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Data is king

In a more globally harmonised corporate actions market, Jim Monahan of Sionic says there are opportunities to be had around data collection and the way its managed

Digital Assets

With the evolution and interest in digital assets, custodians have everything to play for in this space

Industry Appointments

Daron Pearce, CEO and head of BNY Mellon asset servicing for EMEA, has left the bank after 20 years

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Learn more, contact:
Richard Anton at +1 416 643 5240
Abdul Sheikh at +1 905 755 7118
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DTCC accelerates efforts to shorten US settlement cycle to T+1

The Depository Trust & Clearing Corporation (DTCC) has collaborated with the Securities Industry and Financial Markets Association (SIFMA), and the Investment Company Institute (ICI) to accelerate the move of the US securities settlement cycle to T+1.

The organisations believe changing T+2 to T+1 will benefit investors and market participant firms by reducing systemic and operational risks.

By working closely with their members and other key stakeholders, the organisations are outlining key steps to shorten the cycle for secondary market transactions.

As part of this, DTCC says it is identifying priority issues that need to be addressed and are conducting the necessary due diligence and resolution of these critical issues.

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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

Associate Publisher: John Savage
johnsavage@assetservicingtimes.com
+44 (0) 208 075 0931

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

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The groups began discussing shortening the settlement cycle with their members last year and aim to complete their analysis on the next steps to achieving T+1 by the end of Q3 2021.

Shortly after that work, the organisations will develop a definitive timeframe for moving to T+1.

In February, DTCC launched a two-year industry roadmap to shorten the settlement cycle for US equities to one business day.

It was noted that a move to T+1 would not require large operational or technical changes by market participants.

Although SIFMA, ICI and DTCC are committed to pursuing this work vigorously, and they explain there are many issues that must be considered before the organisations can determine an implementation date.

The organisations identified a series of goals to advance this effort, including mitigating risks to investors and industry participants; analysing and improving current business and operational processes, and minimising the disruption of important industry services.

They also aim to ensure new risks are not introduced and comprehensive cost-benefit analysis can be conducted.

Additionally, multiple regulatory bodies, including the Securities and Exchange Commission (SEC), will need to be engaged to bring this initiative to fruition.

SIFMA, ICI and DTCC are also set to assess what it may take to further accelerate the settlement cycle beyond T+1 and explore the role that emerging technologies could play.

However, a move beyond T+1 has had its critics. Industry expert and consultant Tony Freeman has previously emphasised that the idea of T+0 settlement is a non-starter and could have

"huge side effects and remove all of the benefits of netting which are significant".

Michael Bodson, DTCC president and CEO, comments: "Recent volumes and volatility demonstrate that the time to move to a shorter settlement cycle is now. While we are committed to fast-tracking this work and can support T+1 with existing DTCC technology today, we realise that this is a complex undertaking that will require close collaboration across the industry."

He continues: "We look forward to working closely with our colleagues, members, regulators and key stakeholders to achieve T+1 and ultimately delivering reduced risk and margin relief for the benefit of market participants and underlying investors."

According to SIFMA president and CEO Kenneth Bentsen, a shorter settlement timeframe can benefit investors and market participants by reducing credit, market and liquidity risks and promoting financial stability.

"Our plan is to fully address the business and operational impacts of the change first, to ensure a smooth transition and avoid any unnecessary market risk," he says.

"ICI and its members will play an active role in designing the roadmap for shortening the settlement time."

"Regulated funds occupy a prominent place at the intersection of trading and settlement as they are the primary source for the daily trading transactions that brokers process," adds ICI president and CEO Eric Pan.

ICI, SIFMA and DTCC led the move to T+2 settlement in 2017, and Pan says they look forward to reviving that successful partnership.

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FCA mulls changes to MiFID's conduct and organisational requirements

The Financial Conduct Authority (FCA) is considering making changes to the conduct and organisational requirements to the UK's Markets in Financial Instruments Directive (MiFID).

MiFID is the collection of laws and rules that regulate the buying, selling and organised trading of financial instruments. The UK laws and regulations implemented its amendment in January 2018 (MiFID II). The regulation was modified to address deficiencies as part of the process of onshoring EU law, which enables UK laws and regulations to function effectively post-Brexit.

Alongside the Treasury, the FCA is now looking to reform the capital markets specifically at changes to the UK's regulatory regime to ensure this is adapted to the structures of UK markets and maintaining the highest regulatory standards.

This consultation paper is the first output of that work and covers changes to two areas to the conduct and organisational rules in UK MiFID: research and best execution reporting.

The UK regulator is proposing to change the existing inducements requirements relating to research. This includes an exemption from the inducement rules for research on small and medium enterprises with a market cap below £200 million and an exemption for FICC research.

Additionally, the FCA is proposing to remove two sets of reporting obligations on firms known as RTS 27 and 28 reports.

According to the regulator, the changes are intended to ensure the rules achieve their objective and reduce compliance costs without compromising high standards of investor protection.

Comments are due by 23 June 2021.

CACEIS selected for outsourcing Lifetri's asset management

CACEIS' outsourcing service has been selected by the Dutch insurer Lifetri Group for its middle and back-office asset management.

The service to Lifetri includes full investment administration, transaction processing and investment reporting allowing the firm to focus on its growth in the insurance and pension market.

The outsourcing will also enable Lifetri to monitor its investments and have an integrated view of all internally and externally managed portfolios. The services of CACEIS are implemented by its European Centre of Excellence using the latest version of partner SimCorp Dimension.

CACEIS supports the front office, executes the post-trade processes and reports on the investments.

Han Rijken, chief investment officer of Lifetri on the cooperation, comments: "By outsourcing, Lifetri is assured of a state-of-the-art asset servicing process. This is an important pillar for our growth."

Rijken explains: "It also allows Lifetri to focus on what we do best: building a robust and high-yielding investment portfolio that enables us to offer innovative, guaranteed insurance and pension products to Lifetri's customers."

Sikko van Katwijk, country managing director Netherlands and UK at CACEIS, says: "We are delighted to have been selected by Lifetri as a strategic partner to support its growth objective."

"As part of Crédit Agricole and Santander, two of Europe's largest banking groups, we have the scale and expertise to operate as a one-stop-shop for all the needs of our insurance customers. With this partnership, we are further realising our commercial ambitions," Katwijk adds.

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IHS Markit, TRAction and Tradefora join oneZero's data platform

oneZero, a provider of multi-asset enterprise trading technology solutions, has introduced three new post-trade regulatory vendors with direct access to oneZero's Data Source data. IHS Markit, TRAction and Tradefora join other vendors already on the platform, including the previously announced partnerships with EMIREP, SteelEye and Point Nine. According to oneZero, the additions mean clients will have more options for integrating with a vendor that best fits their regulating needs, which can mean using multiple vendors across jurisdictions at the same time.

Data Source is an agnostic cloud-based business intelligence toolkit, which unlocks clients' trade, quote and quote derivative data in Data Source DNA, and turns it into business intelligence and opportunity analytics in Data Source Insights.

Partner vendors in oneZero's EcoSystem may access the same underlying neutral data from Data Source seamlessly, with no additional effort made by brokers.

Ronen Kertis, head of global regulatory reporting at IHS Markit, comments: "At IHS Markit, we aim to simplify and ease regulatory reporting using our single platform for multiple jurisdictions."

"Our clients will continue to enjoy a seamless, albeit enhanced integration between our two platforms. The integration with the oneZero EcoSystem will allow oneZero clients to use our best-of-breed services with no technical integration effort on their side," Kertis explains.

Andrew Ralich, CEO of oneZero, comments: "oneZero's mission is to give our customers greater control throughout the entire trading lifecycle."

"By offering the widest-possible offering of post-trade regulatory vendors, we are giving customers the ability to seamlessly integrate with the vendor of their choice — no matter how their business changes or evolves to market conditions," adds Ralich.

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AccessFintech and SIX join forces to solve CSDR eligibility data challenges

AccessFintech and SIX have entered into a partnership to help clients tackle challenges in categorising Central Securities Depositories Regulation (CSDR) eligibility data. The CSDR settlement discipline regime (SDR), commencing in February 2022, presents measures to ensure efficient settlement of trades in the markets of the European Union. SDR will introduce a mandatory buy-in regime and application of penalties, and participants must gather, track and communicate a significant amount of information through the lifecycle of each trade.

Trades that do not settle on time will enter the CSDR process and then require significant collaboration between the settling parties in order to comply with the regulation.

The partnership between AccessFintech and SIX will automate the process of correctly determining the CSDR eligibility parameters of each trade using multiple data points by using SIX-provided pertinent data on the AccessFintech platform, for use by sell-side and buy-side clients.

It will also provide the market with the ability to identify CSDR eligible trades and instruments, and also determine the market value in order to calculate the cash penalties. In addition, clients will be to identify cash compensation, potential buy-in risk, and create a reliable single source for necessary price and reference data between the CSDs and their participants.

Heiko Stuber, senior product manager at SIX, comments: "Our partnership with AccessFintech will allow the visualisation and categorisation of the most up to date reference and pricing data. It will be a key factor for being compliant and a powerful tool for managing risk across the trade lifecycle."

Boaz Zilberman, executive vice president of business development at AccessFintech, says: "Our partnership with SIX is an important step for our clients who must work out precisely which trades are eligible using a set of identifiers, which we will model together with SIX. Having this additional vital insight is the final piece of AccessFintech's complete CSDR lifecycle solution will enable the market to predict, track and manage CSDR risk and, communicate information, notices and actions, real time, across multiple stakeholders — all through a single interface, using our platform ecosystem," Zilberman adds.

Proxymity launches digital proxy services in 10 markets with Citi

Proximity, through its connection with Citi, is now able to provide proxy voting services to institutional clients in the UK, Germany, the Netherlands, Belgium, Ireland, Austria, Spain, France, Portugal, and Australia.

As part of the launch, Proxymity will manage Citi's clients' proxy announcements and voting across these 10 key international markets.

Citi says the continued drive toward electronic voting reflects the increasing global focus on transparency and environmental, social and governance (ESG) agendas.

Launched in time for the 2021 annual general meeting season, Citi's connection with Proxymity PV will deliver 'golden source' AGM announcements directly from issuers to Citi's institutional clients in real-time.

The new service will allow global investors to cast their ballots electronically and receive instant confirmation of their votes.

Issuers will also receive votes as soon as they are cast, allowing them an earlier sight of voting intentions than via any other market solution.

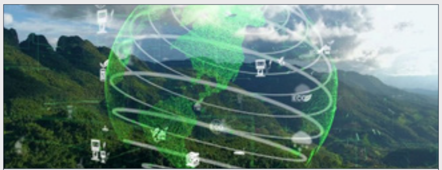
Chris Cox, global head of data, digitalisation and strategic projects and Europe, the Middle East and Africa head of securities services, Citi, comments: "Proxymity offers users new levels of transparency and efficiency in the proxy voting process, essential against a challenging social backdrop and expectations of improved ESG standards."

Cox continues: "This is exactly what new technologies are supposed to achieve and it's great to be able to partner with the Proxymity team to share this benefit with clients."

Jonathan Smalley, chief operations officer and co-founder, Proxymity, adds: "In a challenging year of firsts, connecting with Citi has been a remarkable and exciting first step for Proxymity. We are proud of the progress made to date and are looking toward a successful and productive season for Citi and its clients, as we continue to roll out our platform globally."

Proxymity was spun out of Citi's Securities Services business last year, backed by a consortium of the world's largest issuer and investor services firms.

Citi is the first consortium member to fully implement the Proxymity platform, with other members due to follow later this year. In September last year, Proxymity launched a shareholder disclosure solution in all EU markets ahead of the implementation date for the second Shareholder Rights Directive.



Alveo launches ESG data management solution to help meet SFDR requirements

Alveo has launched a new environmental, social and governance data management functionality to help market participants meet the EU's Sustainable Finance Disclosure Regulation.

The solution includes an extension of Alveo's standard industry data model and user interface functionality that helps clients understand data quality, data lineage and divergence between third party ratings.

Read the full article online

Canadian DB plans post modest losses, observes RBC I&TS

Canadian DB pension plans posted a -0.2 per cent median return in Q1 2021 amid an improved economic outlook, according to the RBC Investor & Treasury Services (RBC I&TS) All Plan Universe. RBC I&TS reveals that the loss came on the heels of a Q4 2020 return of 5.4 per cent and an annual 2020 return of 9.2 per cent.

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BNP Paribas sees securities services revenues increase

BNP Paribas' securities services revenues have increased by 0.7 per cent at €581 million for Q1 2021 (+5 per cent at constant scope and exchange rates) compared to the same period last year.

According to BNP Paribas, this result reflects higher transaction fees and a strong rise in assets. Securities services revenue stood at €536 million in the previous quarter.

Read the full article online

Hazeltree and Dymon Asia expand relationship to streamline cash management

Hazeltree has expanded its relationship with Dymon Asia, an Asia-focused alternative investment manager, to further leverage Hazeltree cash management capabilities across its treasury and operational organisation. As part of the existing relationship, Hazeltree helps Dymon's treasury team manage operational risks, strengthening its cash management controls, driving efficiencies and optimising excess cash.

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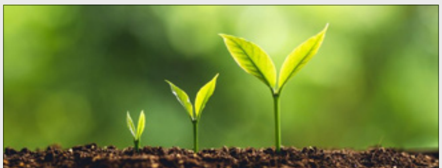

Euroclear's Q1 report reveals assets under custody growth

Euroclear's Q1 2021 report has revealed that assets under custody have increased by 16 per cent to €34.1 trillion, boosted by equity market recovery combined with new issuances and business strategy progress.

The report found that fund assets under custody reached €2.7 trillion demonstrating a growth of 28 per cent. Euroclear says this growth reflects the appeal of Euroclear FundsPlace.

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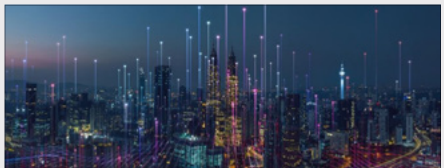

LuxSE joins forces with Fundsquare and Quantum

The Luxembourg Stock Exchange and its wholly-owned subsidiary Fundsquare have collaborated with Brazilian financial technology company Quantum to provide investors and market participants in Latin America access to a broader scope of financial data. LuxSE and Fundsquare will deliver financial data to Quantum, which will analyse and display this information and make it available to its customer base to facilitate their entry to international capital markets.

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Data is king

Becky Bellamy reports

In a more globally harmonised corporate actions market, Jim Monahan of Sionic says there is an opportunity to create a robust industry utility, where corporate actions data can be collected and housed centrally and managed in a consistent format

How can the industry change the persistent and growing risk in corporate actions processing?

In my view, the industry needs a three-pronged approach to mitigating risk across corporate actions.

The first part of this approach is around the global harmonisation of corporate action events in general. From my 35 years of experience in the corporate action arena, I see distinct differences within the global community in how corporate actions are handled, whether that's in the application of the key event dates, in how central clearing houses facilitate, or in the different terminology that poses challenges in cross border transactions, which are often already a struggle to manage across the industry.

It's true to say the industry has done a good job in creating and providing a standard mode of communicating corporate actions, primarily via the existing SWIFT Standards, for example, ISO 15022 or ISO 20022 messaging formats, which provide a structure to communicate corporate actions in a consistent manner. But if corporate actions are not handled, managed, or announced in a consistent manner, it doesn't matter whether you have a standard format or not: in the end, it's going to generate confusion and mistakes.

Similar issues arise with the wide array of legacy processes from the bygone era of an industry-driven solely by physical securities. As an industry, we need to assess these properly and understand how and why they were created, then decide how — or whether — we're going to change them to move forward into a new world.

There has also been a recent focus on industry efforts since the onset of the pandemic, for example, the shortening of the settlement cycle from T+2 to T+1; as well as the push to dematerialise the market to move away from having physical securities. These will be a big step forward in starting to normalise corporate action transactions.

The second major aspect of the approach is around technology. In looking across the spectrum of technology initiatives I have spearheaded across my own career, and at the latest technology solutions currently available, I see tremendous opportunities for firms to make a modest investment to upgrade their existing corporate action applications that will create a major step forwards, with a more robust, less risk averse technology solution than they currently have in place.

One big challenge with mitigating risk is where firms rely on proprietary home-grown systems built back in the 1990s and early 2000s which now have extensive limitations to the coding or integrated development they can do. In my opinion, firms need to commit to funding the opportunities around adopting the latest technology. And I would strongly encourage firms to consider exploring a third-party solution, as many of today's industry vendors and third-party solution providers have adopted many aspects of the latest technology solutions available.

The third and final point is around people. I firmly believe it is important to have the right people; as well as resources in place, and not to underestimate the necessity for a complete front to back understanding of the process required to successfully manage corporate actions. I have seen some firms, to their detriment, try to minimise the required skill sets needed in this space. It is always a mistake. For example, I've seen organisations try to create a team that would only perform pre-pay date-related processing functions, with another team that would focus on post-pay date processing functions. By breaking it down, they thought they were getting more efficiency; instead, once the firm started getting turnover, nobody understood the entire process across pre-pay date to post pay-date from front to back, leading to a series of issues and eventually, requiring the business to return to a model where people perform tasks from front to back.

What do you think some of the challenges could be around moving to those next stages?

Global harmonisation is always a challenge because everybody needs to agree on what the right processes are and what the correct changes are — but I believe it is about taking incremental and small steps forward collectively. For global harmonisation to work, you need to have the right dialogue, the right industry partners and the right people to communicate the opportunities. When I was working for a broker dealer, I found myself in a unique position, and at times, handcuffed with regards to putting ideas forward or challenging the norm because of concerns around upsetting an existing client or having conflicts with other industry partners. Now, as an independent advisor, I have the opportunity to communicate and discuss the issues that exist and actively participate in addressing how we move forward as an industry.

Undoubtedly, the pandemic has pushed plans along to invest in technology by highlighting firms' weaknesses in their resiliency or contingency plans. Overall, I believe firms did handle the pandemic well and were able to bounce back in a short period of time. Having said that, the pandemic opened Pandora's box when it comes to some of these bygone legacy processes noted earlier. For example, when you look at physical securities, 90 per cent of all US broker dealers have their security sitting in DTC. During the pandemic, DTC had to shut down its vault for several weeks, as several employees, unfortunately, came down with the COVID-19 pandemic — which meant no physical securities were being delivered across the street. The exact same issue occurred when Hurricane Sandy landed on the shores of downtown Manhattan and the DTC vault was flooded. Both are clear examples that demonstrate that the industry needs to step away from a dependency on physical securities — not simply because they are obsolete in today's digital world, but also and even more so because of the extensive risk that dependency poses for the industry.

Another specific example of a bygone process that in need of change is the US' guaranteed delivery process. In my view, this is quite simply outdated and a key generator of risk in organisations. Yet it's still seen by some institutional investors as a necessity and 'too risky' to change. I disagree. The name itself 'guaranteed delivery' is a misnomer as no one can guarantee delivery of shares in the process. It's time people rocked the boat and challenged some of the 'broken' parts of these processes.

In terms of technology, firms need to make a commitment to investing in change and in the corporate action programme. I have been fortunate that, during my career, I've been able to win the investment arguments and foster the type of ongoing investment necessary to make systems more efficient, risk averse and — just simply better. That's not to say that it was easy, especially coming out of a financial crisis! My investment opportunities in 2010 and 2011 were greatly reduced, to the extent that we were limited to having a 'lights-on' budget only; but, as things improved, I was given more budget to invest annually.

Today, there are so many opportunities with new technology that will allow firms to collaborate more and ideally drive a more efficient operating model for everyone. The evolution and acceptance of cloud technology have been outstanding. Just a few years back, regulatory bodies had real objections to the concept of the cloud and with the industry publishing information on a public cloud, but more recently they have taken the opposite approach and now encourage it. This is key and the benefits of cloud technology are many. From the public cloud versus private clouds, to being able to provide plug-and-play technology solutions, we are going to start to see firms promoting collaboration and simply be more open to the change. Ultimately that will reduce costs and allow firms to adopt newer technologies in a faster mode.

"Today, there are so many opportunities with new technology that will allow firms to collaborate more and ideally drive a more efficient operating model for everyone"

How has the COVID-19 pandemic increased demand for corporate actions?

Broadly, the pandemic highlighted some of the kinks in the industry's proverbial armour. It posed challenges such as the obvious need for a vast majority of people to work from home. It showed that most firms had the ability and capacity to meet the new demands and it also highlighted those that didn't fare as well. Additionally, early in the pandemic news cycle, trade volumes simply exploded, with incredible volatility across global markets. This spike exposed fractures in many firms' post-trade life-cycle management, mainly in the settlement space, which is something that will most certainly be revisited in post-mortem reviews. And in fact, I suspect it is one of the drivers for today's discussion on the risks, opportunities and requirements of moving to a shortened settlement cycle.

From a pure corporate action perspective, one of the initial challenges at the early onset was with a higher than normal late or default rate on announced dividend and interest distributions. Across the process, there were delays in the flow of corporate action payments from issuers, and their agents to the depositories. This was driven primarily by the same issue everyone was facing of resource constraints and legacy payment processes; it's a knock-on effect. As a by-product of this challenge, I believe firms will need to re-evaluate their existing income payment methodology, whether contractual or upon receipt, to access the risks should a similar crisis occur in future.

On the other side of the corporate action department, the voluntary corporate action teams saw an increase in fixed income events, with issuers trying to restructure their fixed income debt products to reduce or lower interest rates or extend the programme beyond the current date. This has been coupled with an exponential increase in the growth of special purpose acquisition company (SPAC) related support, primarily centred on splitting newly issued units, which is an extensively manual process across the industry.

When it comes to the less spoken-about corporate action process, proxy management, last year saw the entire annual meeting season, March to June, turned upside down, with issuers unable to conduct annual meetings in person. The virtual meeting arrangement, which has been available for years but not often used as in-person meetings were preferred, exploded onto the corporate action scene. From the logistical planning, new vote management protocols and data sharing across third parties, the industry scrambled to get their feet underneath them.

On the back end of the crisis, now will be the time we could see an expansion in consolidations and merger activities. Q1 and Q2 2021 have already shown that there are signs of growth.

What opportunities will an evolving global environment provide the corporate actions space?

Firms are going to continue to see processing volumes increase as well as client expectations grow for a more seamless front to back corporate action support model. In the end, firms need to make the investment in technology not only to manage growth, complexity and expanding client expectations but also to continue to manage expenses and mitigate risk.

Some of the newer opportunities I hear from my clients are around the ability to leverage today's technology to be smarter with the data that they have

I foresee the introduction of data analytics and other machine learning opportunities to start leveraging data not only in a smarter manner, but also in a more robust, more focused manner

across their infrastructure. I foresee the introduction of data analytics and other machine learning opportunities to start leveraging data not only in a smarter manner, but also in a more robust, more focused manner, where they can start to evolve and see patterns with the data and be more proactive in these environments.

A second front will be a push toward the evolving cloud technology and the deployment benefits within corporate actions. I believe there is a tremendous opportunity to enhance internal, as well as external collaboration within the corporate action arena via the cloud.

How will the adoption of technology change post-pandemic? And how will it affect corporate actions?

The future is going to be around cloud technology and the eventual migration toward a more globally harmonised and collaborative corporate action industry.

I envision numerous opportunities in how new technology will evolve corporate actions; and, if I had to highlight one it would be centred on corporate actions data.

Every firm I've worked at or have spoken to over the course of my career has made a huge annual investment in simply collecting corporate data and striving to get it as quickly and accurately as possible. This has evolved with most firms having their own independent, corporate action repositories.

And yet, in its purest essence, corporate action data is free. In the end, issuers, from either a fiduciary responsibility or from a regulatory perspective, are required to publicly announce their corporate action related activities, or data.

With my vision of a more globally harmonised corporate action industry, I believe there is an opportunity to create a robust industry utility, where corporate actions data can be collected and housed centrally and managed in a consistent format — much in the same way in how the industry gravitated toward legal entity identifiers.

From an industry perspective, we have created global standards for communicating corporate actions, such as ISO 20022 and ISO 15022. I see the next steps being centred around gaining momentum for the idea, with a focus on bringing all parties together with a commitment of delivering a solution that encompasses the process from start to finish — issuer, to transfer agents, depositories, banks, brokers and asset managers.

Do you think there needs to be more education around corporate actions across the industry or do people know the changes that need to be made but resistant to take those steps?

There are always opportunities for education in the corporate action arena. And yes, people are, at times, resistant to change. The evolution of corporate actions has a rich and storied upbringing over the decades. The paths taken and reasons why — hold many of the lessons learned from past challenges. I had the benefit of starting my career in the corporate actions space when the industry was primarily physical securities and I've been a front row witness to the changes over the decades since. I am a firm believer that the lessons learned in the past and the processes created as a result should be understood by all. And given that career and that experience, I am convinced that the time has now come to create a new paradigm within the corporate action arena. We have the opportunity now to shift towards a more collaborative and globally harmonised approach built around centrally managed and shared data; to create a completely dematerialised market with rules built-in part of the lessons learned from the past — and even more importantly, to forge a new path forwards for our future industry leaders to manage.

As we start to look forward post pandemic, I believe there is a tremendous opportunity for us to put all that has evolved over the last 30 years — including this time of COVID — into perspective and harness all that expertise and experience to build a more resilient, more effective and more efficient corporate action programme for the future.

Everything to play for

Maddie Saghir reports

The world of digital is ever growing and shows no sign of waning. With the evolution and interest in digital assets increasing, custodians have everything to play for in this space

The world of digital assets is accelerating at a rapid pace. Digital assets cover a range of assets from smart contracts built on distributed ledger technology (DLT) to existing cryptocurrencies and future central bank digital currencies. According to Torstone's CEO Brian Collings, many of these are nascent, giving a significant advantage to innovators who are developing new service offerings.

Traditional banks have an important role to play when it comes to the growth of digital assets. These banks can play on their strengths by bringing investment to bear on new ideas and use their client network to help innovators and fintechs add new digital asset services to existing securities services.

"The more traditional players getting in, the merrier. The increased interest of banks for digital assets further legitimises this asset class. It reassures investors and users that digital assets are here to stay and therefore adoption increases," comments Alexandre Kech, CEO, Onchain Custodian, Singapore.

In line with the growth and interest in digital assets, the custody of digital assets is evolving to meet this demand. Custodians play a crucial role in legitimising this growing asset class. This was reinforced in June last year when Deloitte's whitepaper suggested that custodians are "critical to the widespread adoption of digital assets".

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However, the methods of a traditional custodian may need to be updated in order to cater for the unique features of digital assets.

So, with the growing interest in digital assets coupled with the integral role of the custodian, there is everything to play for in this space.

Plenty of options

The phenomenon of crypto funds becoming an increasingly attractive option for fund managers looking to add crypto exposure to their clients' portfolios is largely due to the regulatory certainty and the known reassuring operational and legal setup such products offer to fund managers or retail clients.

According to Kech, it is always easier at the beginning to invest in a product you have experienced for years than in an underlying asset you only start to learn about.

However, Kech suggests more and more investors will go direct and buy cryptocurrencies as the regulatory framework matures and as they understand that the institutional grade infrastructures, such as an insured, secured and compliant custodian like us, are in place to offer them the security, certainty and quality service they expect.

The attractiveness of this option can also be put down to more and more retail investors and high net worth individuals joining the crypto market. Experts say this has meant that fund managers have realised by expanding their offerings they will be able to capture additional market shares.

Meanwhile, younger generations are said to have taken investment preferences to cryptocurrencies such as bitcoin.

Delta Capita's Karan Kapoor, head of regulatory change and regtech, notes that in order to align with future customer preferences fund managers have diversified their offerings by including digital assets/cryptocurrencies.

Challenges

With a spike in interest for this asset class, custodians have had to up their game and this has not come without its challenges.

For example, late last year, the SEC requested formal comment on the definition of 'qualified custodian' as it relates to digital assets.

San Francisco-based cryptocurrency custodian, Anchorage, offered a response, based on its expertise in handling digital assets and its experience as a once state-chartered-entity-turned-national-bank.

Anchorage notes that because digital assets are qualitatively different from legacy financial instruments from a technological perspective, the definition of qualified custody in the digital asset space should reflect that fact.

Some of the points in its response included the following:

- Proof of exclusive control: A qualified custodian of digital assets needs to be able to prove exclusive control of private keys.

- Proof of existence: Beyond proof of exclusive control, a qualified custodian should always be able to prove the existence of assets held under custody when requested as an essential consumer protection.

- Blockchain monitoring: A qualified custodian should be able to regularly track and monitor the blockchain of any digital asset they custody.

- Regulatory oversight and fiduciary requirements: Beyond technical capabilities, to determine whether an entity meets the definition of a qualified custodian in the digital asset space, it is also important to assess the level of oversight that entity receives.

In terms of further challenges facing digital asset custodians, Delta Capita's Kapoor says: "Considering how crucial the role of digital custodians is in the digital asset environment, perhaps their greatest challenge is cybersecurity."

"Given how blockchain technology works, if a malicious attack is to be performed successfully it would be very hard for the custodian to retrieve the funds and identify the attacker."

This is exactly what happened to the Japanese crypto-exchange Mt.Gox, which saw 850,000 Bitcoin disappear from its account (now worth $51 billion) due to security breaches and has never been able to retrace them thus declaring bankruptcy.

"As it is easy to imagine, a breach of security that large would probably destabilise the market making it less safe for all the market participants as well as stifle its future development," Kapoor explains.

Further challenges include issuance, settlement, and records are all understanding where the current asset servicing processes exist on a distributed ledger, and where the value will be offered in terms of servicing, according to Torstone's Collings.

Collings affirms: "The rethink of back-office and post-trade processes will create a need for much more flexible technology to underpin both existing asset processing and the new model."

The importance of partnerships

Partnerships and collaborations are great ways to overcome some of the challenges facing digital asset custodians today and have proved a popular solution to many in the industry.

An example of this is BNY Mellon recently invested in Fireblocks, a platform delivering a secure infrastructure for moving, storing, and issuing digital assets.

Caroline Butler, global head of custody, BNY Mellon, comments: "We made a Series C investment in them, and I hope that having a name like BNY Mellon attached to their funding would open the door for other institutional types who might not have considered investing or adopting their services otherwise."

"But at the same time, we see it as a strategic investment on our part given our confidence in their platform and the proximity we have to them," Butler adds.

This partnership is just one of several recent announcements about banks investing into fintech or collaborating with digital asset native solution providers.

Kech suggests this is a logical trend as some banks realise their lack of know-how in this space.

He says: "There will be more of these announcements in 2021 and 2022 as these worlds merge closer and closer. These collaborations will contribute to both, bringing technological and operational knowledge to the banks, while raising the profile and legitimacy of the fintechs, and for some of them, strengthening their compliance mindset."

A digital future

The future of finance will see a bridge between digital and traditional assets. The role of the digital assets custodian is therefore only likely to grow in prevalence for the years to come.

Julie Veltman, head of finance, Anchorage, stipulates: "The future of finance will be digital assets and blockchain technology becoming 'traditional'."

"There is no doubt in my mind that the future of finance will be digital — as both a mechanism of delivery of traditional financial products, and also in financial products themselves being built in an entirely different way."

"There will no longer be a distinction between traditional finance and crypto, because outdated and slow banking processes will improve by incorporating these technologies."

In terms of moving this process forward, institutional adoption of digital assets will drive the process forward, and partnerships between custodians and prime brokers with their clients will enable that adoption.

"The lynchpin of success is that adaptability to asset servicing which will keep costs down for banks, support client adoption of these assets and enable greater profitability for both," comments Collings.

Meanwhile, PARSIQ sees digital asset custody moving towards the hybrid model because the main of decentralisation in the cryptocurrency world is in conflict with the centralised power that many financial institutions have when providing custody of digital assets.

Collings explains: "Hybrid model means partially non-custodial. The owner of the assets has custody at most times. For example, in the case of exchanges, the owner of the assets holds custody at all times except when settling a trade."

"We believe these hybrid models will become favourable with users and in time prevail over completely centralised models of custodianship."

Experts also highlight that digital asset custody will become more and more important as more and more traditional players get into this space.

Kech muses: "Digital asset custodians, as they already are doing today, will strengthen the ancillary services they have developed at the request of their customers, becoming de facto prime brokers offering over the counter trading, lending/borrowing and other value-added services."

"It will be difficult in the future to distinguish between a bank and a custodian as the tokenisation of money and assets will further blur the operational, technological and compliance differences, leading to a new type of banking and finance," concludes Kech.

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Daron Pearce, CEO and head of BNY Mellon asset servicing for Europe, the Middle East and Africa (EMEA), has left the bank after 20 years.

Pearce, who had served as head of asset servicing EMEA where he led a period of sustained growth in the region by improving revenue, profitability and client satisfaction, had only transitioned into the role in June 2020, reporting to James Slater, global head of business solutions. BNY Mellon appointed Pearce to the newly-created global role as head of asset servicing strategic growth with the idea of identifying and accelerating both inorganic and new market entry opportunities.

At the time of this move, Roman Regelman, head of asset servicing and digital at BNY Mellon, said: "Daron Pearce is known, trusted and respected by our clients and the industry. That and his deep expertise make him ideally suited for this critical new role."

Speaking about his exit, Pearce tells AST: "After more than 20 years with BNY Mellon, my final day has arrived and it is time to say goodbye. Before I leave an organisation to which I've devoted half a working lifetime, it is only right and proper that I acknowledge my good fortune."

"My time at BNY Mellon has been amazing, challenging and exciting. I have worked with and learned from genuine pioneers of our industry. I have been honoured to be part of and to have led incredibly talented teams and worked with some amazing people. I hope that I've played my part too in paying that forward, mentoring colleagues and developing talent, building a strong bench of future industry leaders."

Commenting on the future, Pearce says his next role will be as an advocate for institutional investors, "enabling them to unlock the full value in their partnerships with service providers".

He explains: "I have an exciting pipeline of new business with some tier one firms and I've been approached about a number of non-executive roles."

During his two decades with the bank, Pearce served in a number of roles including CEO of global financial institutions and head of asset servicing in the UK, Ireland and Sub-Saharan Africa, among other roles.

Northern Trust's Sally Surgeon has been appointed as chair of the Australian Custodial Services Association (ACSA), the body for Australia's custodial and investment administration sector.

Surgeon has worked for Northern Trust for 16 years and she currently serves as head of client service and head of Sydney office. She has served on the ACSA Board since 2018. Previously, she has also acted as a sponsor of ACSA's Members & Services Working Group, and has overseen significant uplift in the association's communication to members and industry presence.

Meanwhile, ACSA has appointed State Street's Jennifer Saunders to the role of deputy chair. Saunders has been with State Street for 18 years and holds the position of senior vice president, chief operating officer, global services, Australia.

Two-term chair David Knights of NAB Asset Servicing will remain on the board as a director while Daryl Crich of BNP Paribas remains treasurer.

Knights led the organisation through the industry's response to the COVID-19 pandemic, the appointment of a CEO, as well as countless interactions with government and regulators, affirms ACSA.

Outgoing chair, Knights says ACSA is in strong hands under Surgeon and Saunders.

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Ready for Next

TMF Group, a global professional services firm, has appointed Gaurav Rishi Mehra as part of the fund services team in Mumbai, India.

Mehra will oversee the company's fund services offering in the emerging market in South Asia, aiming to maximise the region's potential and improve existing processes to enable the company to expand its reach and proposition. In his new role, he will report to Andrew O'Shea, global head of funds services.

He has 15 years of experience in the financial and asset management areas, as well as valuation of illiquid securities, financial reporting, GAAP and investor relations.

According to TMF Group, he has shown dynamic leadership and expertise in the design and implementation of finance change projects.

TMF Group says he has also shown expertise in process improvements to enhance operational efficiencies, has improved data quality, reduced delivery time and created strong governance frameworks.

Prior to TMF Group, Mehra worked as an associate director at KPMG, having occupied global leadership positions in international financial institutions such as State Street, Goldman Sachs and EY.

O'Shea, comments: "Gaurav Rishi Mehra, the most recent, is an incredible professional with an impeccable track record in the financial and funds areas. His leadership skills and market knowledge, as well as his experience in the design and implementation of projects will be valuable assets in the next steps TMF Group will take to improve its funds services proposition."

Jane Lemmon, formerly of IHS Markit, has been hired as global sales director for ULTUMUS, the provider of managed exchange-traded funds (ETF) and index data services for the financial sector.

Effective from 1 June, Lemmon will be responsible for accelerating sales growth in key strategic markets across the full range of ULTUMUS' ETF and index managed data solutions.

During her career, Lemmon has gained 15 years of financial software and data sales experience. She spent four years at IHS Markit having joined as part of their acquisition of DeltaOne Solutions.

At IHS Markit, she was responsible for setting up and running their sales operation in the US. Most recently, she worked as the company's global head of business development for its ETF and index data offering.

Lemmon says: "In a short time ULTUMUS has established itself as an innovation leader in the ETF and Index managed data service space using the latest technology to deliver its solutions to the sell and buy side."

"It's a hugely exciting company, with a proven team and I relish the opportunity to help ULTUMUS further its successes globally," Lemmon cites.

Bernie Thurston, CEO of ULTUMUS, comments: "This new appointment underscores our commitment to continue to build the most experienced team in the industry. Jane Lemmon will play an integral role in assisting customers in deploying our services while helping them efficiently and effectively integrate ETF and Index data at scale into their operations."

Thurston adds: "We look forward to working with Lemmon to help our customers turn their data management functions into a competitive differentiator."

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Ocorian, a global provider of fund administration, corporate, trust and capital markets services, has significantly strengthened its European and UK business development team with five new business development directors.

The new recruits include Natasha Head, Andrew Stewart, Chris Mayfield, Vivienne Fitzpatrick, and William Turmann.

Head, who has 10 years of experience in the alternatives sector, has been appointed to support the growth of the business in alternative investments in the UK and Europe.

She joins from Maitland and brings her experience of providing custody solutions to managed account structures and fund administration to venture capital and private equity managers.

Meanwhile, Stewart brings with him more than 30 years of experience in providing a range of financial and administration support to alternative investment and listed funds in Europe, Middle East and Africa, North America and Asia.

Most recently, he served as executive director at MUFG Investor Services and executive vice president at The Citco Group.

Mayfield joins from Vistra and works closely with Ocorian's client-facing teams to drive the commercial growth of the group's broad range of corporate services across the UK and European markets.

He brings with him over 20 years of commercial experience, including having owned, managed and successfully exited small businesses of his own both in the UK and in Europe.

Fitzpatrick, who has 15 years of banking and funds experience, has previously worked in senior leadership business development roles at J.P. Morgan (London), Barclays Capital (Asia), and State Street.

She applies her experience to partner with clients seeking to accelerate their business growth with a scalable and reliable outsourced support model.

Based in Luxembourg, Turmann joins from Societe Generale Luxembourg where he previously served as vice president.

Turmann has experience providing integrated investment solutions for asset managers and will focus on the acquisition of new funds and corporate clients.

Simon Behan, chief commercial officer of Ocorian, comments: "The calibre of our new appointments represents the confidence and ambition we have in our growth capabilities as a leading provider of funds and corporate services."

"As economies begin to reopen and rebuild, fund managers and corporates are increasingly going to need administration and compliance support to implement their strategies with confidence."

"With a depth of experience across the funds and corporate sectors, our business development team is perfectly placed to connect these market players with our world-class client solutions, helping them to achieve scale and substance in what is a rapidly changing business landscape," adds Behan.

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