asset servicing times
The primary source of global asset servicing news and analysis
ISSUE 240 13 May 2020

# Keeping the lights on

*Will Stevens of IHS Markit says it is necessary to prioritise your preparedness for CSDR*

## Digital Transformation
How will digital transformation change in the financial services industry in the coming years?

## Corporate Actions
The industry is starting to turn to technology to help navigate the complexities around corporate actions

## Transfer Agency
How the role of a transfer agent has changed due to a shift in behaviour and demands

# Proxymity launches industry-led consortium

Proxymity, a digital investor communications platform that was developed within Citi's Institutional Clients Group, has raised $20.5 million in a strategic round of investment to form its own entity via a global, industry-led consortium. The newly formed consortium includes BNY Mellon, Citi, Clearstream, Computershare, Deutsche Bank, HSBC, J.P. Morgan, and State Street.

Proxymity will leverage the new capital to scale the platform and team, build out its investor communications platform, and expand its services to a wider client base and geography.

The platform provides post-meeting vote confirmation and gives investors up to nine more days per meeting to research and vote. It also offers a shareholder disclosure platform, which automates shareholder ID requests in industry compliant formats without the need for any manual intervention.

The digital investor communications platform's immediate focus will be the EU markets ahead of the forthcoming Shareholder Rights Directive II implementation.

The Proxymity team will be based in London.

Co-founders Dean Little and Jonathan Smalley, who have over 30 years of combined industry experience in custody product development, have been appointed CEO and COO, respectively.

Little and Smalley formulated the idea for Proxymity while working in Citi's Equities and Securities Services (ESS) custody product group through an ESS-sponsored innovation programme.

Citi's Innovation Lab network and D10XSM programme helped Proxymity iterate and evaluate its vision to improve the proxy voting system. The platform was first launched in the UK in 2018.

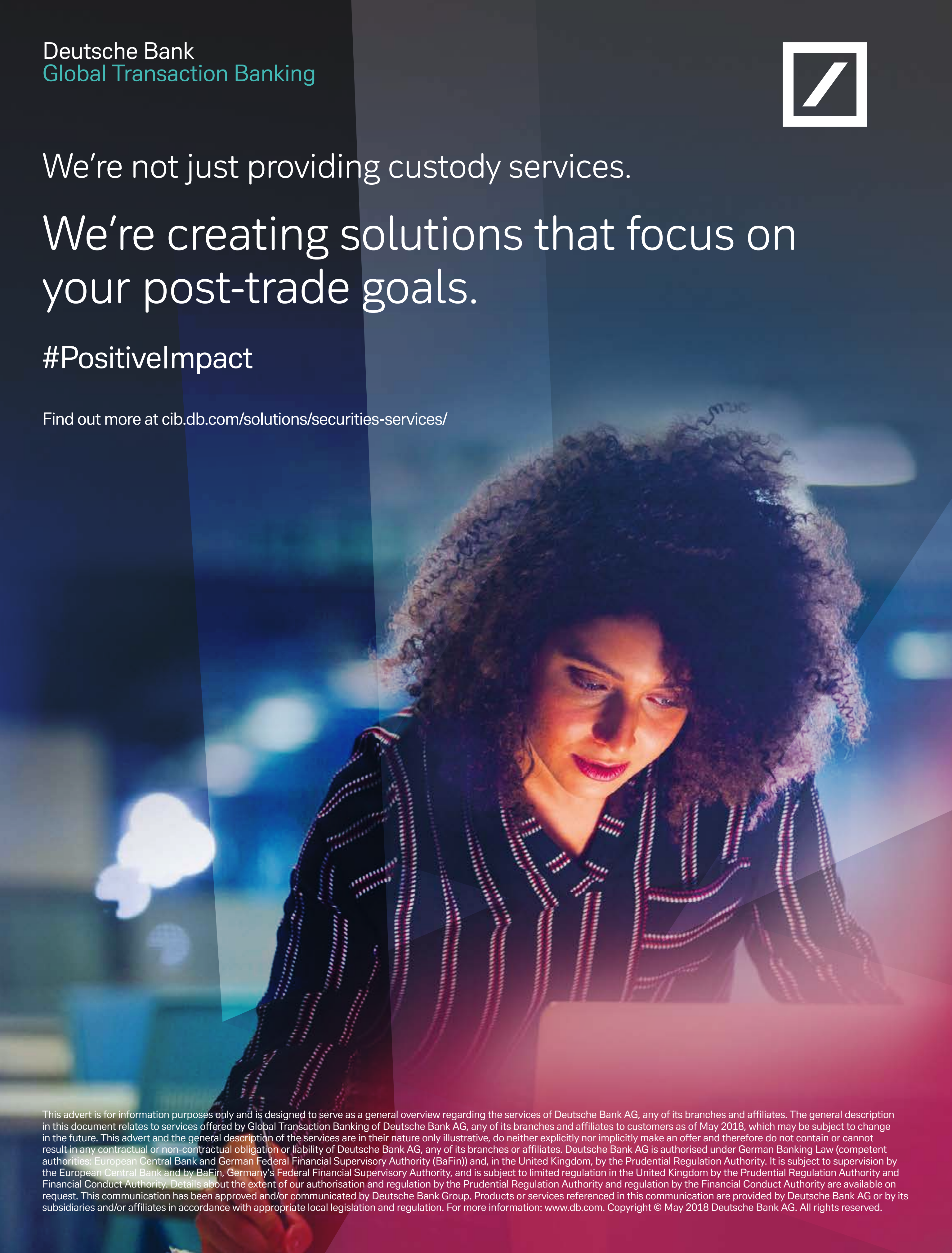
Little said: "We're extremely proud of what Proxymity has achieved so far within Citi since we developed the platform in 2017. To date, Proxymity has supported over 3,000 shareholder meetings and, after successful pilots, we've fully launched the platform in the UK, Germany, The Netherlands, Belgium, Austria, and Australia, as well as a pilot in Spain."

"The establishment of this strong consortium is a vote of confidence in Proxymity's future and overall vision and we look forward to growing the team and suite of products to deliver Proxymity to more institutions around the world."

Smalley commented: "Taking the platform into consortium ownership means we will have unparalleled ability to scale and leverage each of our partner's unique role in the industry."

In addition to a commercial team based in London, Proxymity will maintain a technology and research and development team in Tel Aviv, Israel.

images by engel_ching/shutterstock.com


Deutsche Bank
Global Transaction Banking
We're not just providing custody services.
We're creating solutions that focus on your post-trade goals.
#PositiveImpact
Find out more at cib.db.com/solutions/securities-services/
This advert is for information purposes only and is designed to serve as a general overview regarding the services of Deutsche Bank AG, any of its branches and affiliates. The general description in this document relates to services offered by Global Transaction Banking of Deutsche Bank AG, any of its branches and affiliates to customers as of May 2018, which may be subject to change in the future. This advert and the general description of the services are in their nature only illustrative, do neither explicitly nor implicitly make an offer and therefore do not contain or cannot result in any contractual or non-contractual obligation or liability of Deutsche Bank AG, any of its branches or affiliates. Deutsche Bank AG is authorised under German Banking Law (competent authorities: European Central Bank and German Federal Financial Supervisory Authority (BaFin)) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available on request. This communication has been approved and/or communicated by Deutsche Bank Group. Products or services referenced in this communication are provided by Deutsche Bank AG or by its subsidiaries and/or affiliates in accordance with appropriate local legislation and regulation. For more information: www.db.com. Copyright © May 2018 Deutsche Bank AG. All rights reserved.


W: www.assetservicingtimes.com
T: @ASTimes_

Editor: Becky Bellamy
beckybutcher@blackknightmedialtd.com
+44 (0)208 075 0927

Reporter: Maddie Saghir
maddiesaghir@blackknightmedialtd.com
+44 (0)208 075 0925

Contributor: Maria Ward-Brennan
mariawardbrennan@blackknightmedialtd.com

Designer: James Hickman
jameshickman@blackknightmedialtd.com
+44 (0)208 075 0930

Publisher: Justin Lawson
justinlawson@blackknightmedialtd.com
+44 (0)208 075 0929

Office Manager: Chelsea Bowles
accounts@blackknightmedialtd.com

Published by Black Knight Media Ltd

## ZA Bank selects Wolters Kluwer for regulatory reporting

ZA Bank, the first virtual bank in Hong Kong as of 24 March 2020, has chosen Wolters Kluwer's OneSumX for regulatory reporting software.

According to a bank spokesperson, ZA Bank has marked "the beginning of a new era of innovation in the local market," with its mobile application that provides users with a full suite of 24/7 services "that break conventions and time boundaries".

OneSumX for regulatory reporting combines bank data into a single source of data to ensure consistency, reconciliation and accuracy and includes Wolters Kluwer's Regulatory Update Service.

Rockson Hsu, CEO of ZA Bank, explained: "While ZA Bank boasts its cost-effective business model and agile product innovation approach as a challenger to the banking industry, we strictly comply with the local regulations as a licensed bank in Hong Kong. As such, we are obliged to deliver efficient and reliable reporting when communicating with the regulators. Wolters Kluwer provides us with this important capability."

Rainer Fuchsluger, managing director of Wolters Kluwer's Finance, Risk and Reporting business in Asia Pacific, said: "Outsourcing key technology to third parties such as Wolters Kluwer allows innovative banks like ZA Bank to focus on providing customers with exceptional service. Regulators tend to update their requirements frequently so, on a global level many virtual banks are turning to us to help them tackle these requirements effectively."

## Digital RFQ selects Koine as custodian

Digital RFQ (DRFQ), a digital asset over-the-counter broker, has selected Koine to act as custodian for its first commodity financing token, PGX, which launched earlier this month in partnership with Atom Asset Exchange (AAX). Koine, an independent provider of settlement and segregated custody services for digital assets, plus settlement for digital assets versus fiat money, was selected for its Digital Airlock solution.The Digital Airlock solution replaces the cold store and hot wallet model that exposes private keys and leads to poor operational scalability.

DRFQ noted that gold demand has been particularly strong in 2020 as it represents a "flight to safety" asset.

The PGX token allows both institutional and retail investors to directly engage with a traditional asset class through the new blockchain-based digital medium, DRFQ said.

Hugh Hughes, chair and CEO at Koine, said: "As we make more partnerships like the one we have made with Digital RFQ, we're continuing to build and deliver the infrastructure and vision that industry participants need to protect and leverage their digital assets."

Mike Greenacre at Digital RFQ, added: "Koine was the obvious choice to custody our first digital asset offering, PGX. Their understanding and focus on solutions for institutional investors is exactly aligned to the business we are building at Digital RFQ. We are looking forward to adding more and more digital asset offerings onto Koine's world class custody solution as we launch them."

images by esb_professional/shutterstock.com

## AFME responds to ESMA's new MiFIR and MiFID II regimes for third-country firms

The Association for Financial Markets in Europe (AFME) has responded to the European Securities and Markets Authority's (ESMA) consultation paper on the provision of investment services and activities in the union by third-country firms under the second Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments (MiFIR).

ESMA's changes to MiFIR and MiFID II regimes include new reporting requirements from third-country firms to ESMA on an annual basis in accordance with Article 46 of MiFIR, and also grants ESMA the power to ask third-country firms in the ESMA register to provide data relating to all orders and all transactions in the EU, whether on own account or on behalf of a client, for five years.

AFME explained that the equivalence framework should be proportionate in the requirements imposed on third-country firms, so as to avoid discouraging firms from utilising the framework, to the detriment of EU professional investors and eligible counterparties and markets.

According to AFME, a well-calibrated equivalence framework is one which is proportionate in the requirements imposed on third-country firms, given that one of the purposes of the equivalence framework is to avoid the complexities of third-country firms seeking authorisation within the EU.

This will enable EU professional investors and eligible counterparties to access international capital and liquidity, investment and funding opportunities, according to the association.

It added: "Not only is this complementary to the EU's objective to increase the size and capacity of capital markets through the Capital Markets Union, but it also allows for better prudential risk management and transmission of shocks across different regions through access to a greater pool of liquidity."

The current volatility in financial markets, caused by the global COVID-19 pandemic, further illustrates the importance of access to deep pools of liquidity across markets.

However, in its responses, AFME suggested that ESMA's information requirements appear disproportionate not just in relation to ESMA's tasks under MiFIR, but also in relation to the activities provided by relevant third-country firms.

"Many of the specific information requirements make no reference to an EU nexus and/or do not contain a materiality threshold, making compliance unduly onerous for third-country firms", AFME noted.

## CACEIS migrates two companies as part of merge with Santander

CACEIS in Spain has successfully migrated Popular Asset Management and Popular Pensiones business as part of the merger with Santander Securities Services.

Popular Asset Management S.G.I.I.C and Popular Pensiones E.G.F.P, two companies merging with Santander Asset Management and Santander Pensiones, switched to CACEIS as their depositary bank in Spain.

As part of the move, 107 funds were migrated to CACEIS in Spain, (59 investment funds and 48 pension funds) accounting for some €9.4 billion in assets.

Meanwhile, CACEIS has further consolidated its position, with a share of the Spanish market now in excess of 20 percent.

During the current lockdown period, CACEIS said it is continuing to demonstrate its "unwavering commitment to supporting clients' development plans and reorganisation strategies".

Elsewhere, CACIES also recently announced its continued partnership with the Pensions and Lifetime Savings Association for the second year running to provide data and custody governance education.

## Derivatives Service Bureau consultation highlights needs of new and existing users

The Derivatives Service Bureau (DSB), founded by the Association of National Numbering Agencies (ANNA), has revealed that this year's consultation will include questions about functionality and data enhancement as well as a proposal related to the bureau's dispute resolution process.

The consultation, published on 30 April, is exploring whether industry would like a more structured format of notifications and updates, to help drive further functional efficiencies.

It will examine the advantages, including for end product participants and technical specialists, of being able to consume data into users' own automated processes.

Additionally, it will look at the possible creation of a new DSB 'search only' programmatic access for over-the-counter (OTC) international securities identification number (ISIN) data.

DSB said it would also explore whether there is a broad call and need for 'data snapshots' for specific date ranges, in particular, to ease new users' access to OTC ISIN data.

Concerning data enhancement, the consultation will look at whether the DSB should analyse enhancement of the OTC financial instrument short names (FISNs), to reflect the industry's needs based on lessons learned since the implementation of the second Markets in Financial Instruments Directive (MiFID II) more than two years ago.

Lastly, the consultation will also touch on a proposal to amend the DSB governance policy, in particular an amendment to the disputes resolution process, to reinforce parity and equal treatment of users.

DSB said: "The feedback on this item will dovetail into the annual review of the DSB access and usage agreement scheduled for later in the year."

The consultation will be open for comment until 1 June at 5pm and the final results will be published on Wednesday 1 July.

Emma Kalliomaki, managing director of ANNA and the DSB, said: "We are delighted by the engagement we receive from industry through the annual consultation process. Given the current unprecedented global situation, the aim of this streamlined consultation is to drive efficiency and focus on obtaining feedback on user requests to expand functionality and further data enhancements. We would encourage any user to respond as we'd very much like to receive broad feedback on the proposals."

Malavika Solanki, a member of the DSB Management Team, added: "We continue to collaborate with industry to ensure all views and requirements are brought into the consultation. This year's consultation illustrates that new users – whose numbers are growing – as well as existing users, are engaging fully with the process. It is essential that we continue to garner feedback through consultations, to maintain broad representation and we look forward to working closely with a wide range of industry participants through the existing DSB industry forums and other channels."

## Canadian pension plan investments 'weather rough markets' in Q1, says Northern Trust

Candian defined benefit plans took a plunge in investment returns in Q1 2020, according to the Northern Trust Canada Universe, finishing with single-digit losses at the median after enduring a historic period of market volatility and economic turmoil resulting from the global pandemic crisis.

Katie Pries, president and CEO of Northern Trust Canada, explained that Canadian pension plans demonstrated resiliency during a period of extreme market stress, with the median plan in the Northern Trust Canada Universe posting a return of -7.1 percent for the first quarter.

"In a volatile market riddled with fear, uncertainty and unpredictability, Canadian pension plan sponsors navigated through uncharted territory, seeking a path to safety for the health of their employees as well as the preservation of their retirement pensions," Pries commented.

After a positive start to 2020, global markets were shaken by the economic impact of the COVID-19 pandemic as it rippled across the world during the first quarter, Northern Trust observed.

Meanwhile, escalating oil price tensions between the Middle East and Russia compounded the magnitude of the market decline.

Elsewhere, in response to the spreading coronavirus, health care policy directives included shutting down non-essential businesses, closing borders and instituting travel bans worldwide.

Northern Trust noted that central banks and policymakers around the globe have responded with unprecedented monetary policy measures and spending to curb the economic and financial damage as the pandemic continues to run its course.

The bank said: "This was witnessed through emergency interest rate cuts, further rounds of quantitative easing which included new liquidity facilities, as well as extensive fiscal measures."


## BNP Paribas reports increase in securities services revenue for Q1

BNP Paribas has revealed that securities services revenues increased 11.8 percent to €577 million in Q1 this year, compared to the same period last year.

According to BNP Paribas, the increased revenue was driven by the increase in average outstandings and an extraordinary level of transaction volumes, which was up 36.9 percent compared to Q1 2019.

Elsewhere, the French-bank reported that growth continued in the Asia Pacific region, showing a 35 percent increase in Q1 2020 compared to the same period last year. It also revealed growth in the Americas with a 40 percent increase on Q1 2019's figures.

Assets under custody and under administration rose, on average, by 6.3 percent compared to Q1 2019, but outstandings at the end of the period were down by 4.8 percent compared to 31 March 2019 due to stock market valuations.

The Q1 2020 results also noted that securities services continued its strategic development with the announcement of the acquisition of Banco Sabadell's depositary business in Spain and the setting up of a strategic alliance with BlackRock to deliver asset managers integrated services with the Aladdin platform.

Commenting on these results, CEO Jean-Laurent Bonnafé: "At the end of a quarter supported by an excellent business drive, in line with its 2020 objectives, the results of BNP Paribas for Q1 2020 were impacted by the harshness of the health crisis."

He added: "The good resilience of revenues and results despite this shock demonstrates the robustness of the group's diversified and integrated model. With all teams at BNP Paribas, whose I want to thank tireless commitment to serving customers and providing support to society, we will continue our efforts to mitigate the impact of the crisis on the economy and prepare for the future."

In the bond market, the FTSE Canada Universe Bond Index posted positive results during the quarter, generating a return of 1.6 percent.

Federal bonds outperformed the provincial and corporate bonds and mid-term bonds outpaced both short- and long-term bonds, Northern Trust Pension Universe found.

"Seeing the impact of the virus as well as tumbling oil prices, the Bank of Canada responded with a number of accommodative measures. The Bank of Canada cut the overnight interest rate, unveiled a new bond purchase program and initiated liquidity facilities, in an effort to stabilise and cushion the economy from the devastating shock of the global pandemic," Northern Trust added.

Northern Trust Universe Data also recently found that investment returns were down significantly for institutional plan sponsors in Q1 2020 as a result of COVID-19's effect on the financial markets.

## ICMA calls for central database to improve bond market transparency

Greater post-trade transparency in the EU bond market is still yet to be fully achieved, according to an International Capital Market Association (ICMA) report.

The report was produced by ICMA's Consolidated Tape Taskforce in response to a request from the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union for a bespoke study assessing the feasibility of implementing a consolidated tape for EU post-trade raw bond data.

images by novikov_aleksey/shutterstock.com

Greater transparency in over-the-counter bond markets and other "non-equity" asset classes is one of the key objectives of the second Markets in Financial Instruments Directive (MiFID II) and MiFIR.

However, the report explained that in bond markets, MiFID II has yet to fully achieve its objective of creating greater transparency.

It explained that a key reason for this is the lack of a central database, which aggregates the various raw post-trade data sources into a single view (also referred to as a consolidated tape).

The report said: "Instead, raw post-trade bond data is currently fragmented across the different Approved Publication Arrangements (APAs) with inconsistent presentation formats and differing modes of machine readability."

Inadequate data quality poses further challenges to the data that is currently available, according to the report.

Additionally, it highlighted a "noticeable unlevel playing field" with respect to access to raw post-trade bond data.

## Deutsche Bank securities services revenue sees Q1 decline

Deutsche Bank's quarterly earnings report revealed a decline in its securities services revenues for Q1 2020. The decline in this segment reflects the absence of a gain in the prior period, according to Deutsche Bank.

Elsewhere, trust and agency services revenues were also lower, which the bank said was driven by the impact of US interest rate cuts and lower clients activity.

The report also showed that trade finance and lending revenues were also essentially flat, with solid lending volumes and wider spreads at the end of the quarter.

Additionally, cash management revenues were also flat, as the impact of reductions in interest rates in the US and the ongoing negative rates in Europe were partially offset by deposit repricing and European Central Bank deposit tiering.

Deutsche Bank's global transaction banking produced revenues of €968 million, showing a 2 percent decline compared to the same period last year.

Despite COVID-19 challenges, the bank revealed that it had a profitable Q1 2020 driven by revenue growth in its core business.

Capital remained substantially above regulatory minimum levels, while credit provisions grew from low levels in the prior year, which Deutsche Bank said reflects a "deteriorating macro-economic environment impacted by COVID-19".

Commenting on the Q1 results, the bank's CEO Christian Sewing, said: "In the current crisis, we have shown robust numbers and demonstrated strong performance in support of our clients across all core businesses. Conservative balance sheet management enables us to navigate the current environment from a position of strength as the leading bank in Europe's strongest economy."

"I want to say a huge thank you to our employees, who have shown outstanding dedication and flexibility. I am proud of the way we have been there for our clients, our communities and for each other," Sewing added.

## CSC expands fund services offering into Ireland

CSC has expanded its fund services business into Ireland as part of its long-term strategy to provide global clients access to our suite of fund administration, capital markets, and depositary services.

The license was approved by the Central Bank of Ireland after a six-month application process.

Leading the Dublin office will be Liam McHugh, managing director of fund services for CSC. McHugh will be supported by David Barry as head of operations, David McCormack as head of transfer agency, and Lynda Kenny as head of risk and compliance, while Paul Whelan joins to oversee our global depositary offering. This expansion follows several hires, a recent acquisition, and other investments, including the organic recruitment and launch of its fund services businesses in the US and Asia Pacific markets.

McHugh said: "Ireland continues to enjoy a reputation as a dominant European and global fund administration centre. Given the current trend of consolidation and mergers and acquisition activity among competitors, we feel we are well placed entering the market as a privately owned partner with a more than 120-year history. Our long-term stability, as well as our client-centric approach, is highly valued by our clients."

The goal of the bond consolidated tape is to improve transparency, assist decision-making and provide market insights to end-investors, large or small.

The report explained that adoption of the appropriate structure would benefit the whole


## HSBC halts job cuts and restructures

HSBC's planned restructure that could see a loss of 35,000 jobs by 2022, is now likely to be delayed.

In March, the bank said it would combine its global markets and securities services (excluding issuer services) divisions as part of its restructure. The restructure was announced shortly after HSBC's review of its 2019 financial performance results.

Following the bank's new quarterly results, which revealed the reported revenue was down 5 percent compared to Q1 2019, the CEO indicated that plans for restructuring would be put on halt amid COVID-19 pressures.

HSBC's CEO Noel Quinn, said: "I take the well-being of our people extremely seriously. We have therefore paused the vast majority of redundancies related to the transformation we announced in February to reduce the uncertainty they are facing at this difficult time."

Quinn noted that the bank would press forward with the other areas of transformation with the aim of delivering a "stronger and leaner business that is better equipped to help our customers prosper in the recovery still to come".

Highlights from the bank's Q1 report revealed that securities services tapped in at $289 million as of 31 March 2020, compared to $372 million for the same period last year. The decline of $83 million marks a 22 percent decline.

Commenting on HSBC's Q1 2020 results, Quinn, cited: "The economic impact of the COVID-19 pandemic on our customers has been the main driver of the change in our financial performance since the turn of the year."

"The resultant increase in expected credit losses in the first quarter contributed to a material fall in reported profit before tax compared with the same period last year."

According to Quinn, HSBC is working closely with governments around the world to channel fiscal support to the real economy quickly and efficiently.

Prior to the Q1 results, go-live, Colin McLean, managing director of SVM Asset management, had highlighted that HSBC's planned job cuts are "currently the biggest of the major UK and European banks, but others may be forced to accelerate cost-cutting along with impairment provisioning".

market, by providing a centralised, high quality, affordable, trustworthy data source, offering a comprehensive market view.

It said: "This would bring immediate benefits to the professional bond market but could also benefit the retail sector more widely."

The taskforce also suggested that the European Securities and Markets Authority (ESMA) should have oversight of consolidated tape contracts and monitor for any breach of contract, with supervision being implemented as of January 2022 or as soon as the services start.

"ESMA would also work closely with industry participants (buy-sides, sell-sides trading venues, data providers and retail) who are best positioned to advise with collective market functioning expertise and stewardship", the taskforce explained.

Commenting on the benefits to the market of a single reliable source of post-trade data, Martin Scheck, ICMA chief executive, said: "The goal of the bond market consolidated tape is to improve post-trade transparency, assist decision-making and provide market insights to end-investors, large or small. We believe that adoption of the appropriate structure would benefit the whole market, by providing a centralised, high quality, affordable, trustworthy data source, offering a comprehensive market view."

## Dentons: April sees mixed bag of developments from European Commission

April has seen a mixed result of some positive developments of the EU Commission and EU Member States, according to Dentons' EU

Banking and Finance Regulatory newsletter from its Frankfurt-based Eurozone Hub.

Some of these developments include a set of relief and support measures to help the EU economy and a way forward on how to look past the lockdown and reopen economies.

In the European Central Bank's (ECB) press conference on 30 April, it was emphasised that the euro area is facing an economic contraction of magnitude and speed that are unprecedented in peacetime.

Measures to contain the spread of COVID-19 have largely halted economic activity in all the countries of the euro area and across the globe.

Dentons highlighted that Q1 saw the biggest drop in Q1 GDP for the euro area since 1995.

According to the global law firm, operating conditions are rapidly requiring translation to a more "digital and agile environment" regardless of an anticipated return to normalisation during the recovery phase, including as supported by the EU's announced Recovery Fund.

Since the end of March, the ECB has been conducting purchases under the new pandemic emergency purchase programme (PEPP), which has an overall envelope of €750 billion and Dentons' Eurozone Hub predicts this could be expanded further as the ECB continues to pledge to do "whatever it takes".

The ECB also decided to recalibrate targeted lending operations to further support the real economy.

The central bank stated that for the period from 24 June 2020 to 23 June 2021 the interest rate on all TLTRO III operations will now be 50 basis points below the average rate applied in the Eurosystem's main refinancing operations over the same period.

Additionally, the ECB discussed new pandemic emergency longer-term refinancing operations.

As such, the ECB said it would conduct a new series of seven additional longer-term refinancing operations, called pandemic emergency longer-term refinancing operations (PELTROs), to provide liquidity support to the euro area financial system.

Dentons outlined that while some of these measures were to be expected to support the rulemaking side and banking sector, further support efforts are not yet quite there in other areas of financial markets.

Dentons commented: "When taken together these measures aim to provide support against a range of scenarios during the recovery phase and return to normalisation. The ECB and the EU Commission are clear that much depends on the success of on-going containment efforts."

"Moreover, financial markets are still looking to the EU Commission and the Member States looking to finalise the (re-)financing of the breadth of announced measures that are in various stages of operationalisation across Europe and where the debate will land on 'innovative financial instruments'' which is the blanket term that may cover Corona Bonds."

It was also noted that financial markets and their clients continue to face unwelcome challenges from compliance with some of these new supervisory expectations even where there is temporary relief (but not repeal) of rules that existed pre-COVID 19 gripping Europe, Dentons' Eurozone Hub affirmed.

It said it expects the type and amount of temporary adjustments to rules will continue to gather pace, as well as the use of EU supervisory authorities of certain communications to national competent authorities and the firms they supervise to communicate 'no-action' on certain points.

"These welcome efforts, however, may also carry with them confusion, which we continue to cover to provide clarity on issues and opportunities for firms and their clients," Specifically, Dentons' Eurozone Hub and the wider Financial Institutions Regulatory Europe Team and other colleagues are dealing with client enquiries from financial institutions and non-financial corporations on the multitude of temporary relief, financial support and fiscal support measures.

Various programmes have different access conditions and/or are in different stages of operationalisation across the EU-27.

Equally, Dentons Eurozone Hub pointed to some of the challenges that may be on the horizon in dealing with a new wave of non-performing exposures and loans (NPLs) that come at a time when many financial institutions are still embedding compliance programmes to meet relatively new ECB and EU rules and supervisory expectations on those matters. This is further complicated by new rules on credit servicing and loan origination standards, according to Dentons.

Equally, while most rulemaking reliefs have focused on banks, other areas of financial services may still require more coordinated action and support from the EU Commission, notably in the asset management sector, which has an active and important role to play in the road to recovery in Europe's real economy.

# Keeping the lights on

**Although CSDR may not be top of mind for firms right now, Will Stevens of IHS Markit says it is necessary to prioritise your preparedness for this looming regulatory requirement**

Many European settlement participants welcomed the extra time to prepare for the Central Securities Depositories Regulation (CSDR) settlement discipline regime, following the announcement from the European Securities and Markets Authority (ESMA) postponing the implementation date to 1 February 2021. However, since this announcement, something bigger and more immediate now dominates almost everyone's priorities. It's fair to say that no one could have foreseen a situation of this magnitude, a global pandemic which right now, is undoubtedly the only thing that investors, asset managers and banks alike are concerned about.

While the situation presents a multitude of challenges, business as usual must continue. Working from home while juggling video conference calls and a host of other new tasks has quickly become the norm. Keeping the lights on remains the priority, but inevitably, the need to manage change must not be forgotten and regulatory requirements continue to be a priority.

Panic has triggered unprecedented volatility, with volumes of risk-off activity exceeding those seen during the global financial crisis of 2008. The selling of equities across all sectors and regions has pushed many

*As businesses adapt to function in a new format, it's crucial for them to revisit the prioritisation of their investment initiatives. With time running short, regulatory items must move to the top of the list*

markets into bear territory. Managing trade settlement across even the most liquid stocks is a daily struggle, with many organisations seeing their back-office working into the early hours. Securities lending agents have experienced abnormal activity as their clients offload riskier assets, driving up loan recalls, but also fueling demand to cover stocks that are hard to locate. Settlement fails, cash penalties and buy-ins are in sharp focus for anyone working in the post-trade space.

While initiatives like CSDR may not be at the forefront of everyone's mind, post-trade operations need to continue to function with minimal disruption throughout the post-trade chain, from the end investor to the CSDs. But, maybe now, regulation like CSDR is more important than ever, when calm and order in the markets are crucial. It's times like this when post-trade platform consolidation really matters, reducing inefficiency and risk associated with fragmented legacy software.

In this environment of high volatility and increased trading volumes, settlement discipline must be a key consideration. With no end in sight for the COVID-19 pandemic, it's hard to know when economies and markets will begin their recovery.

As businesses adapt to function in a new format, it's crucial for them to revisit the prioritisation of their investment initiatives. With time running short, regulatory items must move to the top of the list. Strict delivery timetables must be put in place and re-engagement with solution providers should occur without delay.

One thing is certain: when we reach a turning point and confidence returns, buyers will regain control and a further surge in trading volumes will occur. This could mean an increase in failed trades where asset managers, institutional and retail traders attempt to pick up bargains as they rescue their portfolios. After crisis, comes opportunity.

CSDR has many components across data, software, integration and interface. New penalty processing functionality within the existing interbank messaging framework will require adoption, and therefore changes to message management and user interface. Posting of debits or credits to client accounts must be automated, with the ability to accrue, waive and pass fees on an ad-hoc basis when required. Foreign exchange transactions will also require automation to ensure risk and inefficiencies associated with manual processing are avoided. While reconciliation of fees and penalty dispute handling appear challenging, they will be necessary for institutions to correctly and transparently attribute the correct monies to their underlying clients.

CSDR aims to balance the responsibility between buyer and seller, ensuring both parties have equal motivation to fulfil their obligations. Net fees derived from a combination of matching and failing penalties on the same transaction may result in unexpected outcomes. For example, a buyer being charged a larger penalty than the seller because they failed to match a trade for a greater number of days than the seller was short to deliver beyond the intended settlement date. Different calculation methods across asset classes will also require sophisticated software enhancements, as well as new data models in order to source and generate the correct rates for calculation. Solutions for managing CSDR will only provide real value if they offer front-to-back coverage across the process with a high level of automation.

Preparing for CSDR is more important now than ever. Time to prepare in these challenging times is limited, and whether it's a third-party standalone solution or an integrated solution, CSDR must not introduce new operational risk or inefficiencies. There is no time to waste.

IHS Markit delivers multi-asset class solutions across the post-trade landscape, with integrated regulatory components enabling clients to better manage headwinds faced in an ever-evolving and uncertain environment. Our post-trade solution IMSecurities provides the foundation for supporting CSDR. With a team of industry experts who collaborate with clients to deepen our understanding of their requirements so that when CSDR arrives, they are equipped with an integrated solution, offering automated features that maintain efficiency and transparency.

# Adapting to the new norm

Becky Bellamy reports

**Although the core role of the transfer agent has remained unchanged, they have had to keep pace with how investor buying behaviour and the demands of the investment management community have transformed**

In recent years, clients have come to expect more from their transfer agents. Clients want their transfer agent to provide platforms that simultaneously connect businesses with markets, engage customers with their investments and allow them to grow and transform.

However, Steve Banfield, industry director at Equiniti, says the core role of the transfer agent has remained unchanged in respect of contractual duties to service shareholders on behalf of corporate issuers.

Banfield notes: "We continue to proactively manage share registers, communicate with shareholders and employees using modern digital platforms, administer payments, and support our customers through any corporate events that they undertake."

images by ferdy_timmerman/shutterstock.com

*Asset managers rely on their transfer agent to have a robust and comprehensive client on-boarding process that satisfies both the regulation and the overall investor journey*

One of the biggest changes is the rapid technological shifts and regulation in the industry. In order to add value and remain a core part of the investor journey, transfer agents have had to keep pace with how investor buying behaviour and the demands of the investment management community have transformed.

Ed Hamilton-Russell, head of business development Europe, the Middle East and Africa at Link Fund Solutions, explains: "Transfer agents play an increasingly significant part in interacting between asset managers and investors, both of whom expect to have a dynamic and flexible investment experience and continue to expect so via increasingly sophisticated and complex models."

Transfer agents have needed to adopt and utilise new technologies to continue to function as a key part in the value chain of investors and the companies that service them.

Rachel Turner, head of Europe, the Middle East and Africa asset managers and insurance at BNY Mellon, suggests that more asset managers are using digital interfaces to develop direct, long-term relationships with customers.

Turner notes as they move away from using fund distribution platforms they are increasingly relying on transfer agents to ensure responsive and user-friendly interaction. She comments: "Asset managers look to transfer agents to offer innovative technology solutions that provide the self-service functionality and comprehensive digital interface that meet the specific needs of their clients."

Additionally, since the 2008 financial crisis, regulators have increasingly focused on protecting the end investor and their investment.

Hamilton-Russell argues that transfer agents play a "crucial role" in ensuring that know-your-customer and anti-money laundering, and the protection of client assets is completed in a "thorough and timely manner".

He says: "Asset managers rely on their transfer agent to have a robust and comprehensive client on-boarding process that satisfies both the regulation and the overall investor journey."

## Technological developments

With technological development impacting the way transfer agents work, Elena Casalegno, head of transfer agency operations and shareholder services at European Fund Administration (EFA), suggests that the main effect has been the introduction of complementary tools that add communication options, enhance secure counterparty identification or reporting and provide data for analytical purposes.

Casalegno explains that the application of technology in these areas has enabled transfer agents to provide clients with both reference and transaction data covering the activities of their funds, along with channels to receive or access the information with varying levels of authentication to ensure data security.

The biggest change is how firms communicate to shareholders and employees, adapting and developing solutions to modern technologies. Banfield comments: "Many investors now elect for electronic communications over paper, and we have been able to develop and deliver digital enhancements when faced with regulatory change."

However, one of the key challenges is to navigate the rapid move to a digital world while continuing to satisfy company law and regulation that supports paper processes and wet signatures, according to Banfield.

Overall, technological developments have helped transfer agents to manage new regulations requiring the disclosure, reporting and monitoring of client and investor activity, but Casalegno explains that so far "no game-changing disruptive technologies have emerged with a material impact on services provided to mainstream asset classes".

## Adaption

With the ever-changing environment, transfer agents are challenged to adapt. Customer behaviour and expectations require a greater shift to online portals and a requirement to be able to transact/service funds directly.

Hamilton-Russell explains that this increases the importance for transfer agents to add value to the end investors and asset managers, who are increasingly looking to their transfer agents to enable flexible, easy-to-use and brand-aware access to their funds.

"It means not only that transfer agents must ensure that their digital offering, whether facing retail investors or their advisers, reflects the brand values of asset managers, but that their digital offering and communication must also be accessible. They must enable asset managers to deliver regulatory documentation and engaging supplementary fund information, cost effectively, to build and enhance positive client relationships and in turn understand the profile of their investors", says Hamilton-Russell.

He suggests that the successful transfer agents of tomorrow will be those most adept at delivering enhanced digital service solutions, whether developed in-house or achieved through partnering with external tech providers, to support the rapidly changing fund distribution landscape.

Meanwhile, amid intense cost pressure and demand from clients for a more extensive range of services, Casalegno says that transfer agents will need to deploy smart technology on an ongoing basis in order to service clients or weigh up the risks and rewards of providing services.

Casalegno comments: "While a competitive environment that delivers value for money to clients and their investors is healthy, it's also important to be able to define what is being provided and at what cost during new business negotiations and in-service reviews."

"If there is a gap between the client's service expectations and what is delivered, the disconnection will sour the best of relationships. Currently, the quality aspect of service is not prominent enough on the agenda of transfer agents and clients negotiating the cost of service", she adds.

Turner explains that in order for transfer agents to adapt to the constantly changing, they need to have great flexibility. She notes that breadth, depth and flexibility to support all investor types and distribution channels, new fund types, asset classes and multiple fund ranges across different domiciles is important.

However, she says: "At the same time, transfer agents need to be able to deal with technological evolution, regulatory changes and investor preferences."

## Concentration of transfer agents

With increasing levels of manpower and cost associated with regulatory compliance, has it become difficult for smaller transfer agents to keep up?

There is no doubt that regulation has increased across the financial industry, particularly following the global financial crisis, resulting in significant investment in technology and resources to ensure compliance. Banfield says this will "undoubtedly place significant burden" on smaller transfer agents as they invest to keep up.

He adds: "The industry has already undergone a period of consolidation leaving a relatively small number of service providers. That said, the burden is increasing and further consolidation may well occur."

However, Hamilton-Russell suggests that there have also been some larger asset servicers who take the decision that transfer agency is not a service that adds significant value to their own shareholders and so they chose to focus on their core products of custody, depositary and administration services.

At the same time, Hamilton-Russell notes that there have been new market entrants emerging from the technology arena, whose strategy is focussed solely on delivering a service centred around technology.

While technology is playing an increasingly important part of the transfer agency industry there is still a requirement for human interaction and the investment this entails.

He says: "As a result, we envisage that while there may be some changes in the individual players in the transfer agency space, those providers who view transfer agents as a core proposition and recognise its importance in the asset management sector will go the distance."

*"Until technological solutions are available to enable transfer agents to manage these complex issues, size will have limited impact on market strength – regulatory risk is likely to be a deciding factor"*

Casalegno explains that in order to maintain compliant up-to-date records for the same financial intermediary, whose risk profile might differ according to how it is assessed in business relationships with two different customers, poses various procedural problems, in addition to the frustration of having to explain the difference to the financial intermediary.

She states: "Until technological solutions are available to enable transfer agents to manage these complex issues, size will have limited impact on market strength – regulatory risk is likely to be a deciding factor."

## Next five years

The pace of technological development is not looking to slow down, and although the core role of the transfer agent has not changed, the adoption of new ways will be required to keep up with investors.

Hamilton-Russell notes that as funds become more commoditised and asset managers find it more difficult to differentiate their value and products, along with the rise in passive funds, the investor journey is going to continue to grow in importance.

He says: "It is going to become increasingly easy for investors to 'shop around' and express their dissatisfaction by 'voting with their feet'. As a result, asset managers are going to have to have a laser-like focus on generating Alpha. Their reliance on a trusted partner to articulate and protect their brand, values and most importantly protect their clients, the end investors, is going to be ever more important."

*Having agile relevant technology, knowledgeable staff and a true partnership with asset management clients are going to be key for transfer agents over the next five years*

She adds: "Over the next five years transfer agents will need to jettison their old technology and communication channels and identify new solutions that eliminate the cost and friction of outdated media that take a disproportionate amount of time to service and often result in disgruntled clients."

"They will need to offer alternative communication solutions that are secure, intuitive to operate and demand minimum effort for adoption – remembering that clients are often asked to deal with solutions from multiple counterparties that are burdensome to install, maintain and operate. That's hardly a recipe for success in the age of fintech."

Having agile relevant technology, knowledgeable staff and a true partnership with asset management clients are going to be key for transfer agents over the next five years, according to Hamilton-Russell.

Elsewhere, Banfield suggests that as transfer agent services over to a digital service, the industry is shifting toward full dematerialisation through the removal of paper trades. This move will also provide more investment choice with investors benefiting from quicker electronic trade and settlement times whilst continuing to enjoy full membership rights.

He comments: "The issuance of paper will almost certainly reduce considerably as investors utilise modern technology and as corporate law moves to support companies wishing to drive good economic and social governance practices."

Transfer agents had a much different agenda and list of priorities than they may have today, with the current COVID-19 pandemic. The coronavirus pandemic has resulted in most of the financial sector, including transfer agents, operating remotely, with most employees confined to their homes.

Casalegno believes this has highlighted the long tail of legacy communication methods, with delays in receiving original documents sent by post, instructions of various kinds that are still faxed from banking and wealth management systems, and documents sent via various telecommunication channels that lack provenance and whose authenticity would be unlikely to pass legal scrutiny.

# Full speed ahead

*Maddie Saghir reports*

**With an accelerating shift towards digitisation across all sectors, especially in financial services and asset servicing, how will digital transformation change in the coming years?**

Although the COVID-19 pandemic has caused heartbreak and turmoil, it has proved how important technology can be to everyone worldwide.

In light of the lockdown measures across various countries, technology has provided a platform to speak to loved ones as well as being able to work from home.

Without the vast amount of technology currently on offer, various elements of work would be impossible.

Globacap's Myles Milston highlights that less than five years ago most institutions were still averse to using digital signatures, however now it's almost strange if we have to print, sign and scan a document.

Milston says: "That trend will continue. The situation with COVID-19 has increased the rate of accelerating digitisation."

"There is an accelerating shift towards digitisation across all sectors, but especially in financial services and asset servicing", he adds. Emphasising this shift further, Yvan Mirochnikoff, head of digital solutions at Societe Generale Securities Services, says the digital transformation is "a tremendous change in our industry", following the trend already initiated in other markets, such as retail banking and payments.

Mirochnikoff notes: "Everything is going in the same way: bringing an easy connection between clients and the business information, available in real-time and remotely, with an increased capacity to extract insights from a large volume of data."

He explains that this is not only to produce more detailed reports or enter operations but also to interact on critical tasks, with a better knowledge of the market, to help improve performance and manage risks. Everything is now available at your fingertips, via smartphones or tablets.

> *Of course, digital solutions do not replace human interactions, but we are entering a period with a digital-native generation, able to work and interact from any place in the world*

## Rise in digital transformation

Digital transformation is becoming increasingly popular in the way that banks interact with clients because of the opportunities and advantages it can bring over manual tasks.

Mirochnikoff breaks this down into three key aspects. The first, the capacity to collect a huge volume of data (cloud services gathering all kinds of data); second, the opportunity to interconnect all systems and devices together (with higher telecommunications and broadband capacities); and third, the development of new technologies, such as artificial intelligence (AI) and blockchain components.

"The customer experience should take advantage of these three areas to create interactive interfaces, allowing easy access to these increased capacities," Mirochnikoff says.

In retail banking, Milston observes that the large banks have been trying to reduce their branch services for decades.

Milston explains: "It was the rise of challenger banks, however, that accelerated that journey, forcing the incumbents to also upgrade their digital services, which ultimately benefit them by reducing their reliance on human capital and physical space in branches."

In investment banking, there has been a focus on digitising trading and settlement systems, however, there has not been as much advancement in securities distribution, according to Milston.

## Something missing?

Digitalisation in the asset servicing industry has also seen the rise of chatbots, robots and AI, which aim to bring efficiency and create a powerful user experience, but does this mean clients miss face-to-face interaction?

Chatbots stimulate conversations with customers over the internet or by phone, however, they can be frustrating for users and you will often be greeted with a robot asking you to "repeat that please".

But despite the frustrations, chatbots are continuously improving and provide the benefit of freeing up human support time. Milston cites: "Chatbots have the benefit of quicker responses, directly to users on simple requests, but also by freeing up human support staff to focus on more complex queries."

Weighing in on this, Mirochnikoff cites: "Chatbots bring interactivity to the dialogue between our clients and dedicated platforms; the challenge is to specify a business perimeter, where any question may find an answer, and to create a learning capacity to improve the quality of the answers."

Meanwhile, robots (such as RPA) are providing the industry with huge capacity to automate processes, which Mirochnikoff says are the backbone of our industry, but they are limited to stable activities. "The challenge might be to combine robots and machine learning to dynamically change the process."

"Finally, AI is leading the area of processing the data in order to give insights to the asset managers and other finance experts. The challenge is to continue creating and developing powerful models and engines," Mirochnikoff says.

With the increase of digital platforms, people may miss the face-to-face interaction, although people have come to expect this in most industries. COVID-19 has also heightened this void of face-to-face interaction.

However, Mirochnikoff stipulates that digital platforms and face-to-face interaction are not mutually exclusive considering the new communication means that have developed with clients, either through messaging systems or via remote solutions. COVID-19 has also dramatically increased the usage and the necessity of such platforms.

Mirochnikoff adds: “Of course, digital solutions do not replace human interactions, but we are entering a period with a digital-native generation, able to work and interact from any place in the world. So, we just have to provide the right solutions to combine systems and real-time interactions. The progress done on vocal interfaces is a good trigger to change our way to communicate and interact.”

## Out with the old, in with the new

Digital platforms can be costly and take a while to implement. Large companies may in a sense be at a disadvantage when it comes to the migration to new platforms and are still using legacy systems. Whereas newer players in the space have the upper-hand of being able to start from scratch and create something new.

Milston explains: “Cost and time is the major factor. It can be very complicated to replace legacy systems, particularly after decades of use and where the original architects and engineers that built the systems are no longer at the firm. Often there is a web of complexity where those systems interact with other systems, and all of those interactions, channels, operational systems, and so on would have to be rebuilt, and staff re-trained.”

Echoing this, Mirochnikoff highlights that banks and asset servicers have invested for more than 30 years in their IT environments.

“Completely replacing this legacy is not the easiest, nor cheapest, way to manage its transformation. One preference is to develop open architectures, with APIs, providing the ability to interconnect the legacy applications with modern user interfaces, for an enhanced digital experience. “

“The question remains, therefore, how to decouple the layers of this architecture and connect them with additional components, provided, for instance, by partners and fintechs. This is what has been done at an SG level with the implementation of the SG Market platform.”

“This is where fintechs and challenger banks have a significant advantage - we’re starting with cutting-edge, future-proofed systems,” Milston adds.

Looking to the future and how digital platforms will develop over the next five years, Milston predicts we will see continued acceleration of digitisation.

“

*It can be very complicated to replace legacy systems, particularly after decades of use and where the original architects and engineers that built the systems are no longer at the firm*

”

Globacap’s platform provides entirely automated, digital registrar services, offering asset issuers and investors is a more cost-effective, easier approach to managing and interacting with their assets.

Illustrating the demand for digital services, Milston says that since launching in May 2019, Globacap is now providing this service to just over $250 million of private securities and growing fast.

“Therefore we will definitely see a continued acceleration towards digital services. Asset servicing firms have an opportunity to adapt and capitalise on the new normal, however, they do have to move quickly since firms like ours are closing in,” Milston says.

While every large firm has developed a digital platform in the wholesale banking industry, Mirochnikoff says it is too early to see whether a common and unique platform will emerge for all businesses.

However, dedicated platforms per market (trade services, securities) may converge when actors share a common interest or a technological asset (such as blockchain), according to Mirochnikoff.

“We need a common regulatory framework to allow and ease this convergence. In the meanwhile, clients can continue to access their preferred providers via common standard protocols or APIs, through interconnecting IT environments.”

“The major change will be the capacity to extract added value from the huge amount of data we are daily managing and collecting,” Mirochnikoff concludes.

# A new dimension of automation possibilities

*Maddie Saghir Reports*

**It's no secret that corporate actions have remained largely manual in the asset servicing industry, so how fast is the industry accelerating towards implementing technology in this space?**

Industry experts have emphasised that corporate actions are extremely important because they represent the governance and capital return relationship between share-issuing companies – issuers – and end investors.

While technology may not necessarily be the solution for the complexity of corporate actions, they can help simplify how they are processed.

Philip Taliaferro, general manager of asset servicing at Broadridge, explains that the industry has traditionally processed corporate actions on existing back-office systems which were separated by region, line of business or asset class.

Exacerbating these challenges, those systems were not integrated with one another and often operated on a batch cycle without any real-time capabilities, according to Taliaferro.

"In many cases, exception handling (resulting from securities lending or sale during the event lifecycle) is handled on spreadsheets and elections are captured manually; resulting in operational risk and significant labour expense," he continues.

However, more modern solutions are available. Already, institutions are deploying technology to help navigate the complexities of corporate actions.

But is there still some way to go.

images by tatiana_shepeleva/shutterstock.com

## Implementing Technology

Corporate actions have remained a largely manual, costly and financially risky activity even as other parts of the trade and asset lifecycle have moved to straight-through processing (STP), according to Taliaferro.

One silver lining is that the industry is starting to turn to technology to help navigate the complexities. Taliaferro observes that the industry has finally reached a turning point in which the client demands, regulatory requirements and cost pressures demand action. "Fortunately, the technology is now available to meet these challenges," he adds.

However, Adam Cottingham, product manager corporate actions, SmartStream, highlights that people often underestimate the complexity associated with corporate actions and suggesting that it is hard to automate. Technology is critical to be able to automate and control it.

Cottingham says: "There is a data flow obtaining information across multiple participants in a time-critical way; throwing more people at this cannot help reduce risk against it – you need a system in place. Technology is crucial to be able to enable a better client service relationship as beneficial owners under Shareholder Rights Directive II are being asked to come into the process of making electronic decisions."

He continues: "There is also the technology chain making corporate actions processing and proper integration fundamental for running an accurate book of record. The adoption of artificial intelligence (AI) to support narrative cleansing and predictive matching is also important."

Echoing the importance of applying technology, Ankush Zutshi, head of product management, securities processing and corporate actions at IHS Markit, comments: "Technology is a significant contributor to the simplification of corporate actions."

"In response to all the challenges in corporate actions processing custodians have focused on the need to continuously improve efficiency and reduce risk by investing in rules-based workflow automation technology and digitalisation tools, either building or buying market-leading asset servicing solutions," Zutshi says.

According to Zutshi, these solutions facilitate increased efficiency and risk reduction by automating the end-to end-workflow with the aim to increase STP rates. This creates time and resources to focus upon the identification and resolution of exceptions.

> *"Corporate actions have remained a largely manual, costly and financially risky activity even as other parts of the trade and asset lifecycle have moved to straight-through processing"*

At the Depository Trust & Clearing Corporation (DTCC), an American post-trade financial services company providing clearing and settlement services to the financial markets, the belief is also that technology is critical for increasing automation in the corporate actions space.

DTCC says that automation such as the use of APIs and real-time messaging can have a positive impact on the entire industry, from central security depository to custodian/broker-dealer, to asset manager to the beneficial holder and even to the various agents that aid in facilitating processing.

Additionally, DTCC believes that the use of standardised, modernised, real-time technology can provide the industry with accuracy and efficiencies that will allow firms and individuals to make sound investment decisions and maximise their investment returns.

Elsewhere at Broadridge, there has been substantial investments in a new corporate actions solution that is designed to span all lines of business, operate in real-time, and is built on a modern technology platform, hosted in AWS and integrated via a modern application programming interface (APIs).

Broadridge's Taliaferro says: "Over time we are building out intelligent automation capabilities that will harmonise events and further reduce operational exceptions."

> *The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts*

## The types of tech

Fabian Nelissen, head of global asset services at Clearstream reinforces the point that technology and automation are the cornerstone for successful processing of corporate actions, and if it does not always directly simplify the corporate actions in itself, it simplifies the operational processes through the chain of stakeholders while guaranteeing better quality and time to market.

"The ultimate goal is always to offer the best level of service to our customers while reducing burdens on their side as much as possible", Nelissen highlights.

While it can be agreed that technology can help with corporate actions processes, there is a variety of tech to choose from, and each can be used in different ways.

**Some of these technologies include:**

- API, a computing interface which defines interactions between multiple software intermediaries
- Cloud computing, on-demand availability of computer system resources, especially data storage and computing power, without direct active management by the user
- Robotic process automation, a form of business process automation technology based on metaphorical software robots or on AI/digital workers

While DTCC has invested in providing clients with modernised graphical user interface, a form of user interface that allows users to interact with electronic devices through graphical icons and audio indicator, with export and advanced search functionality, as well as real-time ISO 20022 messaging, it will be focusing on building a suite of API services over the next several years.

These services will allow clients to access DTCC data in real time and "on demand", using simplified computer-to-computer communication and modernised programming languages like JSON.

Gerard Bermingham, managing director, sales/business development, financial markets, IHS Markit, observes that custodians are increasingly leveraging cloud to lower total cost of ownership and simplify implementation and maintenance of solutions compared to the traditional model of on-premise deployment and upfront ~ licensing costs.

"The compelling economics of cloud is especially very valuable to custodians who were earlier struggling to replace their legacy technology platforms that were hindering the digital transformation efforts as it is much easier for them to now implementing modern technology solutions in the market," Bermingham says.

Meanwhile, Bermingham notes that the increasing demand from buy-side clients on self-servicing, real-time information access and modern digital tools provide opportunities for custodians to leverage technologies such as APIs and open platforms.

"The API adoption is increasing at a rapid pace and their adoption can improve the efficiency not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers," he adds.

IHS Markit's Zutshi also weighs in on this saying that given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

"Using robotics, web scraping and AI techniques to source corporate action data directly from newswires, the web, vendors and other providers and then analyse the unstructured data in disparate formats

> *The back-office is an important part of the value chain and no technology, even AI, will ever entirely replace the human experience*

using AI and machine learning, to normalise can help reduce the manual validation efforts and timeliness issue for corporate actions," he comments.

Additionally, intelligent automation can also be used to analyse reconciliation breaks and patterns at different steps in the CA lifecycle around to help operations in faster resolution of such breaks. According to Zutshi, modern tools like NLP based chatbots can assist in client servicing for basic CA information queries and also assist in the decision-making process with additional information.

Clearstream's Nelissen summarises: "The rise of new technologies brings a new dimension in automation possibilities and even if the treatment of corporate actions is constantly evolving, the fact remains that the opportunities exist in order to reduce the inherent risks and increase efficiency and quality."

These opportunities come in different shapes and in recent years Clearstream has been working towards:

- Reducing manual intervention by automating data input and certain tasks by robotisation
- Optimising exceptions distribution and leveraging the use of workflow management tools with the goal to achieve advanced capacity management
- Eliminating paper processing by digitising the necessary information
- Shifting from hardcoded rules towards the flexibility AI and machine learning offers

Nelissen cautions: "But before designing a lot of solutions it is important to revisit the way it works. Robotising processes that legacy system changes can handle would also not be recommended."

Finally, the back-office is an important part of the value chain and no technology, even AI, will ever entirely replace the human experience, according to Nelissen.

He concludes: "The rat race between innovative corporate bankers who want to maximise the benefit of the issuer and the industry who wants to mould the event in a smooth process is far from over. It is therefore important to correctly reuse the resources that result from the efficiencies created by automation in order to improve the customer experience."

# Corporate Actions

*Maddie Saghir reports*

Industry experts from Broadridge, Clearstream, SmartStream and FIS break down the basics of corporate actions

The financial services industry can be a daunting place, with an abundance of acronyms, jargon, and people who have been in the industry for decades who seem to know it all.

Asset Servicing Times will be introducing a new Educational Corner section to its issues, which will look at a range of different topics.

We hope this will be useful for industry newcomers, those who would like a refresher or people who are interested in learning about different areas of the financial services industry.

In this issue, AST will explore the importance of corporate actions.

## What are corporate actions?

A corporate action is an event initiated by a public company that brings or could bring an actual change to the securities—equity or debt—issued by the company. Corporate actions are typically agreed upon by a company's board of directors and authorised by the shareholders.

Fabian Nelissen, head of global asset services at Clearstream, summarises that corporate actions correspond to events accompanying the life of a security and having a potential impact on the rights of a company shareholder or bondholder.

Philip Taliaferro, general manager, asset servicing, Broadridge notes that the term "corporate" is itself an interesting one because this area historically focused on corporate activities only, but today additionally includes handling of debt issued by sovereigns and municipalities.

Taliaferro explains the rise of private equity has created a large group of corporate debt issuers who actually don't have public equity or the associated dividend or governance considerations. In any case, the annual value of dividends is more than $1.4 trillion and the value of debt payments is many times that figure.

"For any financial intermediary, the accuracy and timeliness of corporate action processing is vital," Taliaferro highlights.

### Example

"Imagine a simple scenario in which an institutional investor selects to receive equity as part of a debt restructuring but the intermediary inaccurately denotes the selection of replacement debt. The equity price increases by 20 percent and the investor is naturally delighted, yet the underlying records instead reflect ownership of the newly restructured debt. The intermediary is liable for payment of this 20 percent increase which could be tens of millions in some cases. This is but one example of the risks associated with corporate actions processing," says Taliaferro.

## What are the different types of corporate actions?

There are many different types of corporate actions but Nelissen says they can be divided into two broad categories of events: predictable and unpredictable.

- Predictable events encompass events foreseen in the security's documentation, as for example the terms and conditions.
- Unpredictable relates to events announced and described in ad-hoc documentation, for example, an offer prospectus.

*Inaccurate and/or incomplete corporate actions information can lead to significant financial and reputational losses for custodians*

Nelissen explains that both predictable and unpredictable events can be subdivided into three main categories: mandatory events, mandatory events with choice, and voluntary events.

- Mandatory events relate to compulsory participation but no instruction from the security holder required.
- Mandatory events with choice regard compulsory participation but the choice available for the security holder; default option applied in case of no response.
- Voluntary events means that participation is at security holder discretion.

"They are important for the two main actors who are the issuer (listed company etc.) and the holder of the security. Stakeholders (custodians, central securities depositories, also when acting e.g. as trusted third parties) who are between issuers and holders play a very important role in the dissemination of information and in the collection of instructions necessary for the proper execution of events," Nelissen says.

Nelissen highlights the types of corporate actions are extremely vast and cover any event occurring during the life of a security.

According to Nelissen, corporate actions are generally classified into two categories: "plain vanilla" operations which do not involve any specific action on the part of the holder (e.g. payment of the dividend), and complex (or conditional) corporate actions which require a decision of from the holder (purchase offers, exchange offers etc.).

## Why are they important?

Broadridge's Taliaferro explains that corporate actions are extremely important because they represent the governance and capital return relationship between share-issuing companies – issuers - and end investors.

The Depository Trust & Clearing Corporation (DTCC), an American post-trade financial services company providing clearing and settlement services to the financial markets, highlights that corporate actions are a critical component of post-trade processing, as billions of dollars of cash allocations and stock entitlements are facilitated through DTCC alone every day.

Inaccurate and/or incomplete corporate actions information can lead to significant financial and reputational losses for custodians, says a DTCC spokesperson.

"Given that, it is imperative that asset managers, buy-side firms, and, ultimately, beneficial holders receive timely and accurate notifications to ensure that all parties in the chain are making sound investment decisions and maximising their investment returns," the spokesperson adds.

Weighing in on the importance of corporate actions, Nelissen affirms that central securities depositories play an essential role in the conduct of corporate actions.

According to Nelissen, they ensure their initial registration, the centralisation of the corresponding accounts (number of securities in circulation) as well as the management of the settlement and delivery systems of financial instruments.

"The depositories thus record changes in holders, ensuring that the number of securities in circulation corresponds to the number of securities issued, which avoids fraud. They also play an important role in the communication of information relating to corporate actions and the collection of instructions relating thereto."

Nelissen continues: "Financials are often important for both issuers and the investors, that's why the accuracy of the information communicated, but also the completeness and the timeliness of communication play an extremely important role in the good execution of these operations and this in order to allow both issuers and holders to get the best results."

*Collaborative solutions in the industry – looking into the whole value chain – is certainly a must to achieve efficiencies and qualitative outcomes*

## Where can you find further information?

Broadridge's Taliaferro agrees that there needs to be more education around corporate actions across the industry. He notes that this spans four areas:

- Opportunities to differentiate by having a best in class corporate actions offering
- Operational risk resulting from weak or poorly controlled processes
- Opportunities to drive down operational cost by using modern technology solutions
- Regulatory changes such as Shareholder Rights Directive II, Securities Financing Transactions Regulation, Central Securities Depositories Regulation that are increasing focus on this area

On the regulatory point, Taliaferro says "Just as one example in the last month, a large money manager was recently fined €700,000 plus by BaFin because it 'failed to submit notifications regarding voting rights within the prescribed period'".

Meanwhile, ClearStream's Nelissen adds that while education is important, collaboration in the corporate actions space remains fundamental.

"There are many stakeholders in corporate actions, each with their own interests and responsibilities, but it can only work if the chain is able to connect properly to offer a smooth end-to-end process," Nelissen cites.

He adds: "There is a key role for the agent who advises the issuer and will translate plain language into a smooth operational process. Very often less is more. Collaborative solutions in the industry – looking into the whole value chain – is certainly a must to achieve efficiencies and qualitative outcomes."

Elsewhere, working groups within the industry are also there to help participants understand and become educated on corporate actions. SmartStream's Adam Cottingham, product manager corporate actions, observes that the work that the global Securities Market Practice Group (SMPG) does goes a long way to promoting education around the subject matter and any application of those standards.

"Many firms need to be educated around decreasing their liability for failed manual processes, the potential for loss and reducing the capital requirement to offset these things," he stipulates.

Discussing the education on corporate actions, Adam Brill, vice president, product management, master data services, FIS, notes that some of the work FIS does with ISITC can be considered educational and prior to COVID-19 it included physical conferences.

"It also includes regular phone calls for some of the various working groups. There is a corporate actions working group where we would talk about topical events, such as oversight or just general standards and practice. For example, if there is a custodian not following a given market practice or that the investment managers are struggling as a result of a certain nuance then those things can be discussed and addressed," Brill adds.

Additionally, the group may address particularly complicated events that may need to be talked about. The group usually provides the opportunity to discuss these topics. It also includes vendors, such as FIS, but the vast majority in the group are the actual market participants, such as custodians and investment managers.

**On page 27, Maddie Saghir discusses how technology is being implemented in this space to ease the processing of corporate actions.**

### Alexander von zur Mühlen has succeeded Werner Steinmüller as CEO for Asia Pacific Deutsche Bank.

Mühlen has also become a member of the Deutsche Bank management board, effective 1 August 2020.

As part of his new role, he will take charge of the bank's Asia Pacific business when Werner Steinmüller retires from the management board on 31 July.

Mühlen joined Deutsche Bank in 1998 and has taken up a variety of roles in investment banking, lastly as co-head of debt capital markets in Europe, he was appointed group treasurer in 2009.

In this function, he managed the bank's capital, liquidity and funding. In 2017, he was appointed co-head of global capital markets and one year later named global head of group strategy, in summer 2018.

Deutsche Bank noted that in this position he played a key role in exploring a potential merger with Commerzbank at the start of 2019 as well as in preparing the strategy that was announced in summer 2019.

Paul Achleitner, supervisory board chair, commented: "In Alexander von zur Mühlen we have found an excellent in-house successor to Werner Steinmüller.

As a recognised strategist and internationally experienced capital markets expert, he possesses all the skills and attributes needed to develop our Asia Pacific business and further advance our regional strategy. We wish him every success in his new position on the management board."

Meanwhile, Steinmüller will continue to serve the bank in an advisory role until year-end.

Commenting on Steinmüller's departure, Achleitner said: "In his nearly 30 years of service at Deutsche Bank Werner Steinmüller has been instrumental in developing significant areas of the Group. Both the transaction bank, which he managed for several years, and most recently the APAC business is crucial to Deutsche Bank's future."

"Werner deserves our gratitude for his tireless dedication to Deutsche Bank and its clients. We wish him all the very best for the future," Achleitner added.

### UMB Fund Services has hired James Curry as key account manager of distribution services, based in Denver.

Reporting to Karen Fay Luedtke, senior vice president, director of distribution services at UMB Fund Services, Curry will focus on fund distribution services for clients, further enhancing the firm's service offering to the asset management industry.

Curry brings with him more than 20 years of experience in the financial services industry, focusing on account services to distribution services clients, including interval funds.

Previously, he worked as assistant vice president and key account consultant at SS&C Technologies.

Maureen Quill, executive vice president and executive director of registered funds at UMB Fund Services, said: "James Curry brings unprecedented experience and knowledge of the distribution platform world that complements the team. Curry has established himself as a pioneer in the closed-end interval fund distribution space, where UMB is already a leader in back-office services."

In March, UMB Fund Services hired Mike Huisman as senior vice president and director of transfer agency.

Quill added: "As our client base grows, the additions of Curry and Mike Huisman showcase our commitment to bringing in specialised industry experts who will continue to elevate our high-touch client service."

### Phoenix American Financial Services has hired Tony Olivo as vice president of sales, who joins from PEF Services.

Olivo will be responsible for implementing the company's sales strategy as well as working towards developing and maintaining an expanded client base. This includes a client base for the fund accounting, investor services, back office outsourcing and technology solutions that Phoenix provides to alternative investment funds.

Olivo, who has 14 years of industry experience, began his financial services career at Phoenix in 2006 as an investor services representative.Olivo served in operations with the company for four years working on back-office operations for alternative investment funds and Phoenix's proprietary STAR-XMS fund administration system.

After becoming senior account manager, Olivo transitioned to director of business development in 2010 and served in that role for seven years. Since 2017, Olivo has worked with PEF Services as director of business development.

Olivo has now returned to Phoenix to direct his sales expertise to the promotion of Phoenix American's fund services platform. The platform incorporates transfer agent and investor services, administration, fund accounting, tax reporting, investor web portal and end-to-end back office outsourcing solutions.

"Phoenix American has been an established leader in the direct investment industry for decades. I'm excited to be part of the growth the firm is poised to experience in the coming years," Olivo said.

Andrew Constantin, senior vice president, operations for Phoenix, commented: "We are delighted to have Tony Olivo back at Phoenix. He has comprehensive knowledge of our operational processes and no one can better describe and demonstrate to our prospective clients the unmatched capabilities of STAR-XMS."

### Apex Group, a global financial services provider, has appointed Valerie Mantot-Groene as head of Asia Pacific (APAC).

Mantot-Groene will take on the role from Maggie Chan, who led the APAC operations over the past two and a half years and delivered successful growth and expansion. Chan has now left Apex to pursue new avenues.

Joining from SANNE Group, Mantot-Groene will continue to lead the firm's growth and performance across the APAC region.

Based in Singapore, Mantot-Groene will report directly to Srikumar T.E., the global head of funds solutions at Apex.

She brings 18 years of experience in investment management, which Apex said makes her well-positioned to lead the firm across APAC and continue to deliver its single-source message to the local market; across fund solutions, financial solutions and corporate solutions.

Srikumar T.E., commented: "Valerie Mantot-Groene's addition to the Apex leadership team is great timing, given the expansion of our services and capabilities across a broader spectrum of financial services in the region. She is a highly experienced professional who will bring important senior leadership skills to our team in APAC."

Mantot-Groene added: "I am very pleased to be joining Apex at this exceptional milestone within its story. The group has been on an impressive growth trajectory and the APAC region is ready to leverage the single-source capabilities the group has to offer at a local level which provides a really unique solution for local clients."

The appointment follows closely on from Apex's announcement to expand its corporate solutions offering in APAC through obtaining a Trust and Corporate Services licence in Hong Kong.

### Societe Generale Securities Services (SGSS) has strengthened its client coverage team with the appointment of Stewart Gladstone and Steve Gutowski.

Gladstone will take on a new role as head of segment and solutions for banks and financial intermediaries, leading the strategy, sales and relationship management of new and existing global banking and financial i ntermediary clients.

He joined SGSS in 2006 and was responsible for corporate actions within the clearing services business in the UK. In 2009, he became operations manager for global custody in London before moving to the emerging markets sales and relationship management team in 2012.

Prior to SGSS, he held various operational positions at Fidelity Brokerage, Lloyds TSB Securities Services, Tokyo Mitsubishi International and Nomura International.

Meanwhile, Steve Gutowski will take on the newly created role of director of sales and relationship management for broker dealers. He will be responsible for driving new business and sales of SGSS' solutions, primarily clearing and settlement services, for global broker dealers.

Gutowski joined SGSS in December 2017 to lead the strategic direction of the product and solutions group within SGSS UK for the broker dealer segment.

Before SGSS, Gutowski was a senior product manager at BNY Mellon, responsible for clearing, settlement and custody solutions.

Based in London, both Gladstone and Gutowski will report locally to Matt Davey, head of coverage, marketing and solutions for SGSS UK and functionally to Gildas Le Treut, global head of sales and relationship management for SGSS.

Commenting on the appointments, Davey said: "I am delighted to welcome Stewart Gladstone and Steve Gutowski to their new roles. They bring over 39 years of combined experience and established track records in delivering clearing, settlement, custody and cash solutions, for the benefit of our clients. Their extensive expertise in the industry, as well as their deep knowledge of SGSS, will be instrumental in further strengthening our commitment to these client segments, leveraging on our innovation, efficiency and technology capabilities."