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ISSUE 260 03 March 2021

T+2 = ANTIQUATED OR RELIABLE?

Despite calls for the industry to move to T+0, there are strong arguments to stick with the current 'reliable' T+2 settlement cycle

SFDR Countdown

One week to go until SFDR but concerns remain

Innovation in Germany

DLT could open the floor to all kinds of innovations

Hong Kong Regualtion

Are heads turing towards Asia as a popular fund domicile?

6 News Focus
ConBrio Fund Partners appoints Cooper Wood for custodian search

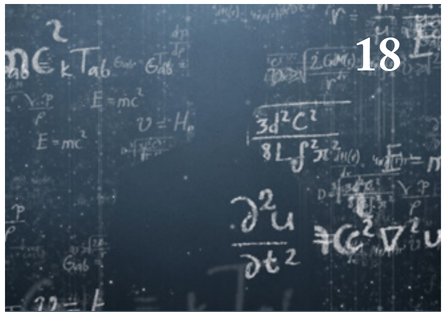
8 News Focus
TMF Group completes Selectra acquisition

10 News Focus
Clearstream reinstates custody and tax services for clients in Iceland

12 News Focus
CIBC Mellon named fund administrator of first bitcoin ETF

13 News in Brief
AFME: CSDR's SDR mandatory buy-ins present 'significant risk' to Europe's COVID recovery

14 Germany Insight
If DLT becomes a regulatory integral part of Germany's business it would open the floor to all kinds of innovations



18 Settlement Focus
Is the current T+2 settlement cycle 'ultra reliable' and could a real-time system lead to many challenges?

24 SFDR Countdown
SFDR concerns around lack of Level 2 RTS, data and overall preparedness remain

28 Hong Kong Regulation
Luxembourg and Ireland are historically popular fund domiciles, but are heads turing towards Asia?

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BNY Mellon to build new multi asset digital custody and administration platform

BNY Mellon has revealed plans to create a new enterprise Digital Assets unit, which will see the development of what is set to be the industry's first multi-asset digital custody and administration platform for traditional and digital assets.

The Digital Assets unit, which is being built to accelerate the development of enterprise solutions to service the rapidly evolving digital asset space, aims to deliver a secure infrastructure for transferring, safekeeping and issuing digital assets.

The unit will help clients address growing and evolving needs related to the growth of digital assets, including cryptocurrencies.

Mike Demissie, head of advanced solutions at BNY Mellon, will take the lead of the cross-functional, cross-business team. Commenting on the new developments, Demissie says: "Consistent with our open-architecture approach, the unit will leverage BNY Mellon's digital expertise and leading technologies from fintechs and other collaborators to speed up product development and help our clients tap into the best available solutions in the market."

Growing client demand for digital assets, maturity of advanced solutions, and improving regulatory clarity, according to Roman Regelman, CEO of asset servicing and head of digital at BNY Mellon, "present a tremendous opportunity for us to extend our current service offerings to this emerging field".

Pending further evaluations and approvals, Regelman expects BNY Mellon to begin offering the new capabilities later this year.

Caroline Butler, head of custody at BNY Mellon, adds: "Building the bridge between the traditional and digital spaces will create a front-to-back ecosystem for innovation. Our digital asset capabilities should help evolve the way the financial industry operates, including custody, collateral management, issuance, investment management and other segments where BNY Mellon is a key service provider."

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Published by Black Knight Media Ltd

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ConBrio Fund Partners appoints Cooper Wood for custodian search

ConBrio Fund Partners has appointed Cooper Wood & Associates to manage the search and selection process for a new UK custodian, depositary and administrator.

The provider will be responsible for ConBrio's approaching £2 billion fund complex, following the withdrawal of services for regulated UK funds by their existing provider, Societe Generale Securities Services.

Launched in June last year, Cooper Wood & Associates specialises in asset servicing, with a proposition of using senior practitioners with direct industry experience to assist both buy and sell-side firms manage their commercial and operational challenges.

Tim Wood and Rod Cooper founded the firm and have a combined experience of over 50 years and have spent this period working at the epicentre of asset servicing, both as suppliers and clients. Mark Friend, senior associate at Cooper Wood & Associates, states: "We are delighted to be able to assist ConBrio, and use our direct experience of asset servicing procurement and delivery to ensure that they achieve the optimum outcome from a vendor selection process."

He says: "Not only do our team have direct experience of working in senior positions at a number of custodian banks and know the market landscape extremely well, but we also have extensive experience as COO's of fund and asset management companies in procuring services."

Friend, who joined the consultancy in September last year, suggests there will be further rationalisation in the UK funds servicing arena.

John Eckersley, managing partner and co-owner of ConBrio, explains: "We are a fast growing and dynamic firm and it's important for both ConBrio and our investors that we can find asset servicing solution that meets our exacting standards for current and future needs, but without allowing any search to distract us from our day to day priority of servicing our clients. Cooper Wood & Associates have hit the ground running, and through their expertise, we are confident we will find the right combination of price and capability which will help take our business to the next level," Eckersley adds.

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TMF Group completes Selectra acquisition

TMF Group, a provider of critical compliance and administrative services, has completed the acquisition of Selectra Management Company from Farad Group to enhance its fund services offering.

Following the announcement last year, TMF Group has been granted permission for the acquisition by Commission de Surveillance du Secteur Financier, the Luxembourg regulator authority.

Created in 2013, as part of the service delivery platform Farad Group, Selectra is a regulated business based in Luxembourg servicing both alternative investment funds (AIFs) and UCITS.

Selectra offers a range of services acting as an independent professional partner for the creation, management and distribution of AIFs and UCITS for European and non-European promoters.

Frank Welman, regional head for TMF Group, says Selectra's service offering is "a key component of our fund strategy and enables us to be a full-service provider".

Marco Cipolla, managing director of Selectra, adds: "We are delighted that Commission de Surveillance du Secteur Financier gave the green light for the completion of the acquisition. Our clients will now have access to the services and reach of TMF Group, a firm with a footprint in 80 plus countries worldwide."

After seven years of growth, Marco Caldana, chairman and founder of Selectra, states: "We are delighted to be part of TMF Group, a strategic partner that will shape Selectra's future growth, by supporting its collaborators and clients."

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Clearstream reinstates custody and tax services for clients in Iceland

Clearstream, Deutsche Boerse's post-trade services provider, has reintroduced its securities offering for international investors in Iceland enabling it to offer its clients the full scope of custody and tax services in Iceland. In addition to non-taxable bonds that were reactivated in the course of 2020, Clearstream has now successfully reintroduced activities for equities and taxable bonds following the adoption of new tax procedures in the market. Clearstream says its direct link to the Icelandic central securities depository (CSD) and Central Bank results in reduced risks due to fewer intermediaries and higher efficiency in the custody/processing chain.

Meanwhile, Clearstream also notes that it provides a "unique custody environment" for securities via its network of over 25 direct CSD links including Iceland, many of which are assessed for Eurosystem monetary policy operations. In terms of asset safety and most efficient processing, this is the preferred access model for domestic markets.

According to the post-trade services provider, assets held with Clearstream through a direct domestic link ensure full transparency on the structure of the domestic market.

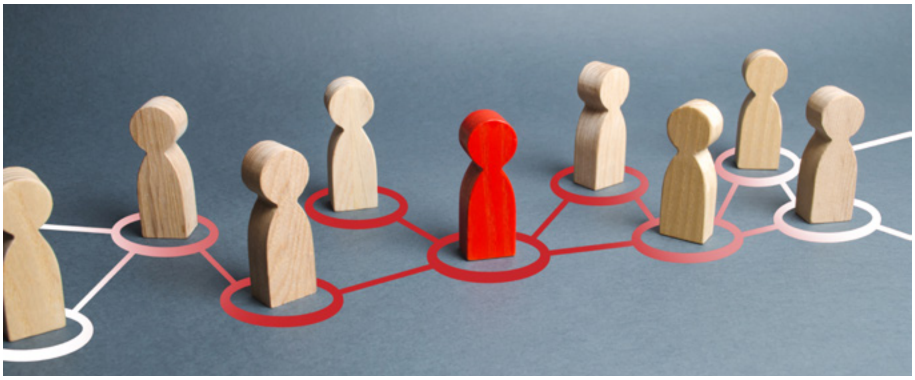
Clearstream ensures efficient and timely reporting to the depositary banks and monitoring of the local legal and regulatory framework.

Thilo Derenbach, head of European custody products at Clearstream, says: "Clearstream has been a long-standing partner and custody provider to the Icelandic market. And it is therefore great to be able again to offer our clients the full scope of custody and tax services in Iceland."

Derenbach explains: "Only the very strong relationships and true partnerships with the domestic CSD as well as the Icelandic Central Bank allows us to deliver to our clients this maximum proximity into this domestic market. The capital controls have, over the years, been gradually lifted, which is a strong sign of the stability of the Icelandic market."

"Now we can again offer our full service, not only for non-taxable bonds where we updated our offering in 2020, but also for the full security scope that we offer to our clients, including equities and taxable bonds," Derenbach adds.

TSSAG onboards MYRIAD as its latest group member



The Securities Services Advisory Group (TSSAG) has welcomed MYRIAD Group Technologies (MGTL) as its newest affiliate member.

TSSAG launched in August last year with the aim of connecting industry professionals from various global bases through a forum of regular interaction and communication.

The board is made up of the founding member firms, Adapa Advisory, AlfaSec Advisors, Araliya Management Consulting, HornbyChapman, Pivot Consultants, Pivot Consulting, PDH Consult, Soterium, and the Value Exchange.

According to Adam Vine, head, client operation of MGTL, becoming an affiliate member of TSSAG, affords the company a platform that will complement its competitive advantage.

In addition, from participation in working groups and networking forums, Vine says becoming a member will help MGTL form the basis of its contribution toward advances in software that better supports the industry.

Commenting on the latest addition to the group, Mark Kerns, chairman of TSSAG, says: "We are delighted to welcome MGTL as an affiliate member of TSSAG. MGTL has an established track record of providing web-based solutions that support the critical areas of network management, vendor governance, due diligence, client onboarding and life cycle management."

Kerns explains: "Affiliate Membership of TSSAG offers access to our core membership thereby creating awareness of service offerings that are relevant to TSSAG's collective client base."

"We also look forward to MGTL's attendance at relevant forums and contributions to thought leadership initiatives."

JTC set to acquire INDOS Financial

JTC has revealed its intentions to acquire INDOS Financial, subject to Financial Conduct Authority's regulatory approval and is expected to complete by the end of March.INDOS, founded in 2012, is a specialist in the provision of depositary, environmental, social and governance (ESG) and anti-money laundering (AML) oversight services for alternative investment funds.

The acquisition will see all INDOS' 52 directors and staff in its London, Fareham and Enniscorthy offices join the institutional client services division of JTC and will become shared owners in the business.

INDOS will also add to JTC's operations in Ireland and the UK, as well as expanding the group's Cayman offering through the provision of AML oversight services.

Founder and CEO of INDOS Financial Bill Prew says the transaction has come at "a perfect time for INDOS" and will help enable the firm to continue to invest in and develop its range of services as well as the markets it operates in for the benefit of INDOS clients.

"Having grown organically since 2012, we understand what it takes to create value through building long-term client relationships based on service quality and expertise."

"We share much of our cultural DNA with JTC and our common focus on clients, innovation and technology means that we are excited by our future as part of the group," Prew adds.

Nigel Le Quesne, CEO, JTC, explains: "INDOS is a business of real quality which operates in a strategically important part of the fund services market. Having collaborated with Bill Prew and the team several times, it is clear their deep expertise, commitment to service excellence and proven ability to innovate and grow makes INDOS a great addition to the JTC platform."

He continues: "The transaction also adds further scale in Ireland, a priority market for the group, and the UK where our London team has more than doubled in size over the last 18 months due to client demand."

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CIBC Mellon named fund administrator of first bitcoin ETF

CIBC Mellon has been appointed fund administrator of Purpose Investment's new bitcoin exchange-traded fund (ETF) after the Ontario Securities Commission (OSC) approved the launch of the fund.

The bitcoin ETF, which is believed to be the first direct custody Bitcoin ETF in the world, will allow investors efficient access to cryptocurrency without the associated risk of self-custody within a digital wallet, according to Purpose Investments.

Som Seif, founder and CEO of Purpose Investments, says: "Purpose Bitcoin ETF will change the landscape for investors by giving them a simple, efficient and affordable way to directly access the cryptocurrency."

Purpose Investments worked closely with OSC to finalise the launch of the ETF.

"The OSC was a crucial working partner in the launch of Purpose Bitcoin ETF and we are grateful for their willingness to work with us through this process. Their cooperation and guidance made it possible for us to move forward on getting this novel ETF into the hands of investors," Seif adds.

As part of the launch, Gemini Trust Company has been named sub-custodian of the fund.

Commenting on the new mandate, CIBC Mellon's head of product and Canadian ETF services Ronald Landry says: "Like many in the financial services industry, we aware of the rising demand from investors and industry participants with respect to digital assets such as cryptocurrencies. CIBC Mellon has been collaborating with global and domestic financial services industry stakeholders in order to evaluate potential digital asset servicing solutions to support this segment."

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AFME: CSDR's SDR mandatory buy-ins present 'significant risk' to Europe's COVID recovery

The introduction of the Central Securities Depositories Regulation mandatory buy-in element of the settlement discipline regime presents a "significant risk to Europe's recovery from the COVID-19 crisis and will likely disproportionately impact on small and medium-sized enterprises and less liquid securities", according to the Association for Financial Markets in Europe.

Read the full article online

MIFL appoints Alveo to streamline data management with managed services solution

Mediolanum International Funds (MIFL) has selected Alveo's PaSS solution to automate data management and access to data for analytics.

The buyside cloud-based managed service solution can be used to address data management use-case requirements and specifically focuses on faster implementation timelines and return on investment delivery.

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Apex continues acquisition streak after closing GFin Corporate Services deal

Apex Group has closed the acquisition of GFin Corporate Services, a Mauritius-based and licensed management company.

GFin provides services such as company, trust and fund formation, corporate and trust administration, fund administration, corporate structuring, tax compliance, accounting and tax services, and net asset value calculation.

Read the full article online

MJ Hudson gets green light on Bridge Group merger

MJ Hudson has closed on its acquisition of Bridge Group after the Central Bank of Ireland approved the deal.

Bridge Group a super management company, which offers a range of regulatory compliance, domiciliation and related services, including third party management services, under both the UCITS and Alternative Investment Fund Managers Directive regimes.

Read the full article online

SEC cracks down on waivers for settlement negotiations

The US Securities and Exchange Commission (SEC) is consulting with the Divisions of Enforcement, Corporation Finance, and Investment Management, in order to take action to remove the policy from the Trump era that helps waiver penalties for firms.

Acting chair Allison Herren Lee Lee explains the Division of Enforcement will no longer recommend to the commission a settlement offer that is conditioned on granting a waiver.

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Exberry and Digital Asset add clearing to digital asset exchange platform

Exberry, the exchange technology provider, and Digital Asset have teamed up with Baymarkets to add central counterparty clearing to their end-to-end digital asset exchange platform.

The new partnership will enable new digital asset marketplaces to launch on an end-to-end exchange platform.

Read the full article online

Innovation: brewing

Experts say DLT has the potential to open the floor to all kinds of innovations if it can become a regulatory and legally integral part of Germany's business

Maddie Saghir reports

Germany boasts a highly developed and mature market for asset servicing. Amid opportunities to seize, and challenges to overcome, experts believe that Germany is on the forefront of innovation.

The current mood of the market indicates that Germany's market consolidation continues to develop. This is with approximately 85 percent of the market by volume serviced by some 10 international players.

Large global custodians service predominantly large mandates with high rates of service standardisation while niche asset servicing players are slowly being absorbed by larger players. One example of this is CACEIS's acquisition of KAS Bank's pensions fund administration business in Germany.

Meanwhile, disruptive innovations have the power to change the picture. Some experts say the German asset servicing industry has lost weight in concert with other global financial players and markets.

"Disruptive innovations are required to put a spotlight on this local industry; not about offering the same products and services at lower costs," says Sven Ludwig, senior advisor, governance, risk and compliance at ifb group.

Distributed ledger technology (DLT) and blockchain still need to prove itself to become such an innovation.

"Maybe the Digital Collateral Protocol (DCP) from DekaBank is this big bang. Likewise, the Smart Derivative Contract initiative of DZ BANK and BayernLB

images by ricka_kinamoto/stock.adobe.com has the potential to become the use case to finally make DLT take off," Ludwig notes.

According to Ludwig, there are three major German banks simultaneously at the forefront of innovations. Innovations which can lead to a substantial cost reduction within the asset servicing industry. With this in mind, could this be the last wakeup call for the German asset servicing industry?

Opportunities to seize

Germany's asset servicing industry has a handful of opportunities at its fingertips including technology, digital assets, the TARGET2-Securities (T2S) platform plus growth in German equity and debt markets and environmental, social and governance (ESG).

Technology plays an important role in Germany's asset servicing industry and is an area of opportunity. Ludwig suggests that DCP from DekaBank or the Smart Derivative Contract initiative of DZ BANK and BayernLB have the potential to be adopted in the asset services industry and become game-changers.

"Removing the need for reconciliation vaporizes many frictions including the necessity for daily cut-offs. Service levels become incredible from today's perspective – light speed is the only remaining limitation," says Ludwig.

If indeed the Smart Derivative Contract initiative of DZ BANK and BayernLB does prove to have the potential to become the use case to finally make DLT take off then it could provide a number of opportunities.

Over-the-counter (OTC) derivatives are far less standardised than other financial products and their tailor-made benefits come at a cost. The initial processing and the ongoing management of the life cycle events are described as complex.

Ludwig comments: "With the Smart Derivative Contract, a huge fraction of these rather manual processes vanish magically. Almost everything is agreed up-front with some lines of code. DLT ensures its integrity including all valuations."

In addition to this, experts agree derived cash flows are per definition, identical and automated executable. The post-trade operations of OTC derivatives become fully scalable and costs are dramatically reduced.

Removing the need for reconciliation vaporizes many frictions including the necessity for daily cut-offs. Service levels become incredible from today's perspective – light speed is the only remaining limitation

But Ludwig highlights that most importantly, if DLT technologies become a regulatory and legally approved integral part of today's business processes then the floor is opened for all subsequent innovations.

Alongside developments in technology such as DLT and the evolution of the market, the German government is continuing to take steps to authorise depositories to service digital assets allowing depositories to use a third-party to hold such assets and today, private equity funds are increasingly holding cryptocurrencies in their portfolios.

On 1 August the Federal Ministry of Finance (Germany) proposed legislation to modernise German securities law and the associated supervisory law. The proposed legislation will also foster innovation and the potential use of DLT debt securities which are initially registered with a crypto-security registrar. The issuance of digital bearer bonds will be enabled on a DLT infrastructure without requiring a certificate. The law is expected to enter into force in Q1 2021.

This could lead to start-up companies and fintechs located in Germany engaging in competition with traditional players based on their expertise in terms of technology and digital processes.

"Technology is key to service development in the asset servicing industry. Client demand for new servicing solutions depends greatly on a group's technical proficiency, financial strength and ability to spread the cost of development across multiple clients," says Gernot Wurzer, head of sales at CACEIS Bank, Germany Branch.

In addition to technological opportunities, the number of financial institutions leaving the clearing (cash equity clearing) space is on the rise due to the growing cost of service provision, and that it no longer represents a core part of their business strategy.

"Ongoing market developments, such as the merger of exchanges, creation of central counterparties (CCPs), transaction collateralisation and bringing volume on-exchange, requires a significant commitment in order to be able to continue offering clearing and settlement services," comments Wurzer.

Wurzer also observes that many institutions are electing to outsource this service and focus on their core business, and there have been several unfortunate cases where banks' strategic decisions have left their clients in a difficult position.

The T2S platform is also providing opportunities in Germany. T2S is a new European securities settlement engine which aims to offer centralised delivery-versus-payment (DvP) settlement in central bank funds across all European securities markets.

Philippe Mueller, head of issuer CSD services at Clearstream, explains: "An opportunity for further evolution is the ongoing gradual alignment of transaction platforms and the streamlining of multiple process chains accounting for market specialties. With Clearstream's centralised T2S access hub and links to various global markets, we leverage the German market to have a single gateway to all markets and business domains."

"We embrace further harmonisation efforts across Europe in order to achieve harmonised markets and lean processing for all market participants, thus ensuring high quality, reduction of complexity and cost, made possible via consolidation of network management as well as operational and IT processes," Mueller adds.

Further to this, Ankush Zutshi, vice president, corporate actions and securities processing at IHS Markit, believes that the German equity and debt markets are bound to grow.

Germany's government plans to issue around €500 billion in bonds in 2021 to help fund economic recovery post the coronavirus crisis. It also issued its first ever green government bond last year in August 2020, a class of debt that has grown in recent years as a part of assets linked to ESG aims.

Zutshi cites: "Professionally managed ESG assets have grown to around $40 trillion globally, Germany already got €33 billion of orders for the new green bonds. These developments should get new portfolio investment into Germany as the country's debt is considered the safest in the eurozone and serves as a risk-free benchmark for bonds and also 50 per cent of conventional funds in Germany are investing in this growing fixed income asset class."

Germany is one of the largest hubs for sustainable funds in Europe and as per BVI the assets invested in open-ended sustainable funds have now exceeded the €129 billion mark.

In turn equity issuances are also bound to grow although the year 2020 was muted in terms of initial public offerings (IPOs), according to Zutshi.

However, Zutshi highlights that studies indicate it is expected to be back to the previous level of 12 to 15 IPOs issuing around €3.6 billion in new capital. "This should provide future growth opportunities for both asset managers and asset servicers," adds Zutshi.

Challenges

With plenty of room for growth in Germany, industry experts believe that some of the main challenges for the asset servicing industry are around regulation such as the Central Securities Depository Regulation (CSDR).

The settlement discipline requirements include allocation and confirmation requirements, mandatory settlement functionality enhancements at the CSDs, transparency requirements with respect to settlement fails; but experts say the greatest impact, however, relates to cash penalties and mandatory buy-ins.

Britta Woernle, director, market advocacy, Deutsche Bank Securities Services, says: "The SDR will drive the need for increased settlement efficiency and hence operational performance will become of vital importance across the industry. In response to these requirements, Deutsche Bank Securities Services is exploring how real-time data and settlement analytics can provide clients with a risk view of their settlement horizon, including a view of trades at risk of penalties and buy-ins."

"These dashboards will provide performance-related insights, such as where and why trades are failing, whereby the dashboards will also suggest remedial action that can be taken," explains Woernle.

Elsewhere in the regulatory sphere, following a detailed consultation in 2020, the second Markets in Financial Instruments Directive (MiFID II/MiFIR) is under review with a MiFID II/MiFIR Refit due in this.

The proposed MiFID changes bring forward the review of some investor protection and research provisions, which are intended to drive investor participation in EU capital markets.

"The proposal eases the burden imposed by requirements on the disclosure of costs and charges, suitability testing and best execution whilst also encouraging online and distance communication," says Michael Bowder, market information and collateral/RFP Western Europe at Deutsche Bank Securities Services.

Bowder also notes that the changes intend to encourage greater analyst coverage and drive up the trading in SME stocks and fixed income instruments, by proposing an exemption of small and mid-cap companies and fixed income instruments from the research unbundling rule.

Wurzer adds: "There are several challenges that the market is facing in Germany. However, Germany is by no means the only country facing these particular challenges. For instance, I would include the ever-increasing regulatory demand on the asset servicing industry, pressure on fees, investments into digitalisation and automation, the emergence of cryptocurrencies and digital assets on an industrial scale as well as others."

The Securities Financing and Transactions Regulation (SFTR) was another complex piece of regulation. SFTR requires EU counterparties to report their securities finance transaction details to a registered trade repository.

"The firms have had to address the fundamental challenge in the aggregation of all relevant information from different source systems in combination with the necessity of a timely survey, preparation and transmission of business data but still significant volume of errors is expected. The German regulator, BaFin, has also issued guidelines on applications for crypto-asset custody and institutions are working towards getting licenses enabling them to provide services for this new asset class," affirms Zutshi.

In line with other markets around the globe, the pandemic only amplified these challenges around regulation. The regulators in Germany also tweaked the laws to help companies adapt to the pandemic.

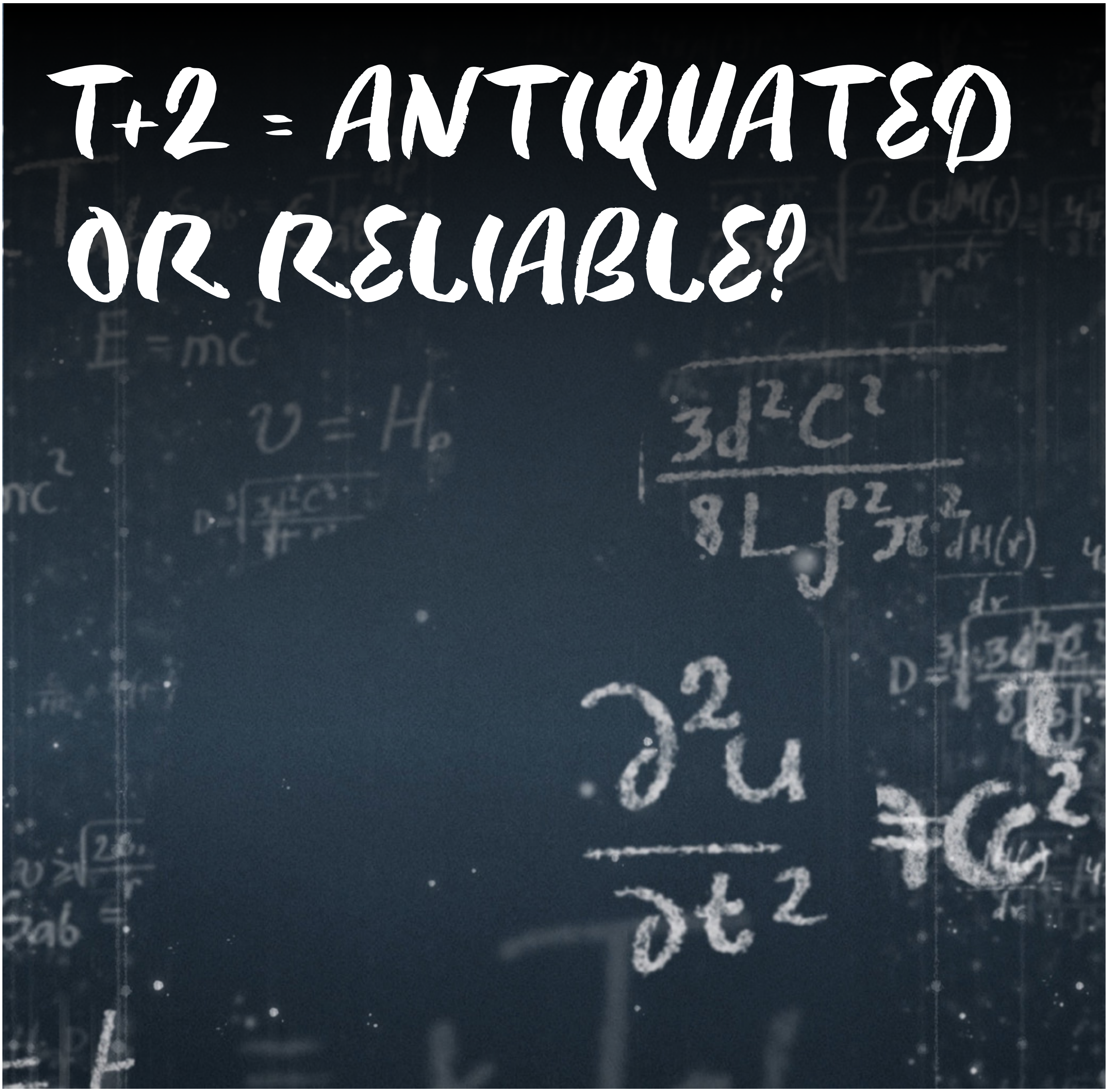
Zutshi explains that relief provided under COVID-19 Mitigation Act (CMA) allowed virtual shareholder meetings, and this has been allowed for 2021 as well.

Experts attain that in asset servicing, the market saw high numbers of settlement transactions and an increased need for digital solutions such as e-signatures.

Over the course of the second half of 2020, roughly 715,000 cash payment instructions with an overall volume of approximately €390 billion were successfully processed in the German market, according to Mueller.

Clearstream's Mueller concludes: "Despite the challenges due to COVID-19, we saw that the asset servicing industry in Germany is in a fundamentally stable and crisis-proof state. Corporate actions were processed with the same consistency and high quality as before the pandemic situation."

T+2 = ANTIQUATED OR RELIABLE?



Maddie Saghir reports

Amid the Gamestop saga, Robinhood's CEO has called for a fix on the 'antiquated settlement structure', but others in the industry argue the current T+2 settlement cycle is 'ultra reliable' and a real-time system could lead to many challenges

I have heard the word 'antiquated' a lot. This is a pejorative term that I do not agree with. Some of the platforms in use are quite old but the benefit of that is that they are ultra-reliable and well understood

Tony Freeman
Consultant

The financial system's current standard of trade date plus two business days (T+2) has become somewhat of a hot topic over the past few months.

Amid the Gamestop saga, Robinhood's CEO Vladimir Tenev recently called for a fix on the "antiquated settlement structure"', and is pushing for it to be modernised, suggesting T+0 is the way forward.

But is the system 'antiquated' or is it extremely reliable and well understood?

The settlement date for stocks used to be T+5, or five business days after the transaction date, before moving to T+3. Now at T+2, the natural progression would seemingly be for the industry to work its way down to T+1 and then to T+0.

Although there are no real fundamental technological issues that would prevent the move to a real-time settlement system, major work would be required due to significant behavioural and operational challenges.

Real-time settlement means that as soon as a trade is executed, it is recorded immediately, the money and securities move between the two parties and the trade is complete.

According to industry expert and consultant Tony Freeman, the systems can do it but it is the willingness and capability of market participants to do it that makes the difference.

With the current system, you can have the cash or stock expected to arrive which allows for the trade to be settled. Same day/real-time settlement would mean settling every trade individually and if you are buying then the cash will need to be immediately available and if you are selling then you've got to have the stocks, meaning every purchase would need to be pre-funded.

Freeman says: "This would massively reduce the number of transactions that are possible in the market and also requires real-time processing. The retail market is simply not geared up to do this. They are not professional investors. While they may be technologically sophisticated in the way they trade, they are not all operations/back-office professionals."

"There are quite a few retail investors involved in the Gamestop phenomenon that didn't seem to understand margin. There were massive amounts of trading taking place in a relatively small stock but a lack of huge amounts of trading meant that lots of failed trades occurred, which will increase the margin required by the clearinghouse," he adds.

The two-day window between trade date and settlement date does create counterparty risk. However, this risk is addressed by CCPs calling margin from market participants to protect against exposures in the event of counterparty default

Mark Profeti
Principal consultant
Capco

"This came as a surprise to many people, which tells me that they are not sophisticated about the middle office and back-office processes, and they do not really understand the full rules of the game despite being in the market."

He emphasises that "T+0 is a non-starter, it cannot happen". T+1 has lots of fundamental issues that would need to be resolved as it does require quite a lot of process improvement. The cost of moving to T+1 is significantly higher.

Freeman continues: "I have heard the word 'antiquated' a lot. This is a pejorative term that I do not agree with. Some of the platforms in use are quite old but the benefit of that is that they are ultra-reliable and well understood. There is a significant risk in saying we are going to move to blockchain technology and the disruption risk in migrating to an entirely different form of technology is largely significant."

It is important to remember that this is a cautious part of the market and it has to be cautious, Freeman highlights.

It is highly regulated and it has to be risk-averse. Settlement cannot fail because it would block up the whole market, which is why clearinghouses are classed as systemically important.

"Breezily saying blockchain could solve the problem is to understate the complexity and underestimate the risk in the market," Freeman adds.

T+2 = reliable?

Robinhood's CEO deflected blame for shutting investors off from buying $GME and other meme stocks by suggesting it was down to the T+2 settlement cycle because that creates counterparty risk.

Mark Profeti, principal consultant of Capco, says: "Yes, the two-day window between trade date and settlement date does create counterparty risk. However, this risk is addressed by central clearing counterparties (CCPs) calling margin from market participants to protect against exposures in the event of counterparty default."

But Profeti notes that extreme price volatility is likely to impose credit and trading restrictions on some investors who do not have the financial resources to cover margin calls under such circumstances. At the same time, he says it should also be recognised that events like $GME are an exception and not the norm.

With real-time settlement, the entire industry – clients, brokers, investors – loses the liquidity and risk-mitigating benefit of netting, and that is particularly critical during times of heightened volatility and volume

Michael McClain
Managing director and general manager of equity clearing and DTC settlement services
DTCC

One of the major drawbacks of T+2 is that one break in the settlement chain causes the entire transaction to fail. The centralised and bilateral settlement model means cash and securities change hands through multiple transactions to finally arrive at the beneficial owners.

Ageing legacy technology severely limits the ability to have a real-time picture of securities inventory and cash pools to ensure that settlement happens on time, suggests Profeti.

He says: "This is further compounded by market infrastructure systems that operate settlement windows and cannot provide a real-time market view of settlement, asset inventory and exposure to settlement fails. Most of the time it's down to educated guesswork – and that creates additional operational costs due to over-funding or unnecessary borrowing of securities."

The importance of netting

Despite this challenge, the current settlement process does have many advantages.

Netting is an extremely important benefit of the settlement process and moving to T+0 would remove all of these significant netting advantages.

Same day settlement is a huge stretch target that would require immediate settlement of all transactions, no netting, no end of day processing and no overnight cycle.

The current settlement cycle model allows large amounts of trading to take place. For example, you can trade as much as you like in a particular stock — buys and sells — with the relative certainty that your net position is ok at the end of the day, or at the end of T+1 or T+2.

Experts identify this is because of all of the netting that takes place, which involves clearinghouses. Liquidity and lots of trading, particularly retail trading which is done on margin, is facilitated.

Freeman remarks: "Netting facilitates much expanded liquidity, if you didn't have netting and you had to settle every trade individually then you would have a vastly small number of transactions, reduced liquidity and inefficient price discovery and a more inefficient market."

Michael McClain, DTCC managing director and general manager of equity clearing and DTC settlement services, recently discussed the challenges and potential pitfalls of real-time settlement with the major aspect to this being around netting.

DTCC's equities clearing and settlement subsidiaries, National Securities Clearing Corporation (NSCC) and Depository Trust Corporation (DTC), already support some T+1 and even same-day settlement using existing technology.

McClain emphasises that by netting down or reducing the total number of customer trading obligations that require the exchange of money for settlement, NSCC helps to minimise risk and free up trillions of dollars of capital each year.

Every day, NSCC nets down these trades and payments among its participants, reducing the value of payments that need to be exchanged by an average of 98 to 99 per cent.

According to McClain, centralised netting and settlement dramatically increases the efficiency of US markets by reducing the capital requirements and overall risk.

In terms of how the lack of netting in real-time settlement would negatively impact investors and the markets, McClain argues that this is a significant issue when you consider the volume of transactions being processed every day.

"With real-time settlement, the entire industry – clients, brokers, investors – loses the liquidity and risk-mitigating benefit of netting, and that is particularly critical during times of heightened volatility and volume," says McClain.

Tried and tested?

If you look around the world, there are no other markets that operate in real-time same-day settlement.

Saudi Arabia moved to a T+0 settlement and reverted back to T+2 to make the market more attractive to overseas investors.

"I would not say the US market, for example, has a similar dependence on overseas investors, but a very large part of US volume does come from abroad so overseas investors need to be considered when you analyse the pros and cons of shorter settlement cycles," says Freeman.

> *Netting facilitates much expanded liquidity, if you didn't have netting and you had to settle every trade individually then you would have a vastly small number of transactions, reduced liquidity and inefficient price discovery and a more inefficient market*

This brings the issue of timezones into play, and it is important to note that the foreign exchange (FX) market operates on a T+2 settlement cycle.

Given that Saudi riyals cannot be held in a sterling or dollar-based investor's portfolio, it would be inefficient to conduct a FX transaction every time the investor wanted to buy Saudi stock.

Freeman explains: "This is because you would have to reverse it back into your base currency. You have to wait two days for that FX transaction to settle whereas you're settling the stock trade one day so you have a one-day funding situation — you borrow money at an agreed rate, and it is more operational grit in the system. So the FX market remains a T+2 settlement cycle — a barrier towards T+1 securities settlement cycles."

However, settlements can be made quicker in the FX market through a continuously linked settlement (CLS), a specialist bank for FX transactions. Freeman says it is large, important but also low profile — it doesn't make much noise.

The concept of CLS was created a long time ago. There is a risk issue called Herstatt risk, named after a bank that went bust in the 1970s. They carried out speculative FX transactions and they received payments from one part of their counterparts but they hadn't paid out to their counterparties on the other side of the transaction resulting in their counterparties being out of pocket significantly. Their counterparties lost out on a permanent basis.

Freeman comments: "CLS is designed to eliminate the Herstatt risk. Most banks are members of CLS. It is a background process. Institutional investors or hedge funds can settle their FX transactions via their agent bank through CLS but it costs extra money. The T+1 settlement cycle is more expensive than a T+2 settlement cycle. This is why I think Saudia Arabia moved back to T+2."

The T+1 settlement cycle is more expensive than a T+2 settlement cycle. This is why I think Saudia Arabia moved back from T+0 to T+2

New data needed?

While previous studies carried out have identified that the majority of industry participants found there to be too many challenges with a T+0 platform, could the industry be in need of new data for this?

In October 2012, the Boston Consulting Group (BCG) completed a study of the potential impacts of accelerating settlement for US equity trades, which reported that shortening the time period between trade execution and settling payment for US cash securities transactions could reduce the industry's costs and risk exposure by several hundred million dollars annually.

At the time of the study, the securities industry completed settlement for trades in equities and certain debt securities on the third day after a trade is executed (T+3).

The report noted that most players considered a move to T+0 to be infeasible for various reasons, including the impact on foreign counterparties and limited timeframe for exception processing and reconciliation.

It highlighted that this would result in major challenges with processes such as trade reconciliation and exception management, securities lending and transactions with foreign counterparties — especially where time zones are least aligned.

Payment systems utilised for final settlement would also need to be significantly altered to enable transactions late into the day.

More recently, on 24 February 2021, the DTCC launched a two-year industry roadmap to shorten the settlement cycle for US equities to one business day.

By the end of Q1 2021, DTCC anticipates the completion of prototype development for the Project Ion settlement system, which provides a T+1 environment for the industry on a digital platform using distributed ledger technology (DLT) and other emerging technologies.

Another key date in the two-year roadmap is H2 2022, where DTCC plans to start transitioning to an enhanced settlement model that more closely integrates processes from DTCC's equities clearing and settlement subsidiaries, NSCC and DTC.

Studies have shown an integrated settlement model could provide an 11 per cent reduction in the volatility component of NSCC margin.

Meanwhile, the final date is 2023 when DTCC proposes the US settlement cycle to officially move to T+1, with market participant and regulator alignment.

Looking to the future beyond T+1, Capco's Profeti believes digitisation and tokenisation of assets will be the catalyst for the move towards T+0.

Capco envisages that crypto assets will be the first T+0 standard markets, and eventually will be followed by private markets in tokenised assets (including collateral) that operate on single DLT ledgers supporting the end-to-end product and trade lifecycle.

According to Profeti, industry-wide adoption is a longer-term ambition and the overall journey is likely to cause some market fragmentation – but on the other side of the argument creates a more truly competitive landscape that allows markets to evolve and innovate.

Profeti concludes: "T+0 settlement is not a practical objective in a centralised settlement model – the multiple legs in the settlement chain, IT system limitations and lack of real-time transparency of securities and cash inventory across multiple accounts and depots mean that the settlement efficiency rates and costs would take a real hit in a T+0 settlement environment."

The beginning of a long journey

With one week to go until the Sustainable Finance Disclosure Regulation comes into force, concerns around lack of Level 2 RTS, data and overall preparedness remain

Becky Bellamy reports

With only one week to go until the EU Sustainable Finance Disclosure Regulation (SFDR) comes into force, there are mixed opinions on how prepared the industry is for the 10 March deadline.

Affecting all EU financial market participants and financial advisers, the rules aim to improve consistency and strengthen existing policies on sustainability risks with broad disclosure requirements covering remuneration and risk policies, investment and internal processes and systems and general product governance.

All financial market participants should be aware of the regulation, with financial advisors, firms invested in the EU or with investors from the EU and firms and financial products, regardless of whether marketed as environmental, social and governance (ESG) focused all falling within the scope of SFDR.

The changes will take effect at both an entity and a product level, with a series of actions required over the next two years.

On 10 March, entities must publish information on their sustainability policies and assessment of sustainability risks on investment decisions, either by complying or explaining why they do not consider such impacts; disclose the impact on the sustainability of strategic decisions; reveal how remuneration policies are consistent with sustainability principles on both a quantitative and qualitative basis.

Meanwhile, at the portfolio level, managers must disclose any impacts on the sustainability of strategic investment decisions either by complying or explain why they do not consider such impacts and explain how products with ESG characteristics or objectives such as 'impact funds' meet those goals.

Article 6, 8 and 9

There are different categories of financial products under SFDR, article 6, article 8 and article 9 products.

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Jag Alexeyev, head of ESG insights at Broadridge Financial Solutions, explains that fund managers have found it difficult to perform detailed reviews on each of their funds to identify which category each falls into.

Alexeyev states: “The issue is the requirement for asset managers to differentiate between ‘article 9’ financial products that contribute to a sustainable objective, ‘article 8’ products that promote environmental or social characteristics and embrace good governance practices, and products that do not qualify as either sustainable or ESG products.”

“Given the diverse range of approaches to integrating sustainability, the complexity of the regulation and marketplace, and lack of uniform standards, it has not always been clear where certain funds fit best,” he adds.

On 7 January the European Supervisory Authorities (ESAs) sent a letter to the European Commission seeking clarification on two questions which deal with the scope of SFDR.

The ESAs suggest it is unclear whether below-threshold/registered alternative investment funds (AIFs) are in scope and application to AIFs managed by non-EU managers and placed through the national private placement regime (NPPR).

Marc-André Bechet, deputy director general of the Association of the Luxembourg Fund Industry (ALFI), says it is “hoped” that the commission will take a position on this before 10 March 2021, which is the date when the main provisions of SFDR will become applicable and the date by which financial products will have to declare themselves as article 6, article 8 or article 9 products.

Challenges

Experts believe that the main challenges around SFDR include risk management, lack of Level 2 regulatory technical standards, and data.

Regarding risk management, Bechet notes that “it is a bit of a carte blanche” because the different texts are not providing any kind of hints as to what you should be doing.

He suggests that this is a moving target to watch over the next 12 to 18 months because the industry will have to adapt to a new paradigm, and it will have to define what risk management is when it comes to ESG and sustainability.

The lack of Level 2 regulatory technical standards text ahead of the deadline on 10 March, is also a cause for concern.

Broadridge’s Alexeyev: “The tight timeline to prepare for the regulation to come into force in March has also been a challenge, compounded by the delay in the Level 2 regulation. As such, asset managers were forced to adopt a cautious approach in interpreting the requirements as they planned to articulate the sustainability considerations in their business practices and product sets.”

Meanwhile, data is also another challenging aspect of the new regulation. Preparing for the SFDR is not a trivial task for asset managers, with the collection of the correct and accurate data the most daunting issue, and once the relevant data is collected, experts say firms will also need to address the potential inconsistencies in approaches to data collection, data quality and accuracy across their portfolio.

Karan Kapoor, head of regulatory solutions and regtech at Delta Capita, highlights that data will need to be gathered from multiple sources in order to fully comprehend the sustainability risks involved with the firm’s investment activities.

“Moreover, this data must be processed efficiently and in a simplified format,” he adds.

There are also some concerns that the type of information provided by data providers may not align with the information that’s required for SFDR disclosures.

“ESG is a relatively new concept in the industry, so we may not even have access to all the required data yet. Also, data collection for environmental aspects during one time period may not be accurate in the future, because climate conditions are so unpredictable. This means data must be collected and processed on a more regular basis,” Kapoor comments.

“In addition, not all non-financial data is available in a retrievable format, but there is a consultation of the European Commission which is working to provide a single access point in Europe for financial and non-financial information disclosed by companies (ESAP). The commission is pushing for common definitions and a common set of data available in a retrievable format,” Bechet explains.

Meanwhile, meeting the deadline for SFDR has also been noted as a challenge because the regulation is new and unfamiliar.

Kapoor notes that compliance and administration can be costly and burdensome for firms who are also facing other regulatory demands and operational challenges as a result of the pandemic.

Are you ready?

With meeting the deadline as one of the challenges, Andy Pitts-Tucker, managing director, Apex ESG Ratings & Advisory, suggests that the industry is "woefully unprepared" for this landmark regulation.

At this stage, Pitts-Tucker says all financial market participants and advisors should understand how it applies to them and be making the necessary preparations for the new regulation, however, "this is far from the reality we are seeing".

But instead "there is a scramble for the line", which he highlights is similar to what the industry saw ahead of General Data Protection Regulation (GDPR) several years ago.

Pitts-Tucker says: "The concern is that managers will be so focused on rushing ahead of this looming deadline, that they will not put in place sustainable processes and systems with the capability to respond to future evolution or expansion of mandatory ESG disclosures."

Also weighing in, ALFI's Bechet says the industry is simply not ready because SDFR and the EU Taxonomy regulation are very important developments.

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. The EU taxonomy is an important enabler to scale up sustainable investment and to implement the European Green Deal.

Notably, by providing appropriate definitions to companies, investors and policymakers on which economic activities can be considered environmentally sustainable, it is expected to create security for investors, protect private investors from greenwashing, help companies to plan the transition, mitigate market fragmentation and eventually help shift investments where they are most needed.

Although there are concerns about how ready the industry is, Alexeyev says there is "general readiness" in the industry, indicating that managers will be able to meet the deadline albeit under the usual pressures that come with preparing for large scale regulations to come into force.

Greenwashing

One problem that has been highlighted within the industry is 'greenwashing'. In order to tackle greenwashing, Bechet says the industry first has to agree on a definition of what greenwashing is.

"To me, it means betraying the trust that investors put in you, essentially telling investors what you intend to do and doing something different, or not properly disclosing or reporting," Bechet explains.

Looking at the way the regulation is written and combining Level 1 and now Level 2, especially the published RTS on disclosures, Bechet says: "The framework is really very prescriptive in terms of what firms have to disclose to investors, on products, and at entity level. "

"Be it for the documents which firms will put at the disposal of investors (prospectuses), marketing communications, funds' annual reports, the information that comes on the website of each asset manager — the RTS contain a precise list of the minimum requirements and those that are binding."

He highlights that most of the products are regulated products that are registered with, and supervised by, national competent authorities. These products are also audited. Bechet adds: "Considering all of this together, I hope and trust that the danger of greenwashing would be really limited."

The industry hopeful that the introduction of SFDR disclosures should improve the transparency of ESG understanding in the industry. Pitts-Tucker suggests that SFDR is "a game-changer" and is the "biggest statement of intent yet from regulators to harmonise ESG reporting standards and therefore discourage greenwashing".

Although the industry remains positive that SFDR will help prevent greenwashing, the regulation alone may not be enough, according to Kapoor.

He explains that the EU Taxonomy aims to provide a 'benchmark' to classify activities as 'sustainable' or not, which should further reduce greenwashing as it will clearly define if environmental/social factors are actually considered — and not just being promoted for marketing purposes.

"However, there are still some challenges to fully combat greenwashing. In the RTS report, the ESA's state that the disclosure of granular data should combat greenwashing, but reporting will be challenging given the complexity of information associated with financial products," he adds.

The extent to which greenwashing is completely eradicated depends on the honesty of SFDR disclosures.

Kapoor says: "For example, a firm could turn a blind eye to an 'unsustainable' investment. It is possible that they could claim the investment is meeting social goals, even if it isn't. The definitions provided by the ESA's should prevent this, but social factors can be extremely subjective."

Although SFDR will be a large contributing factor to the prevention of greenwashing, Bill Prew, CEO of INDOS Financial says regulators, investors and market best practices will align over time to reduce the risk of greenwashing.

Prew notes: "Asset managers should expect investor scrutiny and be prepared to explain or rationalise their approach to SFDR and ESG investment practices to reassure stakeholders that greenwashing is not taking place."

What next?

As the SFDR deadline is almost upon the industry, what will be next in terms of sustainable finance?

The EU Taxonomy, which supplements SFDR, is expected to follow soon and its provisions will apply from 2022, following the publication of the delegated acts in June 2021.

The Low Carbon Benchmark Regulation has introduced two new benchmark categories related to climate change, the first is the Climate Transition Benchmark and the second is the Paris-Aligned Benchmark.

Kapoor says: "Benchmark administrators must also disclose any sustainability factors which are included in their benchmark methodologies. The first deadline is 31 December 2021 for methodology disclosures, then 1 January 2022 to update benchmark statements to reflect ESG factors."

With financial services continuing to transcend jurisdictional boundaries, so too will the need for globalised regulations implementing equivalency to SFDR.

Chris Johnson, senior product manager, market data, securities services markets and securities services at HSBC, highlights how the Task Force on Climate-related Financial Disclosures (TCFD) is being adopted more widely as a mandatory requirement, as evidenced by announcements by the UK and New Zealand in recent months.

Regulators in Asia, such as the Hong Kong Monetary Authority (HKMA) and Securities and Futures Commission (SFC) in Hong Kong, and the MAS, are also consulting on ESG regulations.

Johnson says: "There are also significant initiatives being proposed to achieve harmonisation and standardisation of ESG data."

Meanwhile, the European Securities and Markets Authority (ESMA) has written to the European Commission sharing its views on the need to ensure the quality and reliability of ESG data, according to Johnson.

In addition, Johnson reveals that the International Financial Reporting Standards Foundation (IFRS) is pursuing an initiative towards achieving a global set of internationally recognised sustainability reporting standards to allow for consistency, comparability and transparency of reporting, which is supported by the International Organization of Securities Commissions (IOSCO).

This year is set to be a very important year for sustainable finance, and it is safe to say that green investment will become more and more prevalent in the entire asset management and fund industry.

Jean-Pierre Gomez, head of regulatory and public affairs Luxembourg, Societe Generale Securities Services Luxembourg, comments: "Most of us agree on the necessity to invest by taking a strong and serious account of those ESG factors. However, being pragmatic, it will take time to achieve the European Commission objective regarding sustainable finance."

A change of attitude and/or to the way of investing is therefore expected, according to Gomez, with education and the increasing awareness regarding environmental impacts also acting as key drivers.

The current SFDR will be rolled out over at least the next two years, with different texts entering into application up to January 2023.

While the technical screening criteria are not yet final, Bechet says drafts have been published for two of the six environmental objectives, which will keep all stakeholders busy in the years to come.

Based on this, Bechet concludes: "I believe we are only at the beginning of a long journey."

Turning tides

Maddie Saghir reports

Luxembourg and Ireland have historically reigned as popular fund domiciles, but could the tide be turning towards Asia?

Luxembourg, Ireland, Jersey and Guernsey are some of the most popular fund domicile locations, while historically, Hong Kong and Singapore are less attractive to international players. One of the main reasons for this is lack of fund structure choice for asset managers, namely a corporate form vehicle that caters to specific needs of hedge funds, private equity funds, mutual funds or real estate funds.

But the open-ended fund company (OFC) regime in Hong Kong could turn the tide.

OFC is an investment fund in corporate form domiciled in Hong Kong that allows managers an easier way of distributing their funds outside of Hong Kong. Launched in 2018, Hong Kong's OFC regime is a variable structure for fund management firms, as opposed to current structures, such as the unit trust, which have a fixed capital structure.

Similarly in Singapore, the Variable Capital Companies Act (VCC) could be a game-changer for Singapore's asset and wealth management industry. These two structures in Asia may rock the status quo.

But it hasn't been all plain sailing, in September 2020 the Hong Kong Securities and Futures Commission (SFC) proposed amendments to the open-ended fund companies (OFC) regime.

Proposals in the consultation papers included the removal of investment restrictions for private OFCs, to allow them to match the same investment

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opportunities explored by overseas corporate fund structures. The majority of these amendments are in effect now, and set to shake up the industry for 2021.

OFC: a closer look

OFC works in a similar way as a unit trust to increase or decrease its capital or distribution out of capital without the approval of shareholder(s) of the company. Its key features mean that it has a corporate structure and legal personality. It is governed by a board of natural-person (meaning an individual person — not a company) directors (at least two natural persons) one of whom should be an independent director not being a director or employee of the custodian.

Experts say the directors must be of good repute, appropriately qualified, experienced and proper for the purpose of carrying out the business of the OFC.

The OFC allows investors to subscribe and redeem shares and make distribution from capital without the approval of the shareholders, and it offers limited liability to its shareholders.

Other key aspects of it mean that share certificates are not required to be issued, and it can operate one or more sub-funds with segregated assets. In addition, it can be offered to the public or on a private basis.

The amendments made

The amendments made to the OFC following requests from the SFC have helped increase the attractiveness of the regime as an alternative to comparable structures available in other developed fund centres.

Proposals in the SFC's consultation papers included the removal of investment restrictions for private OFCs, to allow them to match the same investment opportunities explored by overseas corporate fund structures. In addition, the SFC proposed to expand the scope of entities eligible to act as custodians of OFCs to cover intermediaries licensed or registered for type 1 regulated activity to deal in securities. The SFC also recognised that the current regulatory framework does not specifically prohibit the appointment of multiple custodians to a private OFC, allowing for separate cash custodians and prime brokers.

Prior to the change initiated by the Securities and Futures Commission (SFC), a private OFC was required to invest at least 90 per cent of its gross asset value (GAV) in securities and futures contracts, as defined under the Securities and Futures Ordinance, and/or cash, bank deposits, certificates of deposit, foreign currencies and foreign exchange contracts.

Experts say investments in other asset classes can only make up 10 per cent of the GAV. Per the amendments, which are now effective, all investment restrictions applicable to private OFCs have been removed.

The new requirements require:

- Investment managers and custodians to have sufficient expertise and experience in managing and safekeeping the asset classes in which an OFC invests

- Enhanced risk disclosure in the offering documents

- Maintenance of proper records

"These amendments significantly increase the investment scope for private OFCs, which will now be able to invest in Hong Kong private company shares and debentures, non-financial assets (such as real estate projects), or other less common asset classes (including virtual assets) without restriction, subject to compliance with risk disclosure and other applicable regulatory requirements," comments Ganesh Valakati, director, product development, asset managers sector and regulations, securities services, HSBC,

According to Valakati, along with the other reforms around custodians for private OFCs and the re-domiciliation regime, the changes are expected to enhance the utility and the competitiveness of the OFC regime.

"This, in turn, will make the OFC an attractive alternative to comparable structures available in other developed fund centres," says Valakati.

Similarly, Wilber Chiu, managing director, Hong Kong at Apex Group, says the changes combined create an excellent opportunity for OFC to become the fund structure of choice for HK fund managers.

Chiu notes this is in addition to other obvious benefits like dealing with only one regulator, saving fees from the offshore layer of service providers and in general government fees in Hong Kong are lower than in offshore jurisdictions.

Additionally, it has been suggested that there will be the main driver for the increase in uptake by fund managers as it opens up a lot more candidates of service providers for fund managers to choose from.

In the past, banks/trusts acting as the custodian have had a competitive edge in selling their ancillary services. Chiu identifies that now, after the change, it will be easier for other service providers along the entire value chain such as accountants, consultants, fund administrators etc. to find a role to play in OFC.

"This creates competition further driving down the costs associated with the set-up and operation of an OFC," says Chiu.

Talking tax

While publicly offered OFCs will continue to enjoy profit tax exemption as all SFC authorised collective investment schemes do, experts say there was initially murmurings in the industry that the Hong Kong OFC is unlikely to gain traction due to tax conditions.

Now, a privately offered OFC may also qualify for a profit tax exemption if it can fulfil certain qualifying requirements.

HSBC's Valakati comments: "The general consensus in the industry was that the regime, as originally launched, would need to be relaxed to make it more flexible especially for private OFCs. Some of the concerns expressed included Hong Kong profits taxation for private OFCs, restrictions on permitted investments, eligibility criteria for the custodians of OFCs, the lack of any re-domiciliation mechanism to allow offshore funds to "onshore" themselves into OFCs etc."

"We are happy to see that most of the industry concerns have been adequately addressed by the SFC as part of the amendments now and around taxation earlier in April 2019 (Unified profits tax exemption regime)," adds Valakati.

The world's an oyster

With the new fund structures in place, experts believe this has the potential to be a game-changer and the world could be Hong Kong (and Singapore's) oyster.

In terms of any other regulations in Hong Kong that pose challenges or opportunities to custodians, Valakati explains custodians of public funds in Hong Kong are currently not subject to any specific licensing regime or direct on-going regulatory supervision of their custodial function for public funds.

> *The general consensus in the industry was that the regime, as originally launched, would need to be relaxed to make it more flexible especially for private OFCs*

According to Valakati, as part of SFC's strategy to strengthen Hong Kong as an international, full-service asset management centre and to enhance the regulation of public funds, the SFC has proposed to introduce a new regulated activity.

This falls under the Securities and Futures Ordinance (SFO) – Type 13 regulated activity (RA 13) – acting as a depositary (trustee/custodian) of an SFC-authorised CIS.

Valakati affirms: "The SFC expects this initiative to result in a specific, direct regulatory handle thereby strengthening its ability to ensure appropriate regulation and supervision of top-level custodian entities in their provision of custodial services to public funds. The proposed regime is designed to cover entities on the top of the custody chain."

"This will require top-level custodians/trustees (depositary as termed by the SFC) of relevant CIS to carefully review the proposals of the SFC, consider their internal control policies and procedures and ensure they meet the standards for eligibility, governance, organisation and operational conduct under the proposed RA13 licensing regime," adds Valakati.

Hong Kong Exchanges and Clearing (HKEX) has appointed Alejandro Nicolas Aguzin as chief executive of HKEX, effective 24 May 2021 for a term of three years until 23 May 2024.

In addition to his role as chief executive, Aguzin will become an ex-officio member of the HKEX board of directors.

Aguzin joins HKEX from J.P. Morgan, where he is currently CEO of J.P. Morgan's international private bank and a member of the operating committee for the firm's asset and wealth management business.

Prior to this, Aguzin was CEO, J.P. Morgan, Asia Pacific (APAC), between 2012 and 2020, where he oversaw and led J.P. Morgan's growth in China, and the region.

He joined J.P. Morgan in 1990 and has held a number of leadership roles spanning lines of business and geographies during his 30 years with the firm.

This included head of investment banking, APAC from 2015 to 2019, and as CEO of J.P. Morgan Latin America from 2005 to 2012.

The board believes that Aguzin's experience will help HKEX continue to build its competitiveness, as well as support the ongoing growth and development of Hong Kong's unique financial markets.

Alongside his financial sector expertise, HKEX says Aguzin's track record of leadership, regional and international relationships and global outlook were contributing factors in the selection process.

The board also highlights that Aguzin's expertise will complement the existing skills within the organisation and be invaluable to HKEX as it continues to drive forward its strategy to be "China Anchored, Globally Connected, and Technology Empowered".

Laura M Cha, HKEX chairman, comments: "We are delighted to announce the appointment of Mr Aguzin as the new chief executive of HKEX. He brings with him a wealth of international and regional experience in capital markets and financial services, including extensive knowledge of Mainland China, having served as chief executive for J.P. Morgan in Asia."

According to Cha, this will be invaluable to HKEX as it continues to build the business' success, as well as drive the ongoing growth and development of Hong Kong as a leading international financial centre.

With the appointment of Aguzin, Calvin Tai will cease to be the interim chief executive of HKEX and an ex-officio member of the board on 23 May 2021.

Tai will continue in his roles, as co-president and chief operating officer of HKEX. The board says it would like to express its "sincere gratitude to Tai for his leadership and dedication to HKEX as interim chief executive".

Jason James Nabi has been appointed to the International Securities Services Association (ISSA) board to replace Pierre Yves Goemans.

Nabi currently serves as group head of strategy and merger and acquisitions at Euroclear. ISSA says it would like to thank Goemans for his "valuable insights and contribution during his tenure".

According to the recently issued ISSA whitepaper, Future of Securities Services, the speed of technological advancements was identified as one of the major trends that will reshape the securities industry over the next 10 years.

ISSA suggests that Nabi's experience and knowledge of these topics at the board level "will help ensure we fulfil our ambitions for ISSA".

Other trends that were highlighted in the whitepaper included cost pressure to the core, new growth paths, industry disruption and early lessons learned from the COVID-19 pandemic.

Phil Brown, ISSA Chairman, states: "Euroclear has been a long standing member of ISSA and while we are sad to see Pierre Yves Goeman's departure, we believe that Jason James Nabi's background and his knowledge of the new technologies appearing within capital markets will be a benefit to the board."

"We wholeheartedly welcome him."

Mark England has re-joined Citi as Asia Pacific (APAC) custody and fund services head of sales, based in Hong Kong.

At Citi, England will report to Sanjiv Sawhney, global head of custody and fund services, and David Russell, APAC head of securities services and Hong Kong head of markets.

England returns to Citi from State Street where he served in various client coverage roles since 2015. His most recent role was APAC head of client relationship management.

He first joined Citi in Dublin in 1998 and has held a variety of senior roles across securities services, including assignments in London and New York working on business implementation.

In 2010, he moved to Hong Kong as part of the client sales management team.

Commenting on his appointment, Sawhney says: "We are pleased that Mark England has rejoined Citi in this crucial role. Securities services is a key growth area for Citi, and England's experience and expertise will be vital as we grow the business in the region."

Also in Hong Kong, Citi has been selected by CSOP Asset Management to provide custody, fund administration and trustee services for the launch of its first exchange-traded funds in the form of an open-ended fund company.

Manisha Kimmel, formerly of the Securities and Exchange Commission (SEC), has been appointed as chief policy officer at Maystreet, a market data infrastructure provider.

In her new role at MayStreet, Kimmel will leverage her regulatory and market expertise to help the firm continue its growth. At the SEC, Kimmel was a senior policy advisor, regulatory reporting in the office of the chairman. Over the course of her two-year tenure at the agency, she played an important role in the implementation of the Consolidated Audit Trail (CAT). CAT is a regulatory reporting utility that enables regulators to fully track trading activity and increase transparency.

Prior to the SEC, Kimmel held the role of head of regulatory and compliance, wealth management at Refinitiv, a global provider of financial market data and infrastructure.

She also served as the chair of the Advisory Committee for CAT NMS, a group of industry experts that offers advice to senior responsible owners on technical specifications, reporting functionality and other matters relating to the CAT.

Kimmel has also previously been a member of the SEC's Equity Market Structure Advisory Committee (EMSAC), where she chaired the customer issues subcommittee.

Before Refinitiv, Kimmel worked at the Financial Information Forum as a managing director. She worked with broker dealers, exchanges and vendors on issues involving regulatory and market data technology.

Commenting on Kimmel's appointment, Patrick Flannery, Maystreet CEO, says: "Manisha Kimmel is extremely well-regarded across the industry, possessing a background, level of knowledge and breadth of relationships that is second to none."

Flannery notes: "We believe MayStreet is poised to be a transformative force for regulatory initiatives globally and think that Kimmel will be instrumental in helping us realise our significant ambitions."

Kimmel adds: "The most interesting and impactful market structure issues being debated today centre around market data, and MayStreet is well positioned to be a productive voice and agent of change in the space. With its innovative technology, market position and entrepreneurial environment, the firm has all the elements needed to succeed. I am excited to join the team and help continue moving the business forward."

4Pines Fund Services, private capital fund administrator that provides front, middle and back-office solutions, has hired Paul Filanowski as director of business development.

In his role, Filanowski will address the demand for a strategic services partner and technology platform that combines insight with private capital fund administration fundamentals.

Filanowski joins 4Pines from Allvue Systems where he served as a strategic account manager following the acquisition of AltaReturn. Previously, he focused on business development at SIX Financial Information and served as a senior business analyst at Commonfund.

Filanowski says: "We are seeing an increasing lack of patience with the idea that there must be a tradeoff between innovation and ironclad processes when selecting a fund administrator. Private capital executives are looking for service partners that can deliver on both, and 4Pines does exactly that."

Federico Becerra has been appointed as head of treasury at Clearstream, Deutsche Boerse's post-trade services provider.

In his new role, Becerra will be responsible for the treasury front office management in Luxembourg and Singapore. Based in Luxembourg, Becerra will report to Mathias Michel, head of treasury at Deutsche Boerse. Becerra has 20 years of experience working in treasury, collateral and liquidity risk management.

Most recently, he worked as interim head of group liquidity management, TP ICAP, a global firm of professional intermediaries that operates in the world's financial, energy and commodities markets.

At TP ICAP, he was responsible for implementing the group (Europe, the Middle East and Africa, Asia Pacific and the Americas) liquidity risk management framework and investment policy, this included ownership and administration of the group's cash flow reporting and forecasting system.

Prior to that, he worked at the Intercontinental Exchange (ICE) for just under seven years. At ICE, he served as director of treasury and banking services as well as director, liquidity risk management.

Becerra has also served in roles at Euroclear, Lhoist, and BNY Mellon.