not comfortable with the way hedge funds are managed in other regions."

Looking ahead, Canadian institutional investors foresee a number of trends ahead, the top five include:

- Lower fees to investment managers
- Technology to increase transparency to investors
- Focus on environmental, social and governance (ESG) issues
- Technology delivering lower investment manager operating costs
- Increased asset inflows from financial advisors and individual high net worth investors

In terms of fee reduction, 74 percent of respondents said they would look for lower management fees over the next 12 months. Canadian investors are taking clear steps in terms of managing fees, with growth in direct investments, co-investments and 'fund of one' structures as investors look to capture returns from private market exposures while minimising fees.

Nearly half of respondents—48 percent—said they will focus more on fund managers that take ESG into account over the next 12 months, which was a key differentiator for Canada. While this is some way behind increased transparency and fee reductions, Canadians were ahead of their global peers in considering ESG. Over three quarters—78 percent—of Canadian institutional investors responding to the study said ESG was "very important", with the remainder of Canadians considering it "somewhat important". This contrasts with global respondents, of whom 67 percent considered ESG very important, and 14 percent of global respondents viewed ESG as "not important at all".

Three core issues—transparency, ESG and fee structures—are also among the most important factors when it comes to assessing asset managers, according to respondents.

One respondent said: "Transparency is critical when we consider asset managers. We want to know how much risk we will be exposed to and what investment strategies the asset manager is going to implement. There should be mutual understanding and enough transparency so we can monitor the performance at any time and be sure that our investments are doing well."

Overall, the future is bright for Canadian institutional investors' participation in the domestic and global alternative investment space, with many seeking to increase their already significant exposure to areas such as private equity, infrastructure and private debt. With a high level of expertise and long investment horizons, Canadian investors will likely remain committed to alternative investments over the years ahead. Asset servicing providers and fund managers alike must move to keep pace with the needs of clients in today's shifting markets.

**Jon Lofto**
Director of alternatives
CIBC Mellon

# Operating models in the Nordics

## Handelsbanken's Martin Renheim discusses the implementation of the T2S platform and how it has played out in the Nordics market

*Although the Nordic region is still, to some extent, a protected market for the local sub-custodians, we are already seeing growing interest*

One of the anticipated effects of the implementation of the TARGET2-Securities (T2S) platform across the European securities landscape and its post-trade securities settlement processes, was a wide introduction of the account operator model. Large global custodians were expected to go direct into the local markets, altering the securities value chain by taking settlement out of the traditional operating model and handling settlement in-house, rather than appointing a local custodian. As these global custodians are not likely to have local asset servicing expertise in-house, this was expected to be provided by an external third party on a stand-alone basis. This development was regarded as a major challenge for the local sub-custodians, and once again their demise was predicted.

### How has this played out in the Nordics?

We are all familiar with the postponement of Finland's plans and preparations to join T2S, and who would have bet a few years back that the first Nordic country to join T2S would be a non-euro country such as Denmark? It's hard to say that T2S has been a success in the Nordics so far, when the only remaining sign of the T2S project in Finland is a T2S fee still being charged by Euroclear Finland, and the implementation in Denmark has been far from smooth and easy. Eventually, more Nordic markets will probably join the T2S, which will open up the markets in a new way, and the interest for direct connections will likely grow. Given this, it is easy to believe that the conditions for a direct approach in the Nordics are very limited and hard to justify.

Although the Nordic region is still, to some extent, a protected market for the local sub-custodians, we are already seeing growing interest from international banks and international central securities depositories (ICSDs) to explore the possibilities of going direct into the Nordic markets. This is being done by utilising an account operator model with settlement in-house and asset servicing delivered on a stand-alone basis by a local third party. As a matter of fact, this does not seem to be T2S-driven at all, but rather justified for reasons of asset safety, transparency, and maybe also cost-efficiency.

The interest from foreign investors active in the Nordic region has emerged in recent times. When we invested in a brand new securities services platform a few years ago, we were clear on the need to be able to support different account operator models throughout the Nordics. The driver for us was the T2S project in Finland, which we believed had potential to dramatically alter the traditional sub-custodian model, and we made a large investment in our asset-servicing platform in order to have the capacity to offer

Denis Belitsky/shutterstock

clients different account operator models. We were quite surprised to see that the first market in which we went live with a full account operator model, where Handelsbanken is delivering asset-servicing on a stand-alone basis to the client, was in Norway.

Being the one Nordic market perceived as maybe the furthest away from a T2S implementation, we were rather taken by surprise when a client chose Norway as a pilot for going direct in the Nordic region. However, it turned out that the Norwegian central securities depository (CSD), VPS, had very flexible functionalities for providing intra-day reporting, which perfectly matched our needs and those of the client.

In order to succeed in the account operator model, the big question and challenge is how you manage the triangle of reconciliation between the client, account operator, and the local CSD. Acting as an account operator, without having the settlement and safekeeping responsibility for the client, the challenge for the CSDs is to be able to provide continuous information on positions throughout the settlement day.

There are two alternative ways of achieving the mirrored portfolio positions at the asset servicing provider: either you mirror each transaction in order to build up the portfolio position, or you read in intraday positions directly from the CSD by using a power of attorney from the client.

Alternatively, the client provides the asset-servicing agent with the same information. Different alternatives require different set-ups and connections, and will also have a different impact on the cost. The option where the intraday positions may be downloaded, or received, from the local CSD would dramatically reduce the cost, as the option where trade by trade is mirrored would result in substantial SWIFT and transactional costs. This alternative cost could potentially eliminate one of the key drivers for opting for an account operator model in the first place.

Handelsbanken is working closely together with all four CSDs in order to achieve progress in this field, and has already gained an advantage based on their modern platform and interconnectability vis-à-vis the CSD systems. However, some CSDs have advanced further in their ability to provide this intraday information.

Handelsbanken welcomes this transformation of business model in the region. As the offering evolves to become a local Nordic asset-servicing model, with the emphasis on being truly local, with an ear to the ground, Handelsbanken has everything to gain from it. As we consider ourselves as the only true local Nordic custodian, with our whole operations located within the region, unlike our competitors, we foresee Handelsbanken being in an excellent position to assist our clients going forward.

**Martin Renheim**
Head of sub-custody and cash clearing services
Handelsbanken

# Evolve to survive

## The global custody system has fundamentally changed within the last 30 years. Some hurdles have changed the role of the custodian, while other ever-present challenges are unlikely to fade away

*Jenna Lomax reports*

The face of financial services has fundamentally changed within the last 20 to 30 years; digitisation has become a centric enabler of business and trading, and there is generally more timely access to richer data.

This digitisation and level of data access have been catalysts for an increasingly global market, arguably providing an opportunity to everyone. But the primary challenges of the custodian have not changed.

The major differences in recent years consist of the pressures of regulation in a post-crisis world; consideration of ever-tightening budgets and increasing environmental, social and corporate governance (ESG) initiatives, as well as the uncertainty of Brexit.

All these pressures are being put on the shoulders of custodians who are also trying to meet their day-to-day objectives for clients.

As Daron Pearce, CEO of asset servicing for Europe, the Middle East and Africa (EMEA) at BNY Mellon, indicates: “The challenge is providing clients with quality and choice at a price they are prepared to pay. What’s changed is the intensity of that challenge.”

“With their revenues and budgets under constant pressure, and with additional cost burdens from regulation and risk management, clients are having to demand more for less from their service providers.”

Reto Faber, head of direct custody and clearing for EMEA at Citi, states: “We anticipate significantly more impactful structural changes to emerge in the years to come. Regulatory compliance and controls will become an increasingly defining theme for the industry, driving continued investment and becoming an increasingly important factor in the provider selection process.”

### There is no Planet B

Like regulation, ESG is also becoming an ever-increasing factor and consideration for custodians.

As James Broderick, former head of UBS Wealth Management UK and Jersey, recently affirmed at the Association of the Luxembourg Fund Industry (ALFI) conference: “Initiatives and the broad understanding of ESG will not leave the agenda of financial services firms anytime soon.”

ESG was a major topic at this year’s Guernsey Fund Forum, where a whole panel was dedicated to green and sustainable imperatives.

Chartered Financial Analyst UK has elsewhere launched a new qualification in ESG investing, which will be available to investment professionals later this year. The certificate in ESG Investing will be recognised and supported by the principles for responsible investment.

Its introduction follows a surge of interest in ESG from investors in recent years and will help to meet the investment sector’s increasing demand for further education, guidance and standards around ESG.

Similarly, BNY Mellon has launched a range of reporting tools to enable clients to track their portfolio investments based on ESG issues and United Nations Global Compact principles.

Clients of BNY Mellon will be able to view their total ESG and UNGC scores on equities at the account level versus relevant benchmarks over time.

As Pearce cites: “The investment industry is on a journey with ESG and custodians are developing ways to support clients with the challenges it presents. BNY Mellon’s ESG Analytics capability enables institutional investors to measure the non-financial performance of their investments.”

Objectives for responsible investment are very diverse. Custodians, among others in the industry, are told to avoid risk, avoid regulatory breaches, improve society and employee welfare, reduce carbon footprint, almost all at once. With these expectations, ESG, like a regulatory burden, produces certain cost pressures in itself.

### Cost pressures and regulation

But as Faber points out, across the board, and in the sense of more traditional custody responsibilities, there are “ever-intensifying pressures on fees from clients facing a combination of margin challenges and secular reduction in overall market trading activity”.

Faber emphasises this is also apparent in "expense challenges from ongoing step-up of regulatory compliance costs, as well as substantial development requirements to keep up with the newly introduced market and regulatory regimes".

He surmises: "Custodians will have to adapt their operating models to deliver better efficiency and scalability, while consistently delivering value-add and service distinction."

Marc Robert-Nicoud, member of the executive board at Clearstream, highlights: "The success and future profitability of custodian banks will be dependent on their ability to manage their cost base."

He adds: "The cost pressure that the sell side banks are under spills over to quite some price compression for the custodian banks. The regulatory challenges of past years and also Brexit has led to increased operating costs."

"Custodian banks will have to find ways to both diversify their service portfolios and at the same time, and more importantly, rationalise their infrastructure."

And as Faber predicts: "Regulatory compliance and controls will become an increasingly defining theme for the industry, driving continued investment and becoming an increasingly important factor in the provider selection process."

### Data, digitisation and T2S

How can regulatory compliance and controls, as well as revenue increases for custodians be assisted by advancements in technology and distributed ledger technology?

At a recent Association for Financial Markets in Europe Post Trade Conference in London a panellist said: "There should be more regulation of how we use technology, rather than regulating technology itself—it's about creating the right kind of legacy culture."

The moderator also asked panellist what could be learned from the past, to which one panellist said: "Legacy technology is a major issue in the sense that many trading applications were built in the 1980s and 1990s, so there is a lot to rejuvenate there."

Does there need to be a similar embrace of technology in custody and other asset services?

Pearce cites: "The automation of back-office operations is a necessity. The shift to digital processes, enhanced by robotic process automation and data analytics, is providing new opportunities to improve efficiency, lower error rates and reduce costs in the middle and back office."

Faber highlights: "Embracing new technology will enable custodians to enhance or replace ageing legacy systems and potentially—rethink operating models entirely as new technology, such as distributed ledger technology (DLT) which allows for alternative approaches."

He adds: "Custody back-office services are still very manual and far from optimised for efficiency and error-free processing."

"New technologies such as robotics, artificial intelligence, natural language processing allow for significant degrees of automation, as they are more flexible and easier to implement than modifications of the core legacy systems."

Arguably, T2S marks a significant change in technology and securities settlements as it aims to offer a centralised delivery-versus-payment settlement in central bank funds across all European securities markets.

As Robert-Nicoud stipulates: "T2S has put custodian banks in the position to choose their access points for the T2S markets. This has increased and will further increase the competition between central securities depositories and hence their openness to create services tailored to their client's needs."

But Robert-Nicoud also indicates there is still development to be had. He says: "Market players have not yet fully adapted to a new reality with T2S. It seems that both new regulation and T2S adaptation efforts consumed most of the banks' investment budgets."

### Future predictions

As far as the future landscape of custody and the market positioning of custodians is concerned, Robert-Nicoud indicates custodians are likely to face a "costly endeavour looking at the rather mature technological stack that many custodians are currently operating on".

He adds: "It will be interesting to see whether industry solutions will be coming up to mutualise such cost."

"The technological evolution that we have seen in the past years will very likely be visible in the industry in the next decade as we will be observing powerful and promising use cases around DLT, smart contracts and the likes."

"As we go along, this will certainly have the potential to substantially change the dynamics of the industry."

Pearce presumes: "To supply responsive core services on a scalable basis, custodians will have to invest extensively in their technology infrastructure, leverage new platforms, network capabilities and technologies. We envisage a more data-centric 'open' platform approach in which the custodian provides access to a range of optional services. Custodians have to evolve to provide clients with choice and quality at a good price. Those that can, will continue to play an active part in the investment industry." **AST**


WE KEEP A WATCHFUL EYE ON WHAT MATTERS TO YOU
With our years of experience and track record in custody services, it is second nature to us to provide top class safekeeping and administration services while leading change in the Nigerian financial market.
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# Can we Amazonise securities post-trade?

## The industry must take steps to 'Amazonise' or risk the major infrastructure investments to date simply being a newer version of the same, says Emma Johnson of Deutsche Bank

If we can order on Amazon for next day—and sometimes the same day—physical delivery, and if we can buy software and download it immediately after paying for it, why do we have to wait two days for our securities, which are transferred electronically to arrive in our account?

Granted, there are significant differences between an Amazon order and a securities transaction. However, in a much-lauded post-crisis 'harmonised' Europe, how far will current initiatives intended to improve efficiency take us? How will a regulation for central securities depositories (CSDs) ensure we settle on the intended settlement date? And, ultimately, what would it take for us to replicate the Amazon experience in post-trade?

### Building the foundations

Creating an integrated low-risk and low-cost post-trade environment requires a high degree of standardisation and interoperability. The European Central Bank's Target2-Securities (T2S) has played an important role in recent years in achieving this for cross-border securities settlement, propelling the market further towards harmonisation in the areas of corporate actions, a common settlement day, settlement finality and matching fields.

It has also galvanised progress in securities processing: the harmonised functionality for the 24 CSDs in T2S has, in principle, enabled domestic and cross-CSD settlement via a single T2S CSD (subject to CSD links being in place). The Eurosystem's consolidation of Target2 (T2)—the real-time gross settlement (RTGS) system for the processing and settlement of payment orders in central bank money—with T2S planned for November 2021—has the potential to drive further process optimisation.

From a regulatory perspective, Central Securities Depositories Regulation (CSDR) and the EU Shareholder Rights Directive (SRD II) are hugely impactful to all securities participants, with a focus on investor protection, timeliness, speed and efficiency and, in the case of CSDR, uniformity and standardised market practice.

CSDR, and its demand for increased settlement efficiency, is certainly a step towards Amazonisation. With Amazon, a failure to deliver goods on the intended delivery date could be escalated to the retailer, followed by the cancellation and the purchase of goods from another seller. Correspondingly, under CSDR, the CSD will invoke penalties for the late settlement of securities and mandate a buy-in for securities not received by the buyer from four days after the intended settlement/delivery date. The buyer will then purchase securities from an alternative source.

Yet there remains work to be done. With respect to T2S, volumes remain low. Feedback in industry forums indicates that an average of just 600,000 instructions are processed per day, while ECB statistics also show that cross-CSD settlement volumes are below 1 percent. T2S only covers two currencies—the euro and the Danish Kroner.

While CSDR has brought positive changes, challenges remain. For example, some investors' operational processes might not be fully automated and they might be reliant on e-mail or other manual/non-straight-through processing (STP) interfaces permitted by their securities services providers. This setup may hinder their own settlement efficiency and, by default, others in the settlement chain.

The impact of extra-territoriality is, as always, a key challenge for regulations such as CSDR and SRD II. There is a pressing need to educate foreign investors on new European rules and the risk they will face if they do not make meaningful changes.

### What might an Amazonised securities post-trade industry look like?

The Amazon experience is based on a seemingly boundary-less product suite, efficient distribution, a user-friendly app, payment and delivery standard settlement instructions and a chatbot for customer queries. Multiple sellers independently contract with the platform's single gateway to purchase goods and services; physical delivery is fulfilled through mechanisms such as Yodel, DHL and DPD; and services can also be accessed directly through a plug-and-play model. At first glance, it seems incomparable to the securities industry. However, the possibility of 24 national CSDs outsourcing their settlement business complete with all their national characteristics to a centralised system is worth considering. It is not unreasonable to anticipate a European CSD, sitting above the national CSDs eliminating the processing-related barriers. Think of this as the Amazon shell—a single gateway to which multiple sellers or issuers contract.

Issuers would then issue securities in to the European CSD shell, which could provide the utility function to guarantee the transfer of securities to their rightful owner and ensure that transactions are done quickly and efficiently. As a provider of connectivity to the platform and a provider of unbundled ancillary products and services, the custodian would provide client-centric solutions, allowing them to plug and play services such as custody, asset servicing, lending, borrowing and asset optimisation. Settlement may also still feature as a service.

Further possibilities are presented in the context of the data revolution: transparency, risk measurement and management, and benchmarking will uphold effective risk practices and the integrity of post-trade while settlement analytics could become a commodity in its own right and trigger client-centric services. These services could allow clients to seamlessly add solutions such as data analytics, liquidity, collateral management, inventory management and asset optimisation including lending and borrowing.

## The journey ahead

To build on the regulatory agenda and the harmonisation initiatives to date, and in order to move towards this Amazonised world, there are five areas of focus for the industry to consider:

- Finishing the task of harmonisation with T2S. Bringing additional volumes from European markets onto the T2S platform is pivotal, and would help to lower the T2S settlement fees while the uniformity of processing could also help to convince non-European investors to consolidate their assets in T2S markets. The introduction of new markets in T2S would also be a step towards European market integration.

- A regulatory agenda for the new order. The continued need for transparency should not be underestimated, and there is work still to do here. The potential benefits of the legal entity identifier (LEI) have not been fully realised beyond the mandatory trading layer to other areas of the securities value chain. However, its prescription to the entire chain through to the CSD would benefit the buy-in provisions of CSDR and the beneficial owner transparency requirements of SRD II. When considering a regulatory agenda for the new era, a shift in focus from the traditional actors to the new entrants, or so-called “disruptors”, is needed in order to ensure a level playing field for all.

- Political integration. Developing the ‘union’ in the European Union will play a significant role in achieving a harmonised European post-trade landscape. European elections carry the uncertainty that any new leadership might have new, differing, competing priorities. This could impact operating models, legal provisions and innovation.

- Technological innovation. New technologies such as distributed ledger technology, AI and cloud-based services could improve the collection, management and distribution of information. This creates the potential to deliver new post-trade processes that are much more efficient and effective than the old.

- Embracing competition and new roles. The European post-trade agenda should cater for more competition, not less, in all shapes and forms. Account structures have been harmonised through CSDR, EMIR and MiFID II and provide investor choice. Regulatory transparency has led to an unbundling of services providing investors with greater choice.

  Complementary pricing and products are on the securities servicer’s agenda to meet investors’ demands for cost transparency, usage and the unbundling of the product and service suite. In addition, legal and tax harmonisation would further facilitate investor choice so that investors can be indifferent to where the settlement and custody location should be. The entry of non-banks into the custody space would change the competitive landscape, further ‘de-layering’ post-trade.

While the industry is taking steps towards harmonisation and integration, there is a limit to how far these efforts can take us.

Without a standardised interface, and a standardised set of rules, laws and practices, it is very likely—for the foreseeable future at least—that the status quo will remain.

The industry should ask itself whether it should wait until it has fully paid for the T2S developments to reap the benefits of a then 20-year old platform. The clock is ticking, counting down until the disruptors obtain a true measure of what they need to do to service traditional assets with the new.

However, the task is so colossal that the new world will co-exist with the existing. Custodians will remain crucial but will evolve: additionally servicing crypto assets and becoming guardians of data providing a modular, client centric suite of products and services, diversifying with the new order through collaboration, and performing a variant to their existing role.

The industry can introduce new technology and participants. However, if the foundations are not in place and the barriers and threats not removed, the result will be a new version of the same.

**Emma Johnson**
Director, regulatory and market initiatives
Deutsche Bank Securities Services

**Haytham Kaddoura**
CEO
SmartStream

**Robert Scott**
Managing director head of custody, collateral and clearing
Commerzbank

**Ulf Noren**
Global custody sales
SEB

**Mike Clarke**
Global product manager in securities services
Deutsche Bank

**Demi Derem**
General manager, investor communication solutions international
Broadridge

**Graham Ray**
Global head of sales and relationship management, financial intermediaries
Securities Services

# From the experts

## Members of our expert advisory panel offer their insight into the hot topics and challenges of the industry

### What would you say are hot topics in the asset servicing industry?

**Haytham Kaddoura:** I think a hot topic is in-house service offerings to existing clients and asset managers. As the asset management world evolves and becomes much more complicated managers are trying to find new opportunities while keeping costs at bay. They are also addressing the regulatory requirements from an operational and ultimately post-revenue perspective. There is already a tremendous amount of focus on technology trends which I believe will continue, however, I think organisations will now look to see how that technology is actually affecting processes and the bottom line.

**Graham Ray:** One of the biggest hot topics we're seeing in the industry is technology, in particular, how blockchain and artificial intelligence (AI) can reduce the compliance burden for clients and providers. Also, application programming interfaces and the standardisation to ISO 20022.

We're also seeing a lot of discussion around big data and analytics, particularly with regards to environmental, social and corporate governance (ESG) factors.

Other hot topics include front office services and technology and how integrating a front-to-back service can benefit clients; the use of predictive analytics in collateral management; and the role of custodian versus fintechs.

**Robert Scott:** I think the big hot topics right now include, moving towards digitalisation, new client servicing models and collapsing down of legacy costs and infrastructure.

**Ulf Noren:** Hot topics at the moment include, how to make new technology fit with the business and deliver markedly increased better client experience out of it; ESG initiatives are growing in importance and most custodians do not yet deliver up to expectations, partly because expectations have not either been properly defined; adding asset classes, for example, creating solid, working sophisticated custodian models for alternative investments that rapidly increases in many portfolios; and finally, how to be best positioned in a political landscape that is rapidly changing and becoming less predictable.

**Mike Clarke:** Current industry hot topics include regulatory compliance, data, digitalisation, sustainability and talent development.

**Regulations:** We are continuing to see the regulatory focus on asset protection, risk reduction and transparency. Specifically on the agenda at the moment are the Central Securities Depositories Regulation (CSDR) and Shareholder Rights Directive (SRDII) both of which have key compliance dates in September 2020, and have a significant impact to the industry.

CSDR implements a penalty regime of fines for failing and late matching transactions as well as a mandatory buy-in process after four days.

SRDII implements specific time requirements for issuer/investor communications in the proxy and corporate actions announcement process.

**Data:** There is a lot of focus in the industry on data as a product, and the monetisation of data. In reality, the focus needs to be on how

> ***Digitalisation of services over the last few years have revolutionised how we interact with service providers in our personal lives, be that mobile banking, or ride services such as Uber***

**Mike Clarke, Deutsche Bank**

we utilise the data we have in targeted use cases that deliver value to the client with the insight on that data to address the challenges they are facing. Two examples we can consider are the heightened focus on cash liquidity within the financial industry, and the focus of operations on settlement efficiency being driven by CSDR, both of which can be optimised by utilising data and data analytics effectively. Our focus has been on solving data problems such as these with targeted use cases that help construct our wider data capabilities in an agile approach, providing client benefit as we develop.

**Digitalisation:** Digitalisation of services over the last few years have revolutionised how we interact with service providers in our personal lives, be that mobile banking, or ride services such as Uber. This type of service interaction needs to be translated into the securities services landscape with a review on how we deliver service to the client, with an open mindset towards the wider digitalisation of the industry. We need to look at a series of technical solutions to meet each of these use cases, be they application programme interfaces (API), artificial intelligence (AI), enterprise data platforms, the use of microservices alongside existing architectures and apply them to provide incremental benefits across the value chain.

**Sustainability:** Constant price pressures in the industry remain a challenge. Settlement and safekeeping are increasingly seen as commodity services, and as such the industry is under considerable price pressure. Asset servicing providers need to become hyper-efficient, but will also need to adjust price models to be more unbundled, reflecting prices that are driven by value and risk on each service.

**Talent development:** It is imperative that we develop existing talent to operate in a more dynamic and agile environment as well as bring new skill sets and ideas to help us adapt the industry, and to take advantage of the new technology and service potential that is ahead of us.

**Demi Derem:** The updated SRDII is impacting the rights and obligations of all involved in investment communications. As a consequence, all are seeking to understand what they need to do and by when. Activities are focused around making voting available to all European investors, timeliness of communications and confirmation of information being passed up and down the chain of intermediaries. Added to all this, are the new rights of issuers to obtain beneficial owner information—this again is presenting challenges to both global custodians and CSDs whose client data and confidentiality are paramount to underlying investors.

### What are the biggest challenges the industry is currently facing?

**Kaddoura:** The asset services industry is growing, it is continuing to become more complex and the tasks being asked of asset management are increasingly more demanding. One challenge for the solutions marketed to the asset services industry is how to keep pace with the many new requirements emanating from the asset management industry such as reporting, increasing cost-pressure, better utilisation of resources and greater transparency. In today's environment, they aren't simply "nice to have" but are a necessity. In a very real sense, it can mean the difference between profit and loss.

**Noren:** Some of the biggest industry challenges include, adapting to the changing risk environment; the margin erosion, many custodians are struggling with making the equation of higher service levels, faster response regimes and cost efficiency requirements work out to produce the profit in the profit and loss; finding sustainable business models, disintermediation is expected to continue being

> ***The asset services industry is growing, it is continuing to become more complex and the tasks being asked of asset management are increasingly more demanding***

**Haytham Kaddoura, SmartStream**

*Some of the biggest industry challenges include, adapting to the changing risk environment; the margin erosion; finding sustainable business models; dealing with unlevel playfields; know-your-customer and anti-money laundering*

**Ulf Noren, SEB**

high on the agenda but what working model should replace the value intermediaries create?; dealing with unlevel playfields arising from new competitors being differently regulated; know-your-customer (KYC) and anti-money laundering (AML) effects on relationships that are sound and healthy but becoming increasingly more expensive to run due to KYC/AML cost impact.

**Derem:** Managing costs associated with regulatory change, replacing legacy tech with new tech while understanding where to compete and differentiate around their value propositions.

**Scott:** Challenges include cost and transformation; connecting better, faster, quicker with clients (digital experience); for asset servicing getting greater participation of position holders in corporate actions; and interoperability of legacy infrastructure with new technologies.

**Clarke:** The challenges the industry faces really align across many of the key focus areas, but manifest in a few key areas.

The use of new technology, such as distributed ledger technology (DLT), has been lauded as revolutionary to the post-trade process as a replacement for current processes and infrastructure. The opportunities are certainly exciting, and the benefits enticing. However, the challenges here are numerous. First, the wholesale change of market infrastructure tends to be a long process with large scale projects spanning many years. As an industry, we need to think in a more agile manner and deliver change incrementally and provide benefit in the short term.

Second, we need to be able to innovate on digital services now towards our clients, we need to focus on using technology to solve business problems, promote efficiency and streamline process in each service, we must address this challenge with the knowledge that the external infrastructure may change in future to alter how these services will ultimately operate and the level of value provided. Third, different use cases will require the deployment of various technology tools, targeted towards each use case, real-time data streaming, chat-bots and API are just three examples and the industry challenge is to make sure we target the right solution to the right use case.

This, in line with also adapting existing services to meet new regulatory requirements, is creating a significant cost challenge in terms of the investment needs of the asset servicing provider.

With increased regulation, the fast-changing technology environment and the need to drive innovation in service, the costs of doing business are increasing. At the same time, cost pressures in the industry are driving a “race to zero” in fees. This is not sustainable in the long term. To mitigate the technology challenge, providers should look for ways to share development costs on commodity requirements and look to differentiate on the value add. Of course, all services will have to be optimised to be as cost-efficient as possible, but also, clients will need to pay for areas of service that provide value or drive non-standard cost. Pricing models should, therefore, be the next area of focus.

The industry has traditionally used pricing models mainly utilising safekeeping and transaction charges. These fees have often either subsidised or covered the costs associated with other related custody services such as reporting, tax or liquidity provision, to name a few examples.

As safekeeping and transaction processing become considered more of a commodity, there is a drive and pressure to provide these services at a commodity cost. It is necessary for the industry to

*The updated SRDII is impacting the rights and obligations of all involved in investment communications. As a consequence, all are seeking to understand what they need to do and by when*

**Demi Derem, Broadridge**

> *It is necessary for the industry to review the traditional models, and restructure prices to be more unbundled, where clients only pay for the services used and pay in line with the risk, cost and value of each service provided*

**Mike Clarke, Deutsche Bank**

review the traditional models, and restructure prices to be more unbundled, where clients only pay for the services used and pay in line with the risk, cost and value of each service provided. However, the movement to an unbundled pricing model is often harder for clients to measure, reconcile and model than the current status quo. We need to find the right balance.

**Ray:** The industry is currently facing a lot of challenges but some that are really hitting the industry head-on include competition and pressure on fees; legacy technology; cybersecurity, including whether it is possible to hack into blockchain; and the role of custodians in the safekeeping of crypto-assets.

> *Challenges include cost and transformation; connecting better, faster, quicker with clients (digital experience); for asset servicing getting greater participation of position holders in corporate actions; and interoperability of legacy infrastructure with new technologies*

**Robert Scott, Commerzbank**

**What else would you like to see AST write about in upcoming issues?**

**Kaddoura:** I'd be very interested in seeing more about new technology trends, especially the different angles of blockchain and how that contributes to the asset servicing industry as well as a deeper insight into artificial intelligence.

I know there has been a lot of discussion on this already but I think people would be very interested to read about what these developments really mean at a ground level; how they will affect their business and what it means for not only today but what it can mean for their business tomorrow.

**Derem:** Highlights from key industry committees/conferences/bodies, for example, Association for Financial Markets in Europe on their focus and near term projects.

**Noren:** It would be nice to have a series of profile interviews on topics like ''what is keeping you up at night"—provided some honesty is provided, that could be an interesting discussion catalyst. It would also be good to see what quality measures are taken in order to find acceptable balances between missions performed in off-shored operational centres and on the ground in core custody markets?

Finally, more discussion on innovation in terms of cost-oriented provider measures or client experience oriented friendly solutions.

**Clarke:** I suggest a more detailed drill-down into topics such as the SRDII, settlement efficiency and preparing for CSDR, the future of the asset servicing industry and further discussion around industry collaborations.

**Scott:** I think it would be good to see editorial around the transformation to digital platforms/changing client experience; how industry initiatives and regulation can finally force people to better cooperate and partner more effectively; the removal of EPTF barriers to effect more harmonisation and standardisation across Eurozone countries; and more on settlement, corporate actions, law and tax.

**Ray:** It would be good to see a regular league table of top custodians featuring in upcoming issues of AST.

# Comings and goings at State Street, SGSS and more

**The Maples Group has appointed Edwin Parker as director of business development for its fund services business in Europe.**

Based in London, Parker will work with Christina McCarthy, regional head of fund services, Europe to drive the growth of the fund services business across the region, as well as working closely with colleagues across the Maples Group globally. Parker brings more than two decades of experience working with alternative and institutional asset managers and asset owners across Europe, as well as knowledge of front- and back-office services and systems. Most recently, Parker served as managing director for a global investment management and investment services provider. The addition of Parker comes after continued growth of the Maples Group's fund services business.

McCarthy said: "An ever-evolving regulatory and investor landscape is putting more pressure than ever before on fund managers to optimise their operational processes and we remain committed to evolving our service offering to address their needs. We continue to see significant demand for our fund services offering in Europe and are confident that our broad capabilities, which include the design and delivery of innovative solutions, coupled with Edwin Parkers' experience and expertise will be highly advantageous to our ongoing efforts."

**State Street has appointed Mark Westwell as head of its UK trustee and depositary business.**

Based in London, Westwell will report to Akbar Sheriff, head of global services in the UK. Westwell will be responsible for the continued growth and development of SSTL, in accordance with State Street Global Services' UK strategy. Since joining State Street in 2007, Westwell has served as a director of State Street Trustees Limited, State Street Infrahedge and State Street South Africa. He has also assisted with the firm's strategic planning for Brexit and continues to chair the Brexit client communications group in Europe. Prior to State Street, Westwell held various roles at the Bank of New York and JPMorgan Chase including head of insurance for Europe, the Middle East and Africa (EMEA), head of sales EMEA and managing director of the information products company EMEA. Westwell has also served at the NatWest Group working in treasury, capital markets and branch banking.

Sheriff commented: "With his knowledge and experience across our business, I am confident that Mark Westwell will continue to position State Street at the forefront of trustee and depository services."

Commenting on his new role, Westwell said: "I am excited to take on this role and lead the business through its next phase of growth. Focusing on a strong and effective corporate governance structure will accelerate our ability to serve our clients and help them navigate the complexities of the regulatory environment ahead."

**Societe Generale Securities Services (SGSS) has appointed Marco Mosca as head of business development.**

Based in Milan, Mosca will report to Frédéric Barroyer, CEO of SGSS in Italy. Mosca has experience of operational, transformation and planning management and will coordinate engineering, solutions and marketing teams. He will also supervise the development of new products and solutions to match market needs.

Commenting on the appointment, Barroyer said: "This appointment clearly demonstrates our willingness to invest and enhance our internal resources to better meet and satisfy our clients needs in a constantly evolving market. I wish Marco Mosca all the best in his new role."

He added: "Thanks to his expertise and experience in our field and also in new technologies, I'm sure Mosca will be able to make an important contribution to the development of our business and to the consolidation of our presence among the reference securities services banks in Italy."

**T Bailey Fund Services (TBFS) has appointed Anna Troup to its board of directors.**

As an independent non-executive director for TBFS, Troup will work with the firm's chairman to oversee the assessment of value for each fund managed by TBFS.

Troup will also provide support, advice and an independent perspective to the executive team in the areas of governance, marketing, new business sales and relationship management.

With more than 20 years' experience in the asset management sector, Troup was previously head of Legal and General Investment Management's UK solutions.

Troup's appointment follows the recent hire of Mike Hughes as chairman of TBFS.

Helen Stevens, CEO at TBFS, commented: "During her career, Anna Troup has proven herself and has an excellent track record. She's created and led the strategy for generating growth at firms of many different sizes, also adapting processes and policy following the introduction of new regulations. We're delighted to have her insight and expertise on our board."

Commenting on her appointment, Troup said: "I am excited at the prospect of being involved with a small growing business in the financial services sector, which is still independently owned and which has such a strong stated commitment to client service excellence and satisfaction."