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The ideal solution

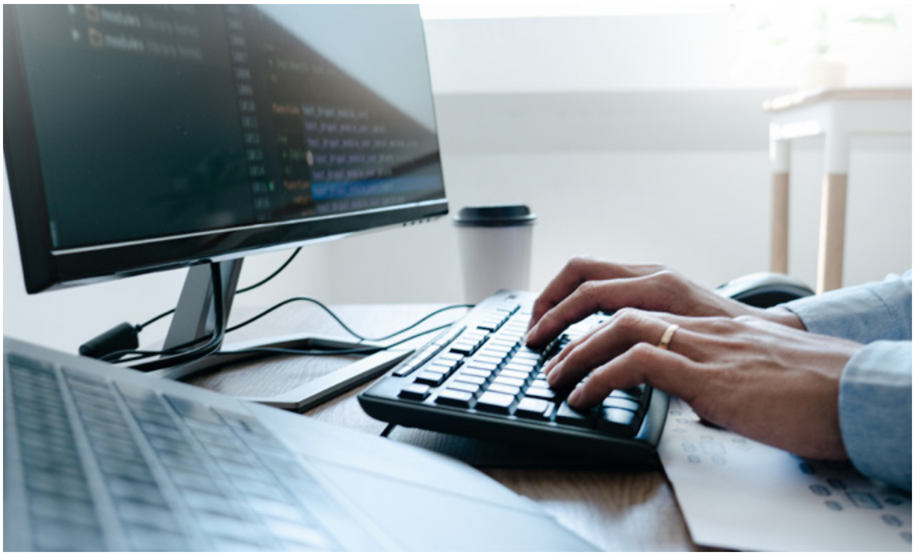
Collateral management: feeding every step in the trade lifecycle

CSDR Panel

Industry experts weigh up the potential impact of this regulation

Australia profile

Market participants are busy preparing for the CHESS replacement system



Goal Group launches Treaty Rate Manager

Goal Group has launched an online withholding tax reference database called Treaty Rate Manager (TRM), which provides access to the latest treaty rate information across the globe. TRM includes all statutes of limitations and a simple-to-use tool to quickly determine the applicable treaty rate for a client by selecting their market of investment, domicile, entity type and security type.

Available immediately as a monthly subscription, it represents a valuable additional reference for fund managers, custodians, corporate actions systems, vendors, research firms, the securities finance sector and other advisers involved in cross-border tax recovery and portfolio planning.

Goal Group and its worldwide client base use this data to feed up-to-date treaty rates into withholding tax reclaims on 3 billion shares annually.

The group says this is the first time it has offered access to its knowledge base in a standalone capacity, and forms part of its new suite of innovative, web-based subscription services for the global investment community.

Stephen Everard, CEO of Goal Group, comments: "We are excited to present our withholding tax reference data to the market as a very competitively priced monthly subscription service."

"Our own team relies on this data to deliver our market-leading outsourced reclaim service, and as such, its quality and scope is market-proven. Treaty data are continually updated by our in-house research team and clients of TRM will benefit from this."

According to Everard, building and maintaining the knowledge base required to calculate accurate tax reclaims – especially at volume – is simply not viable for most institutions. It makes far more economic sense to leverage the knowledge and dedicated resources of a third-party specialist.

"We anticipate strong demand from various sectors of the investment community as they sharpen their focus on maximising tax relief for clients, fully meeting their fiduciary duty and turning tax recovery into a lucrative service opportunity," he adds.

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FCA launches consultation on reforms to UK primary markets

The Financial Conduct Authority (FCA) has proposed changes to the UK listing regime designed to widen investor access to growth-sector companies. These changes aim to lower barriers to listing for companies and to extend the choice of investment opportunities in UK public markets.

The FCA intends also to simplify its rulebook, while safeguarding standards of investor protection and corporate governance.

The financial regulator has today launched consultation on these proposed changes, which include plans for dual class share structures in the premium listing segment and lowering the required free float from 25 per cent to 10 per cent in certain conditions.

The FCA says that these proposals are a response to the changing nature of companies coming to market, as well as a step to ensure the UK remains a dynamic and competitive primary market.

The proposals follow on the back of recommendations from the UK Listing Review and the Kalifa Review of UK Fintech, which both advised changes to improve the listings regime as a gateway to the UK's major public markets.

The introduction of a targeted form of dual class share structure within the premium listing segment is designed to encourage innovative, often founder-led, companies to list on the public markets at an earlier stage.

By lowering the percentage of shares that a company must place in public hands, the FCA intends to reduce obstacles to listing embedded in the current regime and to widen investment choices for UK investors.

However, the FCA also proposes raising the minimum market capitalisation of ordinary commercial companies in the premium and standard listing segments from £700,000 to £50 million to enhance investor confidence and investor protection.

More broadly, the regulator has requested feedback on the current structure of the UK listings regime and whether other reforms are desirable to improve its long-term effectiveness.

The consultation process will be open for 10 weeks and will close on 14 September.

"Our proposals should result in a wider range of listings in the UK and increased choice for investors while we continue to ensure appropriate levels of investor protection," says FCA director of market oversight Clare Cole.

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BNP Paribas strengthens sustainability offering with new partnerships

BNP Paribas Securities Services' environmental, social and governance (ESG) marketplace, Manaos, has partnered with Util and V.E, part of Moody's ESG Solutions. Manaos is an open servicing platform designed for institutional investors to manage their post trade investment data.

The partnerships are set to enrich Manaos' sustainability data and analytics offering.

As part of its Open ESG strategy, Manaos partners with sustainability fintechs to give users ready access to ESG data and analytics tools. Now live on Manaos, Util's machine learning models quantify the degree to which every listed company positively and negatively impacts the 17 United Nations Sustainable Development Goals and their 169 targets. To objectively evaluate a company's real-world impact, Util focuses on the effects of its products and services, and draws conclusions from peer-reviewed journals, BNP Paribas explains.

Meanwhile, with the onboarding of data from V.E, data can be scored and assessed to help investors better understand their exposure to ESG risks and opportunities, and facilitate reporting, innovation and active engagements with companies.

Patrice Hiddinga, CEO of Manaos, states: "The onboarding of Clarity AI, Util and V.E makes a strong case for the benefits of complementary approaches to ESG."

"Using Manaos, investors are finally able to assess the ESG impact of their portfolio by mapping their investment data to the most innovative fintechs on the market quickly and efficiently."

In March, Manaos announced a partnership with Clarity AI, a sustainability and data science company.

ISITC Europe launches new post trade forum

ISITC Europe has introduced a new post trade forum to bring together the post trade community across the capital markets to drive collaboration, share best practice and action changes to improve operational efficiency. The forum represents the full spectrum of post trade users and will be led by post trade experts James Maxfield and Alastair Rutherford, managing directors of Ascendant Strategy.

The future of post trade is heavily reliant on technology adoption and innovation, but this can be challenging to achieve when organisations work in isolation.

The post trade community across the capital markets is now coming together to drive collaboration and share knowledge and ideas, ISITC Europe notes. According to Maxfield, it can be hard for the post trade community to find time to devote to innovation given the pressures of the day job. Maxfield explains: "Together with ISITC Europe we want to provide a platform for people to access ideas and best practice in a way that helps to support them to address some of their challenges."

Meanwhile, Rutherford notes that enabling post trade innovation is easy to say but challenging to execute on, in order to deliver value for capital markets firms.

"As chairs of the ISITC Europe Post Trade Forum we bring our significant experience and expertise in post trade to help drive forward real changes prescribed by ISITC Europe's cross industry forum members," Rutherford says.

Gary Wright, director of ISITC Europe CIC, adds: "We are delighted to welcome Ascendant Strategy as a new associate member and know that with their considerable experience and knowledge in post trade operation, James Maxfield and Alastair Rutherford will be an energising force for our post trade forum."

ISITC Europe is a not-for-profit industry body with a thirty-year history of setting best practice standards. Ascendant Strategy is a boutique post trade consultancy that specialises in post trade strategy and transformation within capital markets.

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First Abu Dhabi Bank partners with State Street

First Abu Dhabi Bank (FAB) and State Street have entered into an alliance to create a full-service enterprise offering for institutional investors in the region. The partnership will leverage FAB's regional securities services expertise, incorporating the largest direct custody network in the Middle East and North Africa (MENA), and State Street's global strength and capabilities. Additionally, the alliance will provide MENA investors with reach into more than 100 markets around the world, and a product range servicing listed and unlisted asset classes, delivered by in-country client service teams in the UAE, Saudi Arabia, Kuwait, Oman, Bahrain and Egypt. Clients will have access to State Street's full suite of front, middle and back-office capabilities and its data management and analytics solutions, which integrate with FAB's regionalised suite of securities services products, local expertise and regional direct custody network.

Hana Al Rostamani, group CEO of FAB, comments: "The Middle East investment landscape is distinctive with some of the world's largest sovereign wealth funds alongside a diverse range of private investment institutions. These investors require access to sophisticated investment tools and solutions across both their MENA and global investments."

Rostamani notes that the alliance between FAB and State Street creates a unique platform, delivering leading capabilities across the entire investment value chain that cater for the characteristics of regional and global investments.

Ron O'Hanley, chairman and CEO of State Street, says: "This partnership between FAB and State Street presents a unique proposition for MENA investors and those who invest in the region."

O'Hanley adds: "Clients are looking for financially secure and operationally resilient partners who can manage the non-core elements of their business, helping to deliver operational efficiencies, reduce costs, mitigate risks and navigate complex regulation."

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LiquidShare completes successful CBDC test

LiquidShare and Banque de France have successfully completed an experimental use of central bank digital currency (CBDC) for interbank settlement purposes.

The experiment was conducted by a consortium of participants, which tested delivery versus payment for both listed and non-listed securities on blockchain across the entire lifecycle of securities, spanning issuance and registration to secondary market operations' settlement. Using blockchain technology, all processes were validated, including the functions of creation, control and destruction of CBDC tokens belonging to Banque de France.

The consortium, made up of 15 entities and over 45 individuals, represented a wide variety of participants across the ecosystem, with Euronext acting as the marketplace and Euroclear France as central securities depository.

Communication between the entities demonstrated the advantages of blockchain technology, such as real-time information sharing and modelisation of business logic through smart contracts.

The successful outcome is hoped to be indicative of future achievements in the development of post-market solutions for digital assets, securities and cash.

Jean-Marc Eyssautier, CEO of LiquidShare, comments: "We are delighted to have been able to demonstrate with the Banque de France and all our partners our ability to appropriate new technologies and to have all market infrastructures work together."

"This is a new demonstration of the Place de Paris players' capacity to mobilise and cooperate for an innovative project in close collaboration with the authorities and infrastructures."

The experiment was conducted by a consortium also made up of AXA Investment Managers, BNP Paribas Securities Services, Caceis Bank, Caisse des Dépôts, CIC Market Solutions, Crédit Agricole Titres, Euroclear, Euronext, Kriptown, La Banque Postale, ODDO BHF Asset Management, OFI Asset Management and Societe Generale Securities Services.

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ULTUMUS and Alveo join forces for data services solution

Exchange-traded fund (ETF) specialist ULTUMUS has partnered with Alveo, a provider of market data integration and analytics solutions for financial services. The partnership will see ULTUMUS bring together its global ETF and index managed data service with Alveo's data mastering solution Prime.

Alveo's customers will be able integrate index and ETF information more quickly, while allowing ULTUMUS' clients to enhance their data mastering and data integration capabilities.

ULTUMUS specialisation is to capture, normalise, enrich and distribute global ETF and index composition data, reducing risk and providing solutions to both sell-side and buy-side clients.

Meanwhile, Alveo focuses on the integration of market and reference data from different sources covering all asset classes, including pricing information, referential information and issuer and corporate actions data. Alveo's data mastering and data quality solution tracks the collection, integration and quality-vetting of a diverse set of content providers.

Mark Hepsworth, CEO of Alveo, states: "Investment management is becoming increasingly data-intensive and we face demands from our clients to help them quickly onboard additional data sets. Index and ETF data is a key data category for them."

"We are pleased to work together with ULTUMUS to provide integration to our customer base with high-quality and detailed index and ETF information," says Hepsworth.

Bernie Thurston, CEO of ULTUMUS, comments: "We are pleased to work together with the Alveo team."

"Reliable and scalable data integration with clear lineage has rapidly become a must-have in investment management. Alveo's strength in data mastering and integration complements ULTUMUS managed data service."

In April, ULTUMUS hired Jane Lemmon as global sales director with responsibility for accelerating sales growth in key strategic markets across the full range of ULTUMUS' ETF and index managed data solutions.

Investment allocations to hedge funds will rise in H2, says report

More than one third of investors expect to ramp up their allocations to hedge funds during the second half of 2021, while just over 50 per cent plan to maintain hedge fund allocations at current levels. These were the headline findings from the latest bi-annual investment report from the Alternative Investment Management Association (AIMA) and investor research company HFM, entitled Investor Intentions H2 21.

Global macro strategies are expected to be the strongest beneficiaries of new investment flows, according to the report, with 32 per cent of investor respondents planning to increase allocations to this fund segment. With global economic forecasts predicting a rise in inflation during 2021-22, investors are attracted to global macro strategies by their capacity to provide an inflationary hedge, the report says.

The survey finds that multi-strategy funds and long-short strategies are also likely to attract new subscriptions from investors, with 31 per cent of respondents planning higher allocations to these sectors.

In contrast, investors are less enthusiastic about quantitative and arbitrage or relative value strategies than they were 12 months previously. One fifth of respondents said they expect to raise allocations to quant strategies, down from 31 per cent in H1 2020. Similarly, only 16 per cent of investor respondents plan to increase allocations to arbitrage or relative value funds, a fall from 29 per cent 12 months ago.

Reflecting on recent performance, more than 80 per cent of investors said that they were satisfied with the performance of their hedge fund investments during the first half of 2021.

The AIMA and HFM report indicates that hedge funds had their strongest start to the year for more than a decade, and this has translated into $57.8 (USD) billion in new capital inflows into the sector during H1, more than double the capital outflows witnessed for the equivalent period during 2020 (-$23.4 billion).

The report observes, however, that some asset owners believe themselves to be over exposed to hedge funds and plan to revise their allocations downwards, while others are monitoring this situation and are retaining their allocations above target.

"The outlook for hedge funds remains strong, but less so than six months ago," says the report. "Hedge funds returned 12 per cent in 2020, but our interviews suggest investors are waiting for robust two-to-three year performance before investing further."

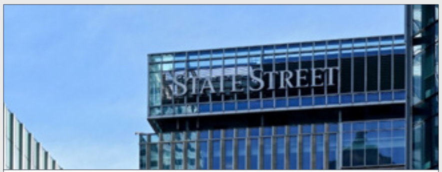
It finds that private wealth investors are most likely to raise their hedge fund allocation in H2. Although demand has dropped off slightly across this group, they are more likely to allocate money to hedge fund strategies than other alternative investments, with the exception of private equity.

"More sophisticated investors are also exploring other strategies within the alternative investment universe, with respondents highlighting increased appetite for private equity and credit funds, among other less liquid products," says the report.

Investor respondents indicated that they are looking to private credit strategies as their most common response to counter low fixed income yields.

"Hedge funds posted the strongest first-half returns since 2009 and are on track to achieve the best Sharpe ratio since 2017," says HFM chief data officer Elias Latsis. "While investor satisfaction with performance remains high, the slight pullback witnessed since our last survey shows the bar for success has been set higher by managers' outperformance during Q2 2020."

The research, conducted during Q2 2021, was based on responses from 108 investors, with a total $7.6 trillion in invested assets, and 123 hedge fund management companies.



State Street extends custody agreement with Korea's NPS

State Street will continue to provide back-office and middle-office services for the National Pension Service of Korea's global equity and alternatives portfolios.

State Street has been providing custody, fund accounting, performance and analytics, mandate compliance and securities lending services to the NPS' global equity and alternatives portfolio since 2014.

Read the full article online

Cecabank takes over the depositary of Bankoa Gestión

Cecabank, the Spanish bank specialising in securities services, cash management, payments and digital solutions, has become the new custodian of Bankoa Gestión.

Javier Hoyos, director of Bankoa Gestión, suggests that having Cecabank as a depository is a great leap forward for the entity.

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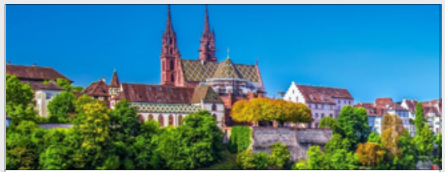
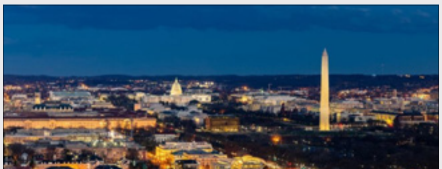


FSB says act now on LIBOR transition

The Financial Stability Board has released a progress report to the G20 on the London Inter-bank Offered Rate (LIBOR) transition, encouraging financial authorities to set global consistent milestones that will accelerate moves away from LIBOR.

Many LIBOR panels will no longer operate from the end of 2021.

Read the full article online



Comment: Robinhood hit with record penalties by FINRA

The financial watchdog's decision to fine Robinhood $57 million and to pay a further $12.6 million in damages, plus interest, to harmed customers, represents the largest penalty ever imposed by FINRA.

"The fine reflects the scope and seriousness of Robinhood's violations," says FINRA's enforcement department head Jessica Hopper.

Read the full article online

QFCRA mulls updates to its professional investor fund regime

The Qatar Financial Centre Regulatory Authority has proposed to update and broaden the regulatory framework for professional investor funds in the Qatar Financial Centre (QFC).

This new fund structure will complement the broad array of private and public fund structures already in place at the QFC.

Read the full article online

Exactpro supports MEMX into the US equity market

Exactpro has successfully supported the launch of the Members Exchange (MEMX) into the US equity market.

MEMX engaged Exactpro at the early stages of the programme for review of the client-facing specifications in order to deliver clear and transparent documentation to the participants.

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The ideal solution

Maddie Saghir reports

Collateral management has evolved over the years gone by since the financial crisis, but with the final phases of UMR coming up, experts discuss the ideal solution in this space

For hundreds of years collateral has been used to provide a safety net for the possibility of a payment default by the opposing party in a trade. In the 1980s, Bankers Trust and Salomon Brothers introduced collateral management as they began taking collateral against credit exposure.

Fast forward to today, and collateral management now makes up an important element of front-to-back solutions. Now, with the final phases of the uncleared margin rules (UMR) fast approaching, having a robust, efficient and automated collateral management solution is crucial.

Experts believe that collateral management is going to be part of many functions that a bank or asset manager carries out. This includes being part of the trading decision, risk management, simulations — such as stress scenarios in case the market moves — and part of counterparty credit risk.

Hervé de Laforcade, global head of marketing, Calypso, comments: "10 years ago, financial institutions would typically select and implement a collateral management system as if they were choosing a trading system, a portfolio management system or a treasury management system, and then integrate that new platform with the rest of their ecosystem. Today the collateral management needs to be fully part of each of those 'packages' and become central to any front-to-back platform."

Collateral management transformation, therefore, remains on the top of the priority list for many financial institutions.

Such transformation requires firms to assess their end-to-end operating model across technology, processes and data.

Technology has a crucial role to play when it comes to collateral management, particularly when dealing with major regulations such as UMR.

Wassel Dammak, director of collateral management at Vermeg, says: "Technology is the main enabler because it is the catalyser for innovation."

"Financial firms can rely on third-party vendors that invest heavily in their solutions to onboard new technologies in a timely manner, cope with regulatory updates and implement market practices and standards."

Dammak suggests technology is also a differentiator because it can reduce collateral costs, achieve better profitability and help to offer additional services to clients and counterparts.

With this in mind, technology is therefore going to be crucial to market participants in navigating challenges around collateral management.

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Challenges

Vermeg's Dammak identifies 'doing more with less' as a challenge, which relates to achieving sustainable efficiency.

Financial firms are constantly looking to simplify their systems landscape and to consolidate their collateral management across asset classes and business lines.

Dammak says this can be split up into three sub challenges:

- Technical efficiency through the reduction of the IT infrastructure cost by leveraging cloud/ Software as a Service (SaaS) deployments and services, and potentially benefit from Open Source database management systems like PostgreSQL
- Operational efficiency by using a unique system to automate margin calls workflow, communications and settlements with potential cross-margining capabilities whenever possible
- Efficiency of the inventory usage by centralising an overall enterprise real-time inventory with post trade optimisation (cheapest to deliver) capabilities

Data and digital workflow represent further challenges in this space, and experts suggest the ability for service providers to stand out with digital innovation will be crucial in the post-COVID-19 era. Market participants are looking to access relevant data in the most flexible but automated way possible.

However, some firms have old legacy systems, and some have disparate systems where data is held in multiple places. Additionally, there is still a set of organisations that are using spreadsheets or spreadsheet-like tools to manage their daily collateral process.

Darren Crowther, general manager, securities finance and collateral management, Broadridge, suggests it is about bringing data together to a common data repository that allows them to report, which has been a challenge for some.

Another area that keeps market participants awake at night is collateral mobility and optimisation.

Tilman Fechter, head of banking, funding and financing at Clearstream, comments: "With interest rates remaining at industry-wide lows, firms continue to look at ways to create more profitable relationships using funding and financing with clients and continue to assess different opportunities to reduce balance sheet usage."

"All market firms remain extremely cost conscious and we see increasing pressure on financial market infrastructure to offer process harmonisation in a recurring drive to reduce bottom line for clients."

To achieve greater efficiency within collateral management, some market participants are automating their processes and are replacing legacy systems.

Since the financial crisis in 2008, automating collateral operations has been a core focus. Financial institutions have invested in more robust solutions around automation of the margin workflow. Experts believe those investments have largely contributed to the global success of financial institutions' collateral departments in coping with the spike of margin calls' volumes during times of market volatility and liquidity stress caused by the COVID-19 crisis.

Keeping up with regulatory changes is key in the collateral management space, and participants have to interpret and implement regulatory change in a manner that is both time and resource-efficient.

Simon Millington, CloudMargin's head of business development, comments: "UMR has made having a robust, efficient and comprehensive collateral management programme more important than ever."

According to Millington, the broad regulatory changes under UMR have not only created an increased need for collateral, with increased lending and borrowing, but are also driving wider adoption of tri-party agents in the settlement process. At the same time, firms need broader connectivity to other services across the collateral lifecycle, including market utilities and custodians, Millington explains.

UMR's new regulatory initial margin requirement mandated that every market participant had to modify their existing collateral management systems and processes.

Acadia's Mark Demo, head of community development, notes that at the same time, market participants joined together to create a central initial margin calculation and reconciliation market infrastructure service hosted by Acadia that is fundamentally changing how initial margin is managed across the industry.

Acadia and CloudMargin have collaborated on a solution that enables phase 5 and 6 firms to send a simple trade file and choose to calculate via SIMM or Grid.

Acadia's Collateral Manager, powered by CloudMargin, compares the initial margin amounts against the counterparty's calculated amounts and sets thresholds allowing the firms to validate their calculations and monitor their exposures.

The ideal solution

There are many solutions out there designed to help market participants combat some of the above challenges, such as data management, systems harmonisation, and regulation. But what does the ideal solution look like?

A typical collateral user could be a hedge fund, a small regional bank, an asset manager or a larger bank. They want a solution that is simple, accurate and available at any time.

Sophie Marnhier-Foy, head of product marketing at Calypso Technology, says: "Behind the scenes, new calculations, sometimes complex, are required but the process has to look as simple as a spreadsheet for them."

Marnhier-Foy continues: "But it is not just a question of managing the collateral. It is really about accessing that collateral information whether you are a risk manager, a trader, or a post trade operation manager. Indeed, they all need to optimise collateral at their level, quite systematically, and for a few different reasons. For example, volatile market movements will require more anticipation of upcoming margin calls."

Broadridge's Crowther believes the ideal solution would be a stable platform that is available 24/7 and typically hosted on a private or public cloud to give the user resilience. He says: "As a collateral manager, you do not want to have to worry about the technology or have the additional burdens of managing technology; that is not a collateral manager's function as they are not specialists in doing that. Therefore, you want a provider to be able to deliver those services for you."

Depending on the type of organisation, Crowther suggests you may also look for a collateral module that sits side by side with a securities finance platform to centralise inventory and harmonisation across products which allows for a cross product harmonisation capability. Additionally, the user would be looking for front-to-back functionality or a platform that can easily integrate into other platforms.

However, Demo muses: "The answer is that it does not look like anything. When collateral management software is designed correctly it becomes invisible."

"It takes the time-consuming manual tasks that were previously stumbling blocks to an efficient process, automates them and presents management with data and straight-through processing exceptions that were previously not visible and or available to make faster and more informed decisions," Demo adds.

The evolution of collateral management

The future of collateral management is likely to involve greater automation, new ways to settle collateral, and a push towards the consolidation of collateral management.

Clearstream's Fletcher states technology remains a key enabler to collateral management now and will continue to be for the future. Fletcher affirms: "One interesting trend that we continue to track is the opportunity to mobilise and issue digital or tokenised assets."

"Historical settlement and collateral management processes have always been based on the capability of firms and market infrastructure to move assets from A to B as swiftly and efficiently as possible."

According to Fletcher, the opportunity to use digital assets has turned the world on its head, and for collateral markets, it allows collateral baskets and any underlying assets to be immobilised centrally but freely transferable.

From a cost perspective, Fletcher highlights this is incredibly disruptive and something that banks and financial institutions will be paying exceptionally close attention to for years to come.

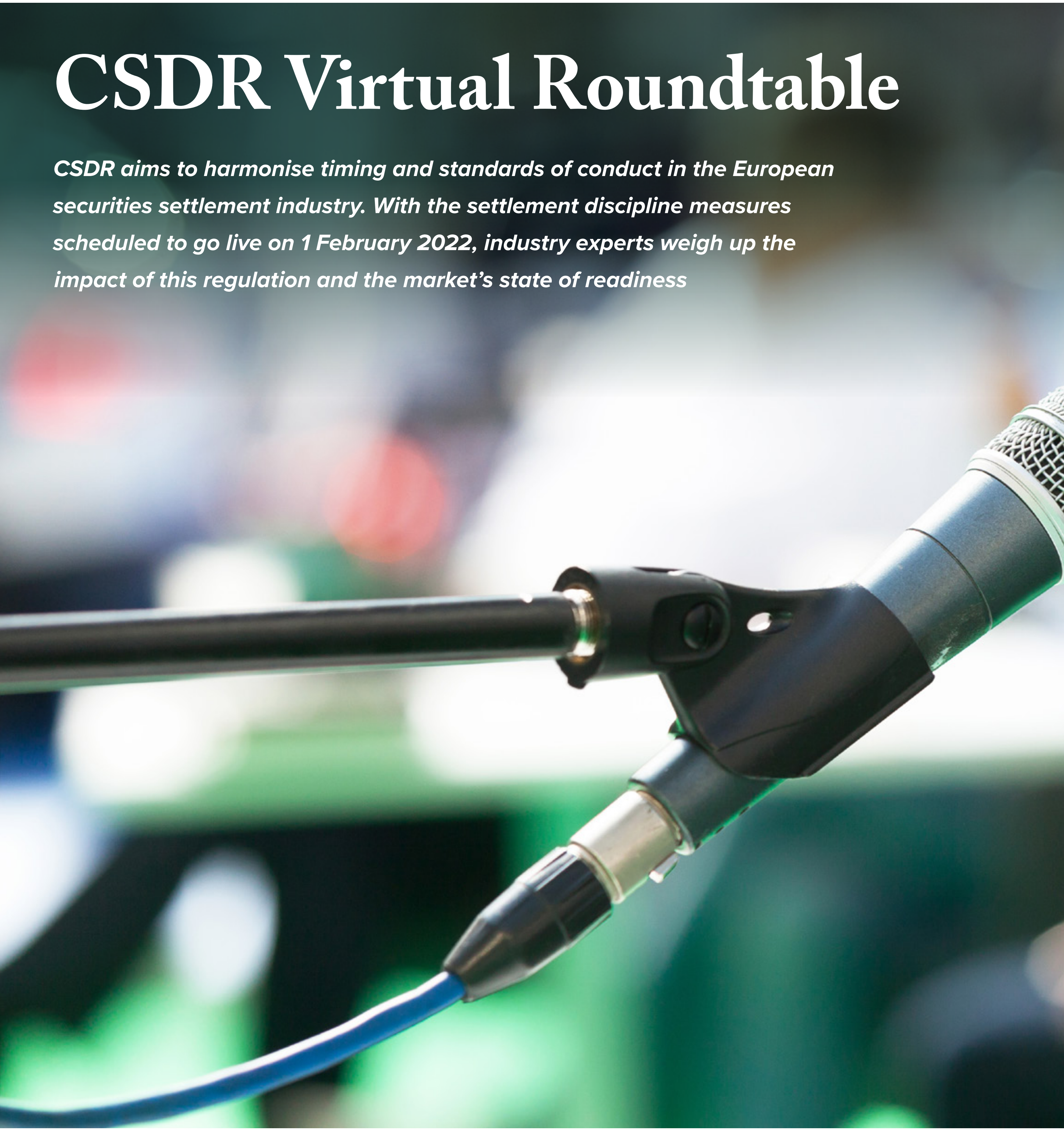
Meanwhile, Marnhier-Foy suggests that the collateral function is evolving towards being a part of every step of a trade lifecycle and is critical for many actors in a bank. She says: "The lines between bank functions will be blurred when it comes to collateral. A good example is the risk and collateral integration, where collateral inputs are required to calculate accurate collateralised risk exposures."

"When you look at what it means from a system perspective, the upcoming industry trends will be quite interesting. Will firms look for specialised collateral services or integrated front-to-back platforms with modular adoption?"

Marnhier-Foy adds: "Based on what clients are telling us, the latter seems to be the preferred choice where collateral becomes available at every step of the value chain."

CSDR Virtual Roundtable

CSDR aims to harmonise timing and standards of conduct in the European securities settlement industry. With the settlement discipline measures scheduled to go live on 1 February 2022, industry experts weigh up the impact of this regulation and the market's state of readiness



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How does the settlement discipline regime component of CSDR offer benefits to the market? And where may the SDR component of CSDR have negative implications?

Matthieu de Heering: The Central Securities Depositories Regulation (CSDR) is one of many EU regulations aimed at benefiting consumers, in this case the European investor and pension-holder. Here the focus is on ensuring that the opportunity cost (of positions unavailable for ensuing trading) and the issues created by late settlement are not borne by the individual investor.

However, compliance with CSDR can bring benefits to the entire market and its participants, given the impact that a failed settlement – for instance due to an unavailable position — has up and down the settlement chain. This includes the cost of penalties, the threat of buy-ins, and of related claims, which can amount to billions.

> *Compliance with CSDR can bring benefits to the entire market and its participants*
>
> **Matthieu de Heering**

Conversely, decreasing the likelihood of a single settlement failure and the risk of buy-ins, through the application of CSDR and its penalties, can have a positive effect beyond the individual settlement instruction. This will be realised in terms of client experience and available liquidity for the individual investor and the market in which they operate.

In terms of negative implications, we know that the burden created by settlement discipline regimes, such as CSDR, is a primary concern for clients. Buy-in regimes can bring additional operational risk, given that the procedure itself is often manual. This is in addition to the market risk arising from the possible price change of the underlying security, with Murphy's law holding that the price will always shift in the direction that disadvantages the entity obliged to perform the buy-in.

Daniel Carpenter: Of course, reducing overall rates of settlement fails is the 'Holy Grail' for the industry as a whole, so anything that focuses the collective effort around that goal has to be welcomed.

As is so often the case when new regulations are introduced, financial institutions are obliged to review their systems and operational processes. The updates they make can have an additional positive impact on their operational efficiency and effectiveness as a by-product of this review.

We also see a number of other potential benefits to CSDR. First, in the better allocation of resources. Market participants will have a monetised criterion on which to decide the priority of settlement and where to allocate their resources.

With the threat of penalties, the expectation is that counterparties on all sides will apply greater diligence to settling transactions and the reduction in fail rates will have a positive impact on their bottom lines, as well as leading to better market liquidity.

Second, we should also see greater levels of ownership around prudent inventory management, enhancements to pre-matching and greater scrutiny of standing settlement instruction (SSI) population integrity to mitigate fails.

Better counterparty risk management and the application of sophisticated analytics and artificial intelligence (AI) should also identify those counterparties more likely to fail. With greater transparency of the cost structure, including settlement costs, the front-office will have the information they need to implement more informed trade execution strategies to help mitigate penalty costs and buy-in risk. By accelerating settlement harmonisation and standardisation, the settlement discipline regime could also serve to advance the industry's move to T+1.

One of the main concerns, if the mandatory buy-in rules remain in scope, is the potential for increases in the price of securities and the impact on liquidity. For example, where buy-in obligations apply to illiquid stocks, the costs of buy-ins and cash compensations may become prohibitive as demand out-

Despite the buy-in regime being designed to protect the end-investor, it could create unintended consequences for the investor

Paul Baybutt, director, senior product manager, global middle office product, securities services, markets & securities services, HSBC

CSDR was introduced in 2014 to improve the safety and efficiency of securities settlement and the market infrastructure supporting settlement. Settlement discipline is specifically targeting settlement efficiency with the aim of eliminating settlement fails.

An efficient market, where settlement occurs as intended, has many benefits for participants. Trades failing to settle on time introduce risk and costs for the parties affected. Resources required to deal with exceptions include additional margin and operations staff. Investors failing to receive their securities cannot resell them, which can cause problems when sales are required to raise cash.

The objectives of improving settlement should reduce these costs and make the industry more efficient. Settlement discipline could lead to some unintentional consequences. The European Commission has said it is considering proposing certain amendments to the mandatory buy-ins following its targeted consultation earlier this year.

If mandatory buy-ins go ahead, it has been well documented that there are many challenges to the industry. The regime mandates that a neutral, third-party buy-in agent must be appointed to execute the buy-in. But, to date, only Eurex Securities Transaction Services has said it will offer this service.

Despite the buy-in regime being designed to protect the end-investor, it could create unintended consequences for the investor. Should counterparties include a premium for guaranteed delivery, this would have a distorting effect on pricing and increase the cost of the transaction.

Secondly, buy-ins are not always possible, and an investor buying for long-term returns may find that the remedy for a failed buy-in, in the form of cash compensation, is not preferable.

Lastly, the buy-in process is complex and amendments to settlement discipline may be needed, as the European Commission has acknowledged, to make them more proportionate with the SDR's objectives.

strips supply. From an operational perspective, the workloads will increase for operations teams, incurring more cost unless automated procedures are deployed. The risks of failing to cancel failing trades and holding double stock will also affect market liquidity. These points could prompt some market makers to decide they no longer want to support certain securities, further reducing the liquidity of those assets.

Bill Meenaghan: In contrast to the reaction towards the buy-in regime, the cash penalty regime has been broadly accepted by the industry with most participants now agreeing that it represents a positive move in enhancing settlement discipline within the European securities markets.

This should promote improved settlement rates as the prospect of a penalty for settlement failure drives market participants to ensure settlement finality. However, not all markets in Europe impose penalties today. In some cases it can be cheaper (or free) to fail a transaction, rather than recall a security early from securities lending. For very efficient participants, SDR may even prove to be an income stream if counterparties fail to deliver. On the negative side, liquidity may dry up in some cases. A lot of brokers do not hold inventory, instead taking on the deal with the expectation that they should be able to source the security. For less liquid securities, this may not happen as easily. The broker will know that if they fail to source the delivery, they may have to pay the SDR penalties and any commission they would have gained can be quickly lost — although this would be offset by penalties received from their counterparty. This could slow down how quickly orders get filled and confirmed in the markets.

There could be an impact on securities lending as well. Any delay in getting securities back from loan could result in an SDR penalty, which may result in less securities lending. This could disproportionately impact less-liquid securities, as participants may be less willing to trade them.

There are also no agreed de minimis rules on claim amounts, so another negative impact will be the amount of claims that are likely to be issued and received. Very small amounts may be ignored and swallowed by some of the participants, but there could be claims for amounts that are below the current ISITC threshold of $500 equivalent.

The numbers of these claims are likely to be high, so participants could see lots of these coming through next year.

Pardeep Cassells, head of financial products, AccessFintech

The important thing to remember is that, despite the complexity of the regulation and the challenges that organisations seem to be facing, the settlement discipline regime is intended to benefit the market.

A clearer focus on pre-matching will naturally lead to improved confirmation of trades and reduce fail rates.The intended penalty and buy-in regimes will help those organisations who consistently find themselves impacted by failed deliveries off-set the cost of managing the failed and mismatched trades.

It is vital that we bear in mind the current cost of managing fails at their current rate across the market. Banks and buy sides have entire operational functions in place purely to manage the inefficiencies of failed trades and mismatched trades. This impact is compounded for smaller firms that are not prioritised for deliveries and that would benefit from a structured and mandatory buy-in process.

In February 2020, the 'Joint Associations' said CSDR may remove incentives to lend securities in securities lending and repo markets, and it may lead to wider bid-offer spreads in the cash markets.

This may encourage market participants to move settlement of less liquid securities into non-EU CSDs that are not subject to CSDR. Do you agree? How real are these concerns?

> *Any increase in trading and settlement activity outside of CSDR jurisdictions would be like kicking the can down the road*
>
> **Daniel Carpenter**

Carpenter: While the threat of buy-ins may prove to be an incentive to borrow securities, illiquid assets will always be more difficult to borrow and there is not a specific solution to solve this. We believe that forecasting and predictive analysis will play a key role in risk mitigation here.

When it comes to collateral management, the most commonly used securities are bonds, particularly sovereign-issued bonds, which are traded less actively than some other securities. With the European Central Bank set to accept as collateral a wide array of security types, the impact should be minimal in the event that trading in equities slows down. However, any increase in bond market liquidity could drive up prices for these bonds for buy-side firms.

Any increase in trading and settlement activity outside of CSDR jurisdictions would be like kicking the can down the road. With CSDR set to apply to any security issued within the EU, whether or not it is ultimately settled outside of the EU, it remains to be seen whether the impact of CSDR will outweigh the benefits of moving stock listings to another jurisdiction.

Bill Meenaghan, director, product management, IHS Markit

The International Securities Lending Association (ISLA) warned that the mandatory buy-ins for settlement fails may discourage asset owners from lending, adversely affecting the global liquidity pool. However, many securities are now multi-listed and held in one of several depositories. While CSDR may force some issuers to consider where they list their securities initially, it may encourage others to add a multi-listing to a non-CSDR central security depository (CSD).

Participants could decide that assets should be inventoried in non-CSDR CSDs in these cases, but we do not think we will see a large movement of issuance to non-CSDR CSDs purely to avoid the SDR penalties, given the securities access provided within EU central securities depositories. Multi-listed securities are often cited as causing issues amongst participants, so it is unlikely that participants will be willing to add to this problem given the small chance of a fail on any one security.

When ICMA, one of the signatories to the letter, conducted an impact assessment across its membership, 100% of sell-side firms and 80% of buy-side respondents said that the introduction of mandatory buy-ins would have a negative effect on overall market efficiency and liquidity. ICMA members predicted that traditional lenders in securities lending markets are likely to "hold more buffers, or even withdraw inventory", which would limit loan availability to cover short positions. Do you agree?

> *"Mandatory buy-ins may be a step too far and too soon for the industry"*
>
> **Bill Meenaghan**

Meenaghan: The International Capital Markets Association (ICMA) called for the mandatory buy-in aspect of SDR to be scrapped, stating that the mandatory buy-in regime would have adverse impacts on European bond market efficiency and liquidity, leading to increased costs for market participants and, specifically, the end investors.

Mandatory buy-ins may be a step too far and too soon for the industry. As the Association for Financial Markets in Europe (AFME) suggested, the buy-in should be a discretionary right of the receiving party, not a mandatory obligation, describing it as a "disproportionate measure to address settlement fails". For some illiquid securities, it is not possible to source them in advance of the buy-in. If the asset manager wanted exposure to that security and was willing to wait, the current rules would prevent that since the asset manager is mandated to buy-in after 10 days if the security is illiquid.

Participants would need to keep strict reporting in place to monitor how much can be lent in these cases — and they may limit the percentage that they lend, or even withdraw from the security lending markets, if penalties are levied on their assets. While the penalties may be covered by the lenders in some cases, we would expect to see a reduction in available inventory as a direct result of mandatory buy-ins.

Daniel Carpenter, head of regulation, Meritsoft (a Cognizant company)

Market making in illiquid assets will undoubtedly be less appealing as the cost of buy-ins, and possibly cash compensations, will reduce the expected returns. When it comes to liquid assets, where several parties buy-in the same securities, the increase in demand will reduce liquidity in those securities and have an impact on their pricing. Furthermore, if a firm is in a back-to-back and buy-ins are mandatory, both the firm and the counterparty they sell to might execute a buy-in. If that happens, then the firm will have bought securities that they cannot deliver anymore as their underlying sale will be put on hold and eventually cancelled. In that case, they will increase their inventory and incur the associated costs.

ESMA's recommendation to postpone the CSDR component to February 2022 was originally linked particularly to concerns over the readiness of the market infrastructure to accommodate SDR changes – for example, in the need for testing of the new penalty mechanism within the T2S environment. In the meantime, we have had COVID-19. Is the market infrastructure now ready for the settlement discipline and buy-in regime under CSDR?

Cassells: Given the recent announcement from the European Commission conceding that there is still a lack of clarity around, and support for, certain elements of the regulation, it would be impossible to say that the market infrastructure is now fully ready for CSDR.

With multiple questions still outstanding in relation to eligibility, and with only one buy-in agent confirmed in the face of a regulation that insists that conflict be avoided in the appointment of agents, there is much to be done. The majority of CSDs are still to confirm how they will interact, publish and consume information through the lifecycle.

AccessFintech's Implementation Working Group has taken huge strides to push the market forward, specifically by defining market best practice data standards and messaging formats for CSDR, and this pragmatic collaboration is key given the February 2022 deadline is still in place.

Meenaghan: The market has had many years to get ready for the SDR regime, but still feels unready for the introduction in February 2022. However, applying the penalty regime is more straightforward, with fewer grey areas, and participants have been able to make progress on their agenda to support the regime.

With the new cash penalty regime due to come into force on 1 February 2022, participants should now be close to completing their preparation. With analysis and development now largely done, implementation should be underway.

However, there is a strong feeling in the industry that buy-ins should be delayed, or the need for them to be mandatory should be removed. Only one entity has stated they will act as a buy-in agent and they will require collateral to facilitate it. That will be a complicated and expensive way to manage it if no other buy-in agent steps forward.

Baybutt: The market infrastructure is not yet ready and SDR is currently under review.

While there is the European Central Securities Depositories Association (ECSDA) CSDR Penalties Framework that the industry is able to work to, the buy-in regime is a different matter and the market awaits the outcome of possible amendments before its implementation.

Carpenter: Based on our engagement with the industry over the last two years, we know that projects have been proceeding in the majority of houses. With a degree of uncertainty remaining over whether buy-ins will be mandatory or voluntary, or their inclusion in the rules delayed, the focus has naturally been on preparing for penalty processing and many have this well in hand.

Those CSDs using TARGET2-Securities (T2S) to record their positions and settle their participants' transactions have collectively agreed with the European Central Bank that the platform will form part of the solution.

T2S will support the CSDs in their CSDR obligations by calculating the penalties for all in-scope securities and reporting them to the CSDs who will, in turn, process them and distribute them to their own participants.

The CSDs stay in control of their participant relationships and are accountable for their obligations. The Directly Connected Parties (DCPs) will receive their own reports from T2S.

However, there are still questions about what happens to those assets CSDs hold outside of the T2S platform which are in scope for CSDR, and how these will be reconciled under the new regime. In addition, with T2S calculating penalties on each of its settlement days, irrespective of local variations in individual CSD operating days, how will they address the penalties that are calculated on those additional dates — and their removal after the fact?

More specifically, our clients have been putting systems and processes in place to meet both the penalties and buy-in requirements, and to accommodate their impact on securities lending processes, with the flexibility to adapt whatever shape those rules ultimately take.

The potential impact of the mandatory buy-in regime is complicated by the fact that the settlement process often involves a complex network of interlinked transactions – where a settlement failure can lead to failure across a whole chain of settlement instructions.

What problems does this present to market participants in modelling this process, particularly in securities lending transactions? What about tracking the movement of penalties along the chain of transactions and identifying how these will be allocated to the relevant parties?

Baybutt: In our role as an outsourcing provider to the buy-side, we are generally at the end of the chain. Therefore, the impact of any settlement failure along the chain will ultimately lead to our clients failing to receive securities. The counterparties our clients trade with may source securities from multiple places, pooling the sources to fulfil a delivery. If one of the sources fails to settle, the whole delivery to our client will fail. The introduction of partial settlement is welcome to reduce settlement exposure and increase settlement efficiency. This, in turn, should reduce the volume of penalties across the chain.

Carpenter: Oversight and transparency of settlement and buy-in statuses is the foremost issue. As with all aspects of our industry, there is a plethora of in-house, market and vendor solutions that will need to inter-communicate to provide holistic oversight of these in-scope items. Transparency and integration are key components of our technology solution. The ability to normalise vast amounts of transaction and other relevant data and provide a single, centralised view is vital.

Enabling collaboration and communication between counterparties through the number of different mediums currently in play is also essential to ensure a common understanding of status between counterparties. To help the industry by leveraging our platform and application programming interfaces (APIs), we have created real-time messaging integration enabling users to stay in the solution but coordinate with outside agencies to address these points.

Meenaghan: Securities often move in a connected chain of transactions. Client A buys from Client B who bought from Client C. If Client C fails to deliver, then Client B cannot deliver to Client A. Client A would be due penalties from Client B, who would in turn be due penalties from Client C. For Client B, this should be a wash as the depository sets the reference price on a daily basis for the penalty, so as long as these are all in the same CSD, then Client B would have an equal debit and credit and the right entity, Client C in this case, would be the penalty payer.

> *The introduction of partial settlement is welcome to reduce settlement exposure and increase settlement efficiency*
>
> **Paul Baybutt**

There could be an issue, though, if there was a different CSD involved in the chain as they may set a different reference price from the original CSD. It would be necessary to monitor this to ensure that you are not paying a penalty on a failed trade that was not your fault. If the delay was because Client C had the security on loan, that also brings more entities into the mix as the securities lending agent would have lent that to a fourth client. Consequently, analysis will be needed to identify who ultimately caused the delay.

Cassells: As a data-focused provider supporting the entire transaction lifecycle by aggregating trade data from across the market into a single infrastructure, we can see first-hand how operationally challenging the identification and tracking of chains will be.

We have introduced functionality to support this linkage and connectivity to create a foundation for the identification of chains. However, this is definitely an area where we will all learn more as time goes on.

> *SWIFT has worked with industry groups, including SMPG and AFME, to bring ISO 15022 and ISO 20022 messages in line with CSDR requirements*

Matthieu de Heering, director, capital markets strategy, SWIFT

Complying with CSDR is a key focus area for clients. We also expect copy-cat settlement discipline regimes to come up in other markets. Mandatory buy-ins already pre-date CSDR in some European countries. We believe the solution comes through end-to-end tracking of transactions as they progress through their lifecycle. SWIFT's solution is based on a Unique Transaction Identifier (UTI – ISO 23897:2020).

This forms part of SWIFT's move to transaction management, which is core to our platform strategy. The platform will maintain a copy of the transaction data that post trade service providers can tap into to enrich services. In working with early adopters, we established that the UTI is the right unique ID to apply — across messages and in the future APIs — to transactions on the SWIFT network.

Moreover, with our enhanced platform and end-to-end transaction monitoring data, all parties to a transaction will be able to gain early visibility on the content of settlement instructions and the latest processing status. This will also enable market participants to benefit from the enrichment or validation of standard settlement instructions, which can be a source of operational failures.

SWIFT has also worked with industry groups, including the Securities Market Practice Group (SMPG) and AFME, to bring ISO 15022 and ISO 20022 messages in line with CSDR requirements. Updated messages have been live on the SWIFT network since November 2020. We will also make available new ISO 20022 messages relating to T2S penalties reporting under CSDR.

UK policymakers have taken a decision not to implement the settlement discipline regime inherent in the EU CSDR regulation. What will be the primary implications for the UK market and for market participants with trading and settlement activities across these locations?

Meenaghan: Dual-listed securities that can be held in the UK and a CSDR CSD may be inventoried in CREST rather than another CSD, and trading activity may start to shift to CREST. The UK market is the biggest in Europe and currently has an existing fines process for late settlement.

While the fines are relatively small, they do exist. Without SDR, the rest of Europe could become more efficient than the UK market. However, the UK government has announced that it will consider a penalty mechanism in due course if there isn't an improvement in the UK settlement efficiency rate and this starts to become a problem.

Baybutt: While parties trading and settling securities in the UK will not have to implement the settlement discipline, many of those parties, however, also trade securities settling in CSDR-eligible CSDs.

That means they will still have to implement settlement discipline for securities they trade and settle in Europe.

What is not clear at the moment is whether this decision will make it attractive to issuers to issue securities into the UK CSD rather than a European one. Clearly there would be benefits, but settlement is not the only driver that an issuer considers before choosing its CSD. Until the outcome of the European Commission's impact analysis is concluded, and possible amendments proposed to settlement discipline, the implications will not be clear.

Carpenter: Like so many regulations that apply across capital markets, CSDR and SDR rules have extra-territorial impacts.

While existing practices will stay as they are for the UK domestic market, any firm that trades in securities listed in the EU, the European Economic Area (EEA) and Switzerland will have to comply fully with these new rules.

Fundamentally, the more divergent country rules are, the more complex operations processing becomes and the greater the need for flexible and comprehensive rules-based automation solutions to manage these complexities effectively and to help ensure regulatory compliance.

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> *The securities monitoring service within SWIFT's enhanced platform will be available to SWIFT's global securities community, irrespective of national market implementation of settlement discipline regimes*

Karin De Ridder, head of standards development team, SWIFT

The securities monitoring service within SWIFT's enhanced platform will be available to SWIFT's global securities community, irrespective of national market implementation of settlement discipline regimes. With markets so interconnected, the extraterritorial impact of CSDR on non-EU financial institutions is such that we have strong buy-in globally. Furthermore, with standards widely used in securities settlement, reconciliation, custody and corporate actions operations, and the post-trade domain, it is fundamental to ensure straight through processing (STP) is supported. The annual standards release cycle for ISO 15022 and ISO 20022 messages on the SWIFT network has contributed year after year to rising STP rates.

Increased regulation, including CSDR and, more specifically, the new settlement discipline regime, has also triggered changes to widely used securities messages supporting compliance.

CSDR requires that CSDs must implement a penalty mechanism for late or settlement failures, with penalties calculated and reported on a daily basis. To support this, SWIFT Standards added a new penalties reporting block to the MT 537 Statement of Pending Transactions, and the MT 548, Settlement Status and Processing Advice, and their ISO 20022 equivalents.

CSDR also imposes a buy-in mechanism in cases where the delivery of securities fails. Since the new order for the buy-in must carry a reference to the original trade, SWIFT Standards has harmonised the buy-in indicators in the ISO 15022 Trade Initiation and Confirmation messages. In addition we adapted MT 530 – Transaction Processing Command – so that required buy-in and cash compensation information for failing trades can also be communicated to and from the CSDs.

Provisions already existed in a number of EU markets which applied settlement penalties to counterparties that caused transactions to fail, enabling counterparties (or the CCP) to initiate a buy-in. So are the settlement discipline provisions of CSDR necessary? Or was preceding regulation sufficient?

> *We have seen great collaboration as organisations have come together to solve for the requirements of the settlement discipline regime*
>
> **Pardeep Cassells**

Cassells: The typical average timely settlement rate on the market is around 95 per cent across equities and fixed income, and the intent of the settlement discipline regime is to close that 5 per cent gap.

Although provision for voluntary buy-in exists, this is little exercised at the moment and penalty regimes are inconsistent. To achieve consistency, close the 5 per cent and ensure consistent timely settlement, something does have to change.

We have seen great collaboration in the last 12-24 months as organisations have come together to solve for the requirements of the settlement discipline regime. If this collaboration could translate into an effort to identify and eradicate the thematic cause of fails, then the provisions may not be necessary.

Ultimately, that is exactly what is being targeted. Rather than focus on the punitive measures being introduced, organisations should look to rise to the challenge by reducing fails, increasing matching accuracy and, in doing so, minimising the impact of the settlement discipline regime.

Baybutt: A number of EU markets currently use penalties for late settlement. However, these are often designed to cover the cost of exception processing caused by late settlement, rather than designed as an incentive for settlement.

Settlement discipline is intended to make settlement even more efficient. According to a recent analysis by the Target2Securites CSD Steering Group, the settlement efficiency rate of the market under CSDR in both equities and fixed income does not exceed 90 per cent. It is also important that settlement discipline is proportionate to the costs and administrative burden necessary to implement it.

Indeed, the Commission has said that in light of the latest consultation it will consider proposing amendments to the mandatory buy-in rules to make them more proportionate and to avoid undesired consequences.

Carpenter: Under previous regulation, there was no real consistency or best practice. Each market built its own rules organically and from a domestic point of view. The rules were similar across markets, but where they diverged they presented some challenges for counterparties trading and settling across markets. Additionally these are optional rules, making their application somewhat difficult for houses to apply or impose for risk of loss of business.

The fact that the majority of EU CSDs now settle on T2S has brought that issue to the forefront. The stated aim of T2S is to simplify and promote cross-border settlement, allowing participants in different CSDs to settle with one another seamlessly. This requires consistency in penalty rates, timeframes and buy-in processes across CSDs.

Meenaghan: The T2S annual report shows that the threat of SDR has not made a difference to settlement efficiency rates yet. In 2019, 96.93 per cent of trades were settled on the expected settlement date in T2S. However, for 2020, this dropped to 94.51 per cent, a 2.5 per cent drop. This is a very significant negative change given the market would have expected participants to become more efficient at settling trades on time, given SDR was originally scheduled to go live in September 2020. Preceding regulations have not so far made the difference that was anticipated. Buy-ins, though, may be a step too far, as these may cause unintended consequences for the industry.


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Australia's technological acceleration

As Australia's asset servicing industry has gone from strength to strength, industry participants are busy preparing for the CHESS replacement system due to go live in 2023 and are excited about the benefits it will bring

Maddie Saghir reports

In October 2020, the Australian Securities Exchange (ASX) confirmed the new go-live date for the Clearing House Electronic Subregister System (CHESS) replacement system was to be pushed back to April 2023, with increased project scope and a 12-month extension to the proposed date consulted on mid-year. CHESS is the computer system used by ASX to manage the settlement of share transactions and to record shareholdings.

It was developed by ASX more than 25 years ago and enabled the dematerialisation of the cash equity market, a move to T+3 settlement—which was lowered to T+2 in March 2016—and improved the efficiency and effectiveness of post-trade processing in Australia. In April 2023, CHESS will be replaced with distributed ledger technology (DLT). ASX says the new DLT will provide a "broader range of benefits to a wider cross section of the market".

The extension for the CHESS replacement system was welcomed by most industry participants. A consultation revealed that, although most users indicated that they could meet the new proposed go-live date of April 2022, extra time would be valuable. Many asked for extra industry testing as well as more time to prepare for the new system and additional functionality that reduces manual processes, such as electronic corporate action elections, to be delivered as soon as possible.

The impact of COVID-19 on the industry, in areas including collaboration and productivity, and the need to further reduce cutover risk to the new CHESS system were also taken into consideration. Almost a year on since this decision was made, market participants are saying the new timeframe is achievable and the project will help bring about efficiencies in the market.

Bringing in the benefits

The new timeline for CHESS also brought about opportunities to review the process. Martin Carpenter, head of securities services at Citi Australia, says: "We do not have any concerns about this time frame or the overall engagement process by the ASX — it has been extensive at every step through the process and it has allowed for market participants to fully engage and understand what was planned, and what was the impact on themselves."

He explains: "We also saw this project and the related consultation process as a unique opportunity to put forward some much needed efficiency improvements in the way we interact with other counterparts and the level of electronic versus manual activities — for this was a rare situation that the all key stakeholders (i.e. custodians, brokers, registries and representatives from the issuer community) all came together in the one place."

Weighing in on the push back, Robert Brown, CEO of the Australian Custodial Services Association (ACSA), comments: "The ASX CHESS replacement project will remain an integral part of ACSA's agenda for the foreseeable future as key players continue to work with the ASX to build and test the new platform."

As the CHESS replacement represents a generational change to a key piece of market infrastructure, ACSA continues to engage with the ASX on its CHESS replacement project to ensure smooth day one implementation and beyond. In terms of the new benefits the CHESS replacement could bring, AST finds that the transition to DLT has the capability to offer an abundance of opportunities.

Sally Surgeon, head of client services for asset servicing and head of the Sydney office at Northern Trust, affirms: "Northern Trust is a strong believer in the potential of DLT. We remain engaged with the changes as industry participants and look forward to ongoing conversations with the market, our partners and other stakeholders as we near day one of implementation of the CHESS replacement project."

In terms of benefits more directly related to the platform change, this is an exciting development for the commercialisation of DLT in financial services and, not surprisingly, it is being watched very closely by local and global financial services organisations.

Carpenter states: "The ASX project plays well into Citi's suite of solutions relating to DLT and digital assets and ultimately positions us to deliver enhanced services to clients."

Meanwhile, from the perspective of Lewis Moreline, head of fund services product, securities services, Australia and New Zealand, J.P. Morgan, the biggest benefits will result from the automation of manual processes that lead to risk reduction, along with more timely delivery of information to clients.

Technology and beyond

Technology and automation are set to propel further growth within Australia's asset servicing industry going forward, and the market is working towards leveraging technology to increase efficiency. The market is looking for new ways to increase operational efficiency with a trend towards better data management helping to automate processes, necessitating the consolidation of disparate systems, data sources and providers. Indeed, the majority of custodians, asset managers and super funds understand that legacy and aging technology will not support them this decade.

"The days of cobbling together incompatible and inefficient solutions with materially risky workarounds is over. The pandemic has definitely shone a bright light into a dark corner on this aspect of investment operations," says Matthew Baldwin, global business development, Financial Risk Solutions (FRS).

Similarly, J.P. Morgan's Moreline notes: "Ongoing technology investment is paramount to growth within the sector, both in terms of automation delivering efficiencies, as well as the development of solutions for funds that allow for actionable insights into data."

The days of using fax or email as the primary operational communication tool are gone and a more system-to-system environment will be integral in dealing with the volume of information that will pass across organisations.

According to Moreline, the move to portals for managing information flow and for funds to perform their necessary oversight activities will continue, alongside large global re-platforming of traditional custodial services. This is complemented by strategic technology partnerships; for example J.P. Morgan's partnership with AccessFintech, to leverage and maximise the value of the data.

Additional examples include Northern Trust's ongoing work with BondEvalue on the provision of fractionalised bonds and its partnership with Standard Chartered to develop Zodia, a cryptocurrency custodian for institutional investors.

Over at Citi, Carpenter identifies that as clients wish to generate better insights across their data, we are seeing a need to provide a more intuitive client interface with enhanced data capabilities and transparency. This way, clients can access large data sets, across a range of data domains, such as custody, fund accounting, performance analytics, environmental, social and governance (ESG) and so forth.

Additionally, there is an increasing need for on-demand and near real-time data sets throughout the day. This is especially applicable for custody positions and transactions. ACSA's Robert Brown concludes: "Overall the industry is highly automated, but a small proportion of asset types present challenges in normal times which are amplified through recent pandemic interruption. ACSA remains engaged with all parties in the service chain to improve efficiency and weed out residual manual processes."

The ASX CHESS replacement will bring opportunities and additional features to the market that can be adopted to enhance core custody operating models. Moreover, Australia's asset servicing and investment administration has a track record as both an innovator and early adopter of technology.

Michael Huertas has joined PwC in a pan-European role as partner and head of financial institutions regulatory Europe, based in Frankfurt.

At PwC, Huertas will focus on assisting clients with EU-financial services regulatory matters, notably on the rulemaking and supervisory priorities being advanced by the European Central Bank (ECB).

Additionally, Huertas will assist clients in navigating compliance with rulemaking and supervisory priorities being advanced by the European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority, and the European Systemic Risk Board.

Huertas will help clients on the resulting challenges with national EU-27 plus UK regulators, as well as those further afield both for traditional financial services regulatory matters and crypto-driven developments.

Meanwhile, his transactional practice will continue to focus on structured finance and structured note repack transactions as well as general trading (ISDA, GMRA, GMSLA), prime brokerage and related collateral and custody issues.

Prior to PwC, Huertas served as partner and co-head of the financial institutions regulatory practice group in Europe at Dentons for a period of three and a half years, based in Frankfurt.

During his time with Dentons he spearheaded the firm's pan-European capabilities and led on large scale projects for leading financial institutions and financial market infrastructure providers. Prior to Dentons, Huertas also held positions at Baker McKenzie, Allen & Overy, the ECB, and in London at Latham & Watkins and Lloyds Banking Group.

Commenting on his new appointment, Huertas says: "PwC is a true powerhouse in the financial services space and leads particularly when it comes to helping clients shape the future of their business, execute strategies and navigate the impact of risk and regulation and opportunities offered by fintech and through changing client relationships."

"I am very much looking forward to working together with my colleagues in Germany, across the EU and the UK as well as further afield."

The International Capital Market Association (ICMA) has appointed Bryan Pascoe as chief executive, succeeding Martin Scheck, who has held the role since 2009.

Pascoe will formally take up the role on 6 September; meanwhile, during a transition period, Scheck will remain with ICMA in a non-executive capacity as president, reporting to the chief executive.

Pascoe has 28 years of international experience spanning investment and corporate banking in London, Hong Kong and Dubai.

Most recently he was global head of client coverage in HSBC's Commercial Banking Division, having previously held the role of group treasurer and head of asset, liability and capital management through 2015 and 2016.

Prior to that, Pascoe's career focused on capital markets as HSBC's global head of debt capital markets from 2011 to 2015 and global head of debt syndicate before that.

Mandy DeFilippo, chair of the ICMA Board, comments: "I am delighted that we have been able to appoint an individual of Bryan's reputation and experience to lead the association. On behalf of the board and the association, we feel that he is the right person to succeed Martin and lead ICMA as our new chief executive. We are all looking forward to working with him."

She continues: "I would like to thank Martin Scheck for his excellent work over the last 12 years. He has led ICMA through an incredibly dynamic and, at times, turbulent period, which has included the global financial crisis, Brexit, and most recently, the COVID-19 pandemic."

Scheck says: "It has been a privilege to serve ICMA and its members through a period of immense change and growth, both for the association itself and the markets in which it is involved."

Michael Janiszewski has been appointed as chief operating officer to oversee BNY Mellon's asset servicing strategy, digital and business operations.

Based in New York, Janiszewski will report to Roman Regelman, BNY Mellon's CEO of asset servicing and head of digital. In his new role, Janiszewski will ensure BNY Mellon stays aligned across its product and business development, client management functions, and with its partners in operations and technology.

Janiszewski will work with CFO of investment services Anthony Nardella to determine the optimal structure for all business operations, including controls and governance, pricing, billing and business management. Prior to BNY Mellon, Janiszewski worked at Invesco as global head of investment and distribution services and chief digital officer.

At Invesco, he was responsible for investment, distribution, and information management operations, where he led a number of successful transformations.

Regelman says Janiszewski has a deep understanding of BNY Mellon's products and services.

Regelman comments: "He also brings significant expertise in business strategy development, organisational design, operations management, and technology to the bank."

Meanwhile, Janelle Prevost has been appointed as head of investor solutions, while Kenny King has been appointed as head of alternatives product, bringing his experience in working closely with alternative asset managers in prior roles. Prevost and King will own the strategy and profit and loss for their products, alongside Allen Cohen and Ben Slavin, who continue to lead accounting and exchange traded funds, respectively. With Prevost's appointment, Steve Farlese will take on new, broader responsibilities as head of fund services solutions.

Regelman notes: "We will benefit from Steve Farlese's deep product knowledge and execution experience as he leads the delivery of client solutions and drives the digital agenda across all our fund services products."

BNP Paribas Securities Services has appointed Paul Daly as head of distribution products and solutions.

In this role, Daly will be responsible for developing and promoting fund distribution products to the benefit of institutional fund buyers and fund promoters. Daly will build on the bank's innovative offering in this area and will also drive the development of the bank's transfer agency solutions.

Based in Dublin, he will report to Arnaud Claudon, head of the asset managers and owners, and Emma Crabtree, head of Europe, Middle East and Africa sales for asset managers, asset owners and alternatives.

With 30 years of experience in the securities services industry, Daly was previously head of territory for Ireland at BNP Paribas Securities Services. According to Daly, digital technologies are revolutionising the fund distribution space.

He says: "We at BNP Paribas Securities Services want to bring the power of digital to our clients, developing next generation fund analytics services and maximising operational efficiency for faster settlement and seamless post-trade processes."

He adds: "Our ambition is to build a new range of fund distribution services enabling clients to seize investment opportunities and enhance the monitoring of their operations."

Clearwater Analytics has appointed Martin Wallmann as managing director in Germany, Austria and Switzerland as part of the company's growth in Continental Europe, based in Frankfurt.

Wallmann joins Clearwater from J.P. Morgan where he held several cross-regional leadership roles in Frankfurt, Luxembourg and London over the course of his 13 years there.

Most recently, he was responsible for the securities services client business for Germany, Austria, and Switzerland.

Prior to that, he spent 10 years at Commerzbank AG in their transaction banking arm, in different leadership roles across trading, custody and network management.

According to Wallmann, Clearwater has the ability to provide solutions to resolve key challenges experienced by the majority of asset owners and asset managers that in large part still face operating models relying on legacy technology and processes.

He explains: "Clearwater offers a leading-edge Software as a Service (SaaS) solution that allows for a faster and more streamlined management of data, and enables more efficient operating models as well as highly bespoke reporting solutions."

"I am excited to join an organisation that is focused not just on innovation and client experience but focused on its clients and its employees."

Meanwhile, Gayatri Raman, managing director of Europe, the Middle East and Africa and Asia Pacific, Clearwater Analytics, comments: "Martin Wallmann brings a wealth of experience and understanding of the local market."

Raman adds: "His expertise is of immense value to Clearwater as we continue to expand across Europe and serve a growing client base in the German speaking region."

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