asset servicing times

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Seek prevention, or wait for the cure?

Is now the time for an industry-wide triage on how to solve settlement headaches ?

Innovation Panel

Panellists discuss how technology will help asset managers find a competitive edge

UMR Update

In-scope firms pulled together for phase 5 of UMR, but the preparation has not been without its challenges

Euroclear enhances fund distribution proposition

Euroclear has enhanced its fund distribution proposition for its clients with the acquisition of MFEX Group, a global digital fund distribution platform.

According to Euroclear, the combination of its FundSettle post-trade expertise and MFEX's distribution platform creates a compelling offering for fund distributors and fund management companies globally.

MFEX's fund distribution network and talented people will be complementary to Euroclear, enhancing and extending Euroclear's customer proposition which will further grow the funds business, the group says.

Lieve Mostrey, CEO, Euroclear, comments: "We are delighted to have completed the acquisition of MFEX Group."

"This transaction brings together two highly complementary businesses and we look forward to working with our new colleagues at MFEX to build a stronger fund distribution proposition for our clients."

The intent to acquire MFEX was revealed on 26 March 2021. Financial terms of the transaction were not disclosed.

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Fails & Fees Management, simplified.
Whether your challenge is improving settlement fails, addressing new CSDR penalties and buy-in requirements, or overall fees management, we deliver intelligent operations solutions that are trusted by leading global financial institutions.
With 20 years' experience in managing complex workflows, calculations and new data sets, we simplify your settlement, billing and invoicing activities, and fully automate CSDR processes.
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Apex launches carbon footprint assessment and reporting service

Apex has launched a carbon footprint assessment and reporting service to help funds and companies measure sources of emissions and implement plans to reduce their carbon footprint. The platform, which collects data on a secure environmental, social and governance (ESG) software platform, also provides a mechanism to offset any residual emissions.

The platform quantifies and reports on a company's emissions to simplify the reporting requirements and calculate a company's carbon footprint, by following industry best practice reporting standards and regulations. Reports can be used to identify and manage major sources of emissions, while aligning with the reporting requirements of key standards and regulations.

The launch coincides with new global research released by Apex which finds that 91 per cent of private equity leaders agree that climate change is an urgent issue, while 81 per cent agree that they and their portfolio companies should take greater responsibility for their carbon footprint.

Despite these responses, the survey reveals that at present just half of private equity firms measure the carbon footprint of their investments or offset their carbon emissions.

Carbon neutrality is seen as an achievable goal by those that took part, with 55 per cent saying that they have plans underway, with a further 45 per cent holding aspirations to achieve carbon neutrality but do not yet have plans underway.

Nearly three quarters agree or strongly agree (74 per cent) that a carbon reduction plan would advantage their key stakeholders, such as employees, institutional investors and clients.

The platform is also supported by a team of analysts that will offer advice, guidance and support to users. ■

CME Group launches sustainable derivatives clearing service

CME Group has launched the derivatives industry's first-ever Sustainable Clearing service to help market participants track and report on how their hedging activities are advancing their sustainability goals, effective from 27 September.

Sustainable derivatives encompass both the trading of products, such as carbon offsets, battery metals and bioenergy, as well as interest rates and foreign exchange futures hedging activity that is carried out to support a sustainable business.

According to the group, all participating futures commission merchants will be provided with Sustainable Clearing eligibility criteria to identify and tag their sustainable trades.

The eligibility criteria will be aligned to external standards, such as the International Capital Markets Association's Social & Green Bond Principles.

CME Group will be 'criteria neutral' to ensure that only independent third-party standards are applied.

The criteria and governance of Sustainable Clearing will be administered by CME Benchmark Administration, an independent legal entity within CME Group that manages and operates the company's benchmarks and indices.

According to the group, a robust governance framework and an inclusive criteria committee based on ICMA principles will

ensure that Sustainable Clearing operates with integrity and transparency, staying close to relevant standards in the industry as they evolve and mature.

Julie Winkler, chief commercial officer, CME Group, says: “This new framework for clearing sustainable derivatives will make it easier for our clients to measure the impact of their support for sustainable activities and can be part of the solution to encourage further growth in this key sector as the economy transitions to net-zero emissions.”

Sunil Cutinho, president, CME Clearing, adds: “Our solution ensures that all sustainable trades continue to benefit from our established risk management approach, including full margin offsets where applicable, which creates efficiencies for clients and end users.”

Qomply joins forces with Euronext

Qomply has partnered with Euronext to deliver a new transaction reporting service, utilising Euronext’s approved reporting mechanism (ARM) for timely delivery of transaction data to the regulator. The service controls when, and if, trades are sent to the ARM.

According to Qomply and Euronext, by linking services, the companies will be able to provide their clients with a solution that reduces cost and eradicates the complications that often come with the integration of separate solutions.

In 2017, the rollout of approved publication arrangements (APAs) and ARMs was at its inception, with many market participants scrambling to secure services in time for the second Markets in Financial Instruments (MiFID II) January 2018 deadline.

Three years on, the services of APAs and ARMs have matured and competitive pricing models have emerged. If there is a way to reduce ongoing fees, especially for third-party arrangements, firms should seek out these avenues, says Qomply.

Michelle Zak, co-founder of Qomply, says: “Euronext is a world leader in global financial markets infrastructure and we are pleased to join them as a connectivity partner as we build an efficient system for meeting regulatory requirements.”

Georges Lauchard, COO of Euronext, comments: “We are delighted to establish a partnership with Qomply to offer market participants an efficient and reliable Markets in Financial Instruments Regulation (MiFIR) reporting partnership. Together, we will create value for investment firms that are looking for simple, reliable, and cost-effective data driven solutions — and delivered with the confidence that comes from the leading pan-European market infrastructure.” ■

Russia’s NCC sharpens dividend handling for MOEX-listed international shares

Russia’s National Clearing Centre (NCC) has been granted Qualified Derivatives Dealer (QDD) status by the US Internal Revenue Service.

With this development the clearing house, which is owned by Moscow Exchange Group (MOEX), will be able to process dividend equivalent income on US securities, including income transferred as a result of repo trades where the record date for the dividend payment is between the first and second legs of the repo transactions.

NCC explains that this will remove cascading tax when income is transferred through a chain of repo trades. It will also remove

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the need for the buyer in the first leg of the transaction to make withholding tax claims.

US legal requirements do not allow tax administration of dividend payments to be processed without QDD status.

NCC deputy CEO Georgy Uryutov says: "QDD status will enable NCC to expand liquidity management options for its clearing members and to facilitate further growth in the group's business."

Moscow Exchange's managing director for compliance and business ethics Irini Grekova comments: "Assignment of QDD status confirms Moscow Exchange Group's strong commitment to complying with all requirements, including US laws and regulations, and our efforts to build a culture of trust in the Russian financial market."

QDD status will enable MOEX to improve the efficiency of trading in US securities for banks and brokers, as well as on the money market.

The exchange explains that it introduced trading in international shares settling in RUB in August 2020. Currently, 281 international securities are available for trading on MOEX.

However, from 27 September, market participants are able to trade international shares in USD, either in their own account or on behalf of clients.

By the end of 2021, it expects the number of international shares available for trading on MOEX to rise to around 500.

Dividends paid on these shares will be booked in the issuer's currency — for example, in USD for US securities.

Trade associations call for EC equivalence extension for UK CCPs

The International Swaps and Derivatives Association (ISDA) and eight other trade associations have sent a letter to European Commission (EC) commissioner Mairead McGuiness, requesting that the EC extend its equivalence decision for UK central counterparties (CCPs).

This equivalence decision is set to expire on 30 June 2022, but the associations request that the EC provide clarity as soon as possible and well in advance of March 2022.

According to the associations, this prevents negative financial, commercial, operational and level playing-field effects on EU counterparties and clearing members, and will enable continued access to global pools of liquidity after 30 June 2022.

The associations are concerned that if the commission allows the time-limited equivalence decision to expire, EU clearing members would "lose access to UK CCPs that have been determined to be of such substantial systemic importance that they can no longer be recognised".

EU clearing members would also lose access to UK CCPs that are not systemically important and that would otherwise be able to benefit from recognition under European Market Infrastructure Regulation (EMIR) 2.2.

"The ongoing uncertainty confronting EU clearing members and their clients is already negatively impacting their clearing business," the associations highlight.

"If the commission is considering allowing the time-limited equivalence decision to expire,

we would also welcome the opportunity to discuss the solutions that the commission is considering to mitigate any potential market disruption that may result, and the time that may be needed to develop and implement those solutions."

The associations argue that having to use a UK and EU CCP will raise costs and remove opportunities for netting transactions.

"In the event that the equivalence decision is allowed to lapse, there are continuing concerns about the impacts that a large, simultaneous close-out of positions at UK CCPs (and corresponding opening of positions at EU CCPs) would have on the market," the associations say.

"Other concerns include market fragmentation and lack of liquidity at EU CCPs, as well as the concern regarding increased costs and reduced risk mutualisation."

Additionally, the associations say that no longer allowing UK CCPs to obtain recognition in the EU would limit the direct oversight and visibility that the European Securities and Markets Authority (ESMA) and relevant EU national competent authorities would otherwise have had over global derivatives markets cleared in the UK.

This is because ESMA would cease to have any supervisory role in relation to UK CCPs and EU national competent authorities would cease to have a role in the colleges of supervisors for UK CCPs.

Elsewhere in the letter, the associations suggest that the commission, and in particular ESMA, need to consider carefully the potential financial stability impact of substantial, systemically important clearing services being provided in the EU by non-EU CCPs.

The associations remain convinced that EMIR 2.2, with its new enhanced recognition framework, gives ESMA appropriate powers to deal with any such financial stability-related concerns that may be identified.

"We urge the commission to address its concerns regarding the systemic importance of the UK CCPs by relying on the enhanced supervisory powers that EMIR 2.2 gives to ESMA and to the Central Banks of Issue in relation to Tier 2 CCPs (in conjunction with the enhanced Memorandum of Understanding between ESMA and the Bank of England)."

The trade associations that have co-signed the letter with ISDA include the Alternative Investment Management Association, the Association for Financial Markets in Europe, the European Association of Public Banks, the European Banking Federation, the European Fund and Asset Management Association, the Futures Industry Association, the Investment Company Institute and the asset management group of the Securities Industry and Financial Markets Association.

Euroclear Sweden introduces new shareholder insights service

Euroclear Sweden has launched Vantage by Euroclear, a service that provides listed companies with in-depth insights into their shareholder base.

Key features of Vantage by Euroclear include view of the ownership structure, with integrated information from Morningstar on foreign owners, and track changes in the ownership structure.

Additional key features include integrated information from Millistream with live

streaming of news and share price data, and regulatory notifications including major shareholding notifications and short selling alerts.

Euroclear Sweden’s existing service, Analys, has for many years provided companies with transparency and analysis on their shareholder base.

However, as the demands on the investor relations departments increase, faster and more in-depth data analysis is required.

Euroclear Sweden has therefore developed, in collaboration with its customers, Vantage, the next generation of its shareholder analytics tool.

According to Euroclear, insight into who owns shares in companies is becoming increasingly important for investor relations departments to be able to conduct active investor relation work.

As well as this, there are risks in not having a clear view of who owns shares in your company, who takes positions and what profile the shareholders have.

Annelie Lindahl, deputy CEO of Euroclear Sweden and responsible for Vantage by Euroclear, explains: “To support investor relations departments in understanding the nature, composition, and evolution of their shareholders, they need both a comprehensive and structured view of the company’s shareholders.”

“With Vantage by Euroclear, we will improve the user experience by aggregating a unique data set in an updated and user-friendly interface, which provides companies a better overview of their shareholders.”

Roger Storm, CEO of Euroclear Sweden, comments: “We manage information about shareholdings on the Swedish stock markets and therefore have a unique and immediate insight into movements and ownership structures.”

“We can use our data and analysis to show who the underlying owner is, even in the case of foreign ownership. This gives investor relations departments a valuable insight into who owns the shares in the company,” Storm adds.

Apex partners to rebrand VCP Advisors

Apex Group has partnered with VCP Advisors to form Apex VCP, a combination of VCP's alternative asset management advisory services and Apex's single-source solution.

The centralised solution encompasses depositary, custody, digital banking, fund administration, middle-office and corporate services, as well as a digital marketing platform and an ESG ratings advisory solution.

As a provider of financial, advisory and capital raising services, VCP's rebrand will retain the firm's experience working with both close-ended and open-ended funds in a range of asset classes, such as private equity, private credit, venture capital, infrastructure, real estate and hedge funds.

This partnership continues Apex's strategy of expansion in global fund marketing and distribution services, having recently acquired ARM Swiss Representatives and Senasen Group. ■

SEC pays out more than US$1 billion to whistleblowers over past decade

The Securities and Exchange Commission (SEC), the US securities markets regulator, has awarded more than US$1 billion to whistleblowers since its whistleblower programme was introduced in 2012.

The Commission says that these payments, made to 207 individuals over the term of the programme, are made out of an investor protection fund established by Congress that is financed from monetary sanctions paid to the SEC by those who have violated securities laws.

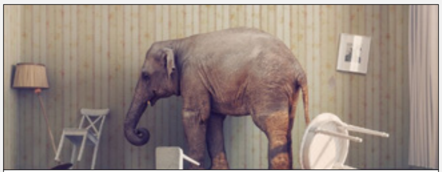
More than US$500 million has been paid out to whistleblowers during the 2021 fiscal year, according to the financial watchdog.

Awards can range from 10 to 30 per cent of money collected when the financial sanctions exceed US$1 million.

Its two latest awards, for sums of approximately US$110 million and US$4 million, were paid to two whistleblowers whose information and evidential assistance led to successful actions by the SEC and related authorities.

Whistleblowers may be eligible for an award when they voluntarily provide credible, original and timely information to the SEC that leads to successful enforcement action.

SEC director of division of enforcement Gurbir Grewal says: "The whistleblower programme has been instrumental to the success of numerous enforcement actions since it was instituted a decade ago. We hope that today's announcement encourages whistleblowers to continue to come forward with credible information about potential violations of the securities laws". ■



AFME: The regulation of cryptocurrency is the 'elephant in the room'

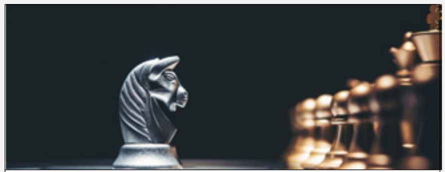
The regulation of cryptocurrency is the elephant in the room that at some point will need to be addressed, according to Montserrat Farina, executive director, regulatory affairs corporate and investment, J.P. Morgan, at the AFME conference.

Read the full article online

AFME: Pandemic forced better data and technology resilience to combat operational risk

COVID-19 provided an increased level of data and technology resilience for the financial sector to prepare and fight operational risks, agreed a panel at this year's Association for Financial Markets in Europe (AFME) conference.

Read the full article online

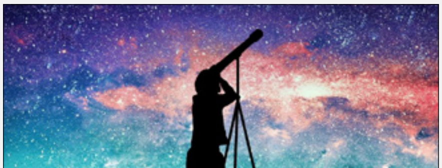


ALFI: Distribution is 'the name of the game' in Brazil

In Brazil, the name of the game for international asset managers to tackle the market is distribution, according to Isabella Nunes, head of sales Brazil J.P. Morgan Asset Management.

This was discussed during the 'Finding joy in Latin America ' panel at the Association of the Luxembourg Fund Industry (ALFI) Global Distribution Conference.

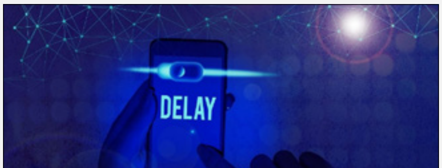
Read the full article online



ALFI: You've got to take the 'long term view' with SFDR

If you don't take environmental, social and governance risk into account in the same way that you manage money then you are putting your clients at risk, warned HSBC's Dan Rudd at the 'Hot Topics from the Sharp End of Distribution' panel during the ALFI conference.

Read the full article online



ESMA recommends delaying buy-in rules

The European Securities and Markets Authority has recommended a delay in buy-in rules to the European Commission.

The legislation proposal for the review of the Central Securities Depositories Regulation is not expected before the end of the year, including possible changes to the buy-in regime.

Read the full article online

Shortlist for AST Industry Excellence awards announced

The shortlist for Asset Servicing Times Industry Excellence Awards has been published.

The ceremony will take place in person on 16th November at The Londoner Hotel, Leicester Square, the newest five star venue in London having only opened on 6 September.

Read the full article online

Seek prevention, or wait for the cure?

Despite stringent and centralised regulation, settlement failures are still a common occurrence within the asset servicing industry, many of them due to middle-office inadequacies. Industry experts discuss why merely plastering over the wounds is no longer what the doctor ordered, and why now is as good a time as any to find a definitive cure for settlement headaches

Jenna Lomax reports

In recent weeks, Torstone Technology released a report in collaboration with GreySpark Partners entitled “Future-proofing the middle-office”, which highlights that 60 per cent of bankers, brokers and the buy-side say settlement failures, attributed to inadequacies of the middle-office, are still a “significant problem” for their business.

Though the statistic may be concerning, is it unfathomable? Hiccups in the workflow of the middle-office are nothing new. The back- and middle-offices have been grappling with data connectivity issues and incomplete matching, among many other ailments, for many years.

However, nowadays, reputation is also measured by an ability to accommodate the next injection of change, whether that be the European Securities and Markets Authority’s (ESMA’s) second Markets in Financial Instruments Directive (MiFID II), the impending Central Securities Depositories Regulation (CSDR) or the possibility of the US T+1 settlement cycle coming from across the Atlantic.

Though you could say juggling all the aforementioned ‘comes with the territory’, when combined with the remote work logistics caused by COVID-19 over the past 18 months, it could become a strategic headache.

So as we emerge cautiously into a post-pandemic world, is now the time for an industry-wide convalescence — essentially where brokers, banks and the buy-side can seek a treatment, or at least a consensus of intervention, that will remove the need to plaster over more middle-office wounds? Can the middle-office find its own effective medicine or reset, and at what cost? That is the challenge.

And, though well-meaning and created with a purpose to produce industry standardisation, could regulations such as CSDR provide the conducive and conclusive cure, or could these types of regulations prolong some settlement headaches?

What's the diagnosis?

The often overlooked — but essential — middle-office is now front and centre of the capital markets industry's change management plans, Torstone indicates in its report. But it wasn't always this way.

There used to be a time when investment in the middle-office often had a means to an end: to comply with regulations such as MiFID II and MiFIR as a consequence of the 2008 financial crisis.

"The scope of middle-office responsibility evolved idiosyncratically for banks and brokers, and this, coupled with the complexity of middle-office workflows, meant that commoditised middle-office solutions were not a commercially viable proposition for financial technology vendors to offer at the time when third-party front-office and back-office solutions began to appear," Torstone says, giving us some context that explains where we find ourselves in the present day.

"The lack of an off-the-shelf middle-office-specific solution left a vacuum that was partly filled by back- and front-office solutions which strayed into the middle-office space," Torstone adds.

Though habits and opinions toward regulation are changing and the middle-office is perhaps finally getting the attention and treatment it needs, it still has considerable 'vacuums' to be filled because of the holes that were previously filled by the idiosyncratic systems that Torstone describes.

As Ashmita Gupta, director of business intelligence and analytics at Linedata, cites: "Many firms are still using manual systems or are using different systems for the front-office and middle-office that do not communicate well with each other. There is also no data repository."

The settlement challenges surrounding automation, communication and data efficiency can come in many forms; whether it be automation versus manual processes, workload versus available skillset, or the tallying up of a team's collective years of experience, or lack of — not to mention the ability to accommodate market and business change at a practical cost, which can drastically differ depending on the size of the firm.

Matt Johnson, director, institutional trade processing product management, Depository Trust & Clearing Corporation (DTCC), gives credence to the understanding that not every bank or broker is starting from the same vantage point and why this matters.

He says: "Generally speaking, the larger sell-side firms have high levels of middle-office efficiency and high successful settlement rates, whereas many smaller buy-side firms are still using manual post-trade processes and hence are likely to experience higher levels of settlement failure."

When it comes to middle-office inadequacies, why they occur and what can be done to fix them, fragmented automation systems, weak dataflow, failing manual processes, coupled with middle-office communications (or lack thereof) are the four corners that need to be first addressed. If one of these areas is failing, things can snowball, and very quickly.

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When asked what steps are required to address these points of inefficiency, Karan Kapoor, head of regulatory change and regtech at Delta Capita, details "it always goes back to the data and the entire process around settlement efficiency management".

"Big banks are made of layers of system stacks, each dealing with different asset classes and regions. Functionalities overlap to make it even more complicated. Having multiple sources of the same information adds a significant burden to understand what the golden source is."

However, with this in mind, do bankers and brokers always have the freedom, understanding or indeed resources to find the right data and/or technological solutions to rectify these ailments? Of course, the willingness to examine and identify settlement failures requires an open-mindedness to change — as the saying goes: "you can lead the horse to the water, but you can't make it drink".

Less than half of asset managers asked in Torstone's survey (45 per cent) say they intend to change their middle-office system entirely — unfortunately that means more than half are not planning to, or simply cannot.

In the middle-office's defence, Delta Capita's Kapoor affirms: "There is a lack of established processes that provide the right guidance for settlement failure prevention. It is less about inadequacies of the middle-office teams, and more to do with the tools and information that these teams are set up with to manage the settlement efficiency."

New prescription?

When looking specifically at data flows, just over a third of participants in Torstone's survey say they were unsatisfied with the speed of data transit from back-office to the front-office.

"Whether the issue is due to inadequate software, bad data or poor connectivity, the only way out is automation — preferably straight-through processing (STP)," notes Torstone.

Highlighting the need for improved data flows, David Pearson, product head for middle-office solutions at Torstone, says: "The reality is accurate and cohesive data is required to drive the entire workflow chain, and successful re-engineering projects to achieve STP and automation throughout the post-trade operation will consider how best to provide the data these systems need."

It is widely hoped that further integration with third-parties, combined with the utilisation of technologies often already available in-house, will help dataflow and ease the process of STP as many of the matching, allocation and settlement issues begin and end in the reconciliation of front-, middle- and back-office data.

And as Kapoor indicates: "Data flow must be a joint effort. Good data at the top will result in good data further on in the settlement lifecycle."

If this is not the case, this can lead to the allocation of trades to incorrect legal entities, failed settlements and the need for significant manual intervention to rectify issues, an understanding that Torstone reitierates in its survey.

Those who took part in Torstone's survey say that 23 per cent of the reasons for settlement failure were due to operational or technology issues, exacerbating a need for technology updates.

But, as previously mentioned, the industry is far from a consensus.

"While a number of asset managers are leading the way, we are not yet seeing an industry wide increase in investment across the board", says Alan McKenna, managing director, global head of middle-office services at Apex.

"However, there is a greater appreciation of the service providers in the market who offer the services and products market participants need, with all the integration already done which clients can benefit from," he adds.

Of course, the first step toward technology improvement and refined data flow is communication — arguably the first and most important hurdle for different offices to jump over — and in sync.

"If the front-office wants to trade security and does not inform the middle-office correctly, this creates delays that affect both parties", explains LineData's Gupta. "Efficient communication between teams is important, and this can only be resolved by collaborating and communicating with a common view."

"Data flow must be a joint effort. Good data at the top will result in good data further on in the settlement lifecycle"

Karan Kapoor, Delta Capita

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Regulation: What the doctor ordered?

Regulations have perhaps been the prerequisite for the increasing need to streamline the settlement process. But would the industry be in such a rush to streamline if such a high volume of regulation had not been issued to the industry over the last decade?

“CSDR poses some potential headaches for bankers and brokers, especially when one considers the potential punitive fines and buy-ins that could occur for brokerage houses that are already operating on paper-thin margins,” indicates Apex’s McKenna.

At present, the European middle-office’s closest upcoming obstacle is to tackle the changes required by the third phase of the EU’s CSDR, known as the Settlement Discipline Regime (SDR II).

Commenting on what SDR II means for the middle- and back-office, John Omahen, head of securities processing at FIS, says: “The introduction of SDR II in 2022 will force firms to increase their focus on reducing settlement failures as failures will incur penalties and a new and costly buy-in process will be triggered.”

He adds: “With increased financial penalties there is now a greater incentive to address long-term settlement problems.”

Though the UK announced it would not implement this part of the regulation last year, Torstone’s report says this “[signals] perhaps the beginning of a regulatory divergence, creating both uncertainty and opportunity for firms operating in the UK”.

But for Europe at least, the CSDR regulation aims to ease operational hardships of the settlement process and evoke quicker settlement. However, there is still some industry concern that its introduction may cause some hardship — opening up the operational wounds it was prescribed to heal.

As Torstone’s Pearson indicates: “What we may see is the ‘sticking plaster’ approach to patch up the fixable scenarios leaving operations staff to deal with the individual issues as they occur.”

Some of these individual issues could need “total digital transformation or small scale changes to legacy technology and operations”, details DTCC’s Johnson. He also outlines the buy-in process as an “area which is causing concern”.

"Banks and brokers need to be prepared to process partial settlements where and when applicable and support their clients when a buy-in occurs," he says.

"Firms need to have selected and onboarded a buy-in agent by the time the regulation is implemented. If this is not done, market participants could face challenges in complying with the regulation."

T+1

DTCC launched a two-year industry roadmap to shorten the settlement cycle for US equities to one business day (T+1) in February of this year. Most countries operate on T+2 or two business days after the transaction date, which Camille McKelvey, head of business development, STP at MarketAxess, says "still leaves a fairly sizable gap between execution and delivery of securities."

She adds: "If we can continue to bring execution and settlement closer together then we will be able to gain even more efficiencies. There is a lot of talk about a move to T+1, and this would be a great step forward."

However, there is a wide consensus in the industry that the turning toward T+1 or even T+0 for greater STP will not solely provide the cure for settlement inefficiencies.

FIS's Omahen suggests that "innovative technologies like predictive analytics will need to step in to really achieve the efficiency gains and risk reduction that the industry needs".

Of course settlement cycle choices and technology adoption is a decision to be made by regions and independent businesses respectively, but what else can regulators in different regions do to enhance industry collaboration for settlement processes?

Torstone's Pearson claims: "The regulators are doing enough right now. Brokers, banks, and buy-sides need some breathing space to target their own strategies, rather than being led by the incessant regulatory changes that demand time and budget."

When asked the same question McKenna reflects: "Regulators can monitor, control and discipline where needed, however real innovation comes from recognising opportunities that efficient process data can provide."

"The introduction of SDR II in 2022 will force firms to increase their focus on reducing settlement failures as failures will incur penalties and a new and costly buy-in process will be triggered"

John Omahen, FIS

Settlement cure?

The ongoing pandemic resulted in a need for social distancing and remote work, for longer than anyone may have first perceived, or indeed liked, back in March 2020. On the one hand, isolation made growth more difficult to achieve for almost all businesses across the world.

Though, on the other hand, it certainly highlighted the importance of business process resilience in asset servicing and specifically the streamlining of settlement trades of which there appears to be no looking back.

As DTCC's Johnson says: "The need to achieve settlement efficiency ahead of SDR implementation, combined with last year's COVID-19 pandemic-induced volatility, is causing many institutions to improve middle-office efficiency."

MarketAccess' McKelvey concludes that the best way to seek more settlement efficiency is for all offices, front, middle and back, to work together.

"Utopia would be no exception and a 100 per cent settlement rate", she says, "but as an industry we have a long way to go. In the near-term, all parts of the chain from the front- to the back-office need to be working together to drive efficiencies and reduce risk." ■

TOP 6 WAYS TO ENSURE SUCCESSFUL FAILS PREVENTION AND AVOID CSDR PENALTIES

The upcoming Central Securities Depositories Regulation's (CSDR) Settlement Discipline Regime (SDR) will impose new measures to prevent settlement failure such as cash penalties for failing and/or late matching trades, and mandatory buy-ins. Given these new, potentially large, impacts of a failed trade — the time is now to maximize your current investments in Institutional Trade Processing's suite of services and to focus efforts on the prevention of failure.

PRE-TRADE ENRICHMENT

1 **Utilize the ALERT® platform,** the industry's largest and most compliant central database of standing settlement and account instructions (SSIs) and provide automatic enrichment of those SSIs on a matched trade when used in conjunction with CTM™.

2 **Take advantage of ALERT's Global Custodian Direct (GCD) workflow,** a fully custodian or prime broker managed workflow ensuring SSIs in the system come directly from and are maintained by source data providers.

3 **Upgrade your traditional ALERT enrichment capabilities by accessing our ALERT Key Auto Select (AKAS) functionality,** a seamless (and free) rules-based enrichment of CTM trades eliminating the need to provide ALERT Keys (Country, Method, Security) as part of the trade information.

ALERT

10.7M+
SSIs

1,800+
Investment Managers

1,300+
Brokers

ALERT GCD

9
Global Custodians Live

3
Regional Custodians & Trust Banks Live

54%
GCD has helped sell-side firms realize up to a 54% reduction in SSI related fails*

0%
Buy-side firms have driven their SSI related fails down to almost 0% by using GCD*

**A Roadmap to SSI Automation: How an SSI Utility Benefits All Participants*

TRADE DATE AGREEMENT

4 **Achieve straight through processing via CTM,** the industry's standard for central matching, by agreeing to the economics, place of settlement (PSET) and associated SSIs on trade date, allowing you to resolve any trade exceptions in a timely fashion.

SETTLEMENT & EXCEPTION MANAGEMENT

5 **Prevent penalties under CSDR through centralized trade exception management with DTCC Exception Manager,** quickly resolving exceptions and reducing delays in settlement.

DATA & ANALYTICS

6 **Gain a better understanding of who your higher risk counterparties are by leveraging ITP Data Analytics,** allowing you to identify potential missed trade affirmations in order to prevent fails.

WANT TO LEARN MORE? VISIT DTCC.COM/CSDR

See how DTCC's ITP suite of services can reduce your risk of trade fails, minimizing the impact of CSDR.

WANT TO LEARN MORE ABOUT DTCC CONSULTING SERVICES? VISIT DTCC.COM/CONSULTING

Need support implementing the ITP suite of services at your organization? We'll help you rethink your post-trade operating model.

CTM

165.8M
Trades Processed in 2020

95%
Average Same Day Matching Rate

1,562
Investment Managers

1,239
Brokers

DTCC EXCEPTION MANAGER

28
Organizations (brokers, prime brokers and custodians) submitting accurate data directly to the platform

212
Counterparty Pairings

Community includes investment managers, brokers, custodians, prime brokers, and outsourcers

ITP DATA ANALYTICS

100%
CTM client coverage

93.54%
Average same day match agreement for European trades in March 2021

€ 524B
Notional delta between what was entered on trade date but not affirmed on trade date in March 2021

Accelerating innovation

The pandemic has shone a light on the need for accelerated adoption of new tools that will drive inorganic innovation and growth in the asset servicing space. Panellists discuss how technology will help asset managers find a competitive edge and innovate their solutions

Maddie Saghir reports

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What are asset managers doing to accelerate innovation?

Hans Brown

Global head of enterprise innovation and chief information officer for corporate technology, BNY Mellon

Asset managers realise that a focus on innovation is core to the success of their business. They are embracing a broad range of digital- and data-driven initiatives to push their organisations forward and to unlock both organic and inorganic growth opportunities.

Asset managers are also looking to partner with organisations that will both complement and accelerate their own innovation activities and have the structure, capability and competency to do so.

Based on a recent BNY Mellon survey of asset managers, 69 per cent of organisations are planning to streamline with a few best-of-suite vendors and providers, while 67 per cent are increasing reliance on core financial service providers and 65 per cent are building third-party relationships with fintech companies.

"The short answer is that the sector, including managers and their service providers, could do much more to accelerate innovation and currently it lags way behind other industries and, indeed, other areas of financial services"

Keith Hale, TrustQuay

Dragan Mircov: Most asset managers are not doing enough and are sticking to well-established processes. The clear leaders perceive the opportunity to innovate and are increasingly investing in technology and automation.

This is generally driven by processes related to fund distribution that are manually handled through Excel, which can be error prone. Software solutions can systemise processes and handle data in a more error-free way. Additionally, the client side of activities has dramatically transformed in terms of how clients are approached and handled.

That said, a driver for innovation can also be the client, whether they are digitally driven or not. There are conservative clients, for example family offices, who still prefer paper. Whereas other clients, sometimes seen in private clients or fund advisers, have highly digitised internal systems and so they demand this from their partners. Asset managers must therefore find a way to serve both client types.

Eric Bernstein: Asset managers have taken the opportunity (as a consequence of the pandemic) to speed up their path to the cloud and further digitise processes in the lifecycle events that they perform. Given the current remote working and challenges in travel, their intercompany activity and client engagement has needed to go digital. This has also enabled small- to mid-sized managers to better compete as the playing field has now been levelled.

Keith Hale: The short answer is that the sector, including managers and their service providers, could do much more to accelerate innovation. Currently, it lags way behind other industries and, indeed, other areas of financial services.

In TrustQuay's recent survey of service providers, we found that firms only ranked themselves a modest five out of 10 in terms of how far they had progressed on their digitalisation journey.

However, we also found that more than 90 per cent of firms said that technological innovation in the industry needs to accelerate, so it is clearly now high up on the agenda and is becoming a clear and growing trend in the industry.

The key areas of innovation that firms need to focus on are further automating manual processes and increasing digital engagement with clients through portals. The survey showed that less than one in five service providers in alternative fund administration had implemented a two-way interactive digital portal.

Will Stevens: To accelerate innovation within the industry, some asset managers are actively working with partners on collaborative initiatives. For example, PIMCO and Man Group is collaborating with IHS Markit, State Street, McKinsey, and Microsoft on a technology-led initiative called 'The Hub'. This will focus on providing modular infrastructure for asset managers' middle- and back-office functions. The offering will be cloud-based and will use best-in-breed technology to solve some of the legacy technology issues experienced by asset managers.

The adoption of robotic process automation (RPA) has come a long way and asset managers have leveraged this technology to automate repetitive and mundane tasks.

The focus now is on augmenting RPA with artificial intelligence (AI), to achieve intelligent automation (IA), which will be truly transformative and will expedite end-to-end business process transformation.

Ryan Burns

Head of global fund services, Americas, Northern Trust

Many asset managers are taking a holistic look at both their data and operating models to identify opportunities to improve or challenge the traditional thinking that they have in place.

That has been driven not just by the pandemic environment but by the increasing fee pressure they are feeling from investors and the consistent pace of regulatory change, which is forcing investment managers to be more reliant on data and their ability to access it.

From our perspective, this review by managers is generating interest in outsourced solutions.

It is also generating interest in the use of service providers to improve asset managers' infrastructure and potentially to redistribute staff that were handling middle-office activities into roles that are focused on alpha generation.

There is increased focus on front-office capabilities, including outsourced trading and data analytics, which may allow managers to validate or improve upon their decision-making process.

Why is it important for asset managers to digitise and innovate their products and distribution models?

Hale: Accelerating innovation and digitalisation of business models is critical for firms to remain competitive in the future. For example, the key business challenges facing service providers includes a regulatory burden, the need to reduce costs and increase efficiencies, and the need to improve data quality. Interestingly, all three of these challenges are core business-as-usual issues and the root cause of all of them lies in the lack of digitalisation and automation within the industry.

The net result is that companies are running fast just to stand still, trying to fit old manual processes around new regulations, devoting more human resources to try and fix efficiency problems and relying on data from numerous, fragmented and poorly connected legacy systems. This is simply not sustainable.

Bernstein: The digitisation process allows for a streamlined process and better checks and balances. The old model of non-digital processes was slow and inefficient, having a big reliance on people physically passing the baton. If we now consider the distribution model as a digital process, it allows David to compete with Goliath, and it also allows asset managers to go efficiently from the start to the finish with complete auditability and control, thus reducing costs.

The ever increasing costs of supporting legacy applications coupled with the ongoing wealth transfer and the associated expectations of new generations of investors has put significant demand on asset managers to offer new, innovative and cost-effective solutions. As a result, firms are accelerating their investments in newer technologies in support of the entire investing process, making it much simpler and easy to participate in.

Brown: Asset managers continuously look towards bringing in new capabilities to operate efficiently, whether that is in the search for alpha, or in making their existing beta smarter. The pandemic has accelerated the process of digitisation and highlighted the importance of resilience and reliability while delivering innovation. We see these as being complementary, in that innovation, reliability and resiliency go hand-in-hand to deliver better investment outcomes, data and transformed operations. For BNY Mellon, that innovation is predicated on taking an open approach to the wider ecosystem where we create an open-architecture structure that delivers services that are designed in a modular way that can be integrated to meet the unique needs of our asset managers.

Stevens: As the world changes and technology continues to evolve, there are many financial offerings that can be entirely accessed and managed on a smartphone. Asset managers need to keep pace with this level of user experience as traditional investment approaches are being replaced with more modern, accessible, and real-time interfaces.

Requirements for remote working have also been a key consideration as investors want instant access to their portfolios and market data, with the ability to make changes on the fly. Asset managers need to look for the best solutions to ensure they can offer their clients the most optimal experience especially when managing decisions on corporate events. This couples with the need for innovative back-office tools which connect seamlessly with front-office applications.

Mircov: COVID-19 has shown that asset managers cannot effectively generate new inflows if they are not properly set up for working remotely and are prevented from face-to-face client meetings. In some places in Luxembourg up to 70 per cent of sales are managed by fax. The pandemic has shown that innovation is needed in distribution models. The days of meeting clients in a pub, a bar or a nice restaurant may be gone, at least for now.

Asset managers who are small or who are new to a market have a heightened need to digitise, whereas it may not be the number one priority for larger firms. But even larger firms understand that if they are not transforming, then they themselves may face the undesirable transformation of managing a declining business.

Burns: Digitalisation and access to information are important for two reasons: to get the most value out of the product set and investment strategies that asset managers have in place today, and to identify potential opportunities to focus distribution efforts in a very competitive marketplace.

What types of technology can be leveraged for creating solutions with a competitive edge?

Burns: Cloud-based tools and AI can allow you to get to market quicker and in a lower-cost environment than technology that asset managers may be utilising in-house today. This is crucial because asset managers who can improve their operating expense environment are able to be more responsive to fee pressures in the marketplace and potentially able to put their product at a more compelling price point for investors. A service like Investment Data Science, developed by fintechs using the cloud and AI, can help investment teams to analyse and understand their investment successes in a way that positions them to repeat that success and sustain it on a go-forward basis. That consistency is appealing to investors and can help to potentially grow your asset base and retain current investors who are satisfied with the results you are providing.

Bernstein: If we look at the ABCD's (AI, blockchain, cloud, and digital) of innovation, asset managers can use all of these to give them a competitive edge. Data can be gathered and disseminated using AI and digital. The end client is increasingly desiring underlying data and information, so in using digital and cloud technologies, these investors can get to it better than the old model, which shows transparency and is encouraging to investors.

Stevens: Technical efficiency, strong controls and consolidated technology in the back-office will allow firms to reduce operating costs which may enable firms to offer lower fees and commissions. The overall connectivity and user experience will influence investors when spreads are competitive, as investors will look for differentiating factors which will make their overall experience smoother and more intuitive. AI offers the possibility for further understanding of investor habits as it will become crucial for technology vendors to understand how users interact with their software.

Hale: A key catalyst that is driving forward the digitalisation of the industry is the rising expectations of end investors. As the intergenerational transfer of wealth moves to digital native generations, these more sophisticated clients are now expecting the ease of access, speed of response and engagement they are experiencing in other parts of financial services.

It seems that digital engagement is in an early stage of implementation within the industry, as firms are clearly recognising the increasing client demand and expectations. In the coming years, we therefore expect to see a rapid increase in the digitalisation of offerings.

The increasing demand from investors to access information and services digitally now means it is impossible to imagine that those firms who do not provide this access will be able to maintain viable and competitive business models moving forward.

Mircov: Fund management and fund distribution are core activities. Today, asset managers are spending too much on administration, and tech vendors can help with that. With the growth of fund platforms, it may well be that in 20 years we will not see the 'classical' fund sale.

The regulatory reporting platform is key to leveraging technological transformation. This is because regulatory reporting is not what asset managers should be focusing their skill and knowledge on. It is very labour intensive and firms can clearly save money by outsourcing these tasks to a technology vendor and focusing instead on client facing activities.

Moreover, regulatory reporting is not just about the reports provided to the external regulator, but the competitive edge that also comes from the reports issued to clients.

Asset managers need to understand why the clients need these reports. It may be for the clients' own clients, or to help their clients meet their own regulatory reporting obligations. Therefore, reporting must be of the right quality. It is unlikely that a client would buy again if the reporting caused any issues with other parties down the line.

Brown: The technology is an enabler and a tool to arrive at desired outcomes, not an end in its own right. There are very exciting trends and capabilities that are at different levels of maturity — whether cloud computing, or the ability to use better AI or machine learning, to drive better insights, predictive analytics, or the use cases for technologies such as distributed ledger technology (DLT).

What are the main barriers asset managers face when it comes to implementing new technologies and operational transformation? And what can they do to mitigate some of these challenges?

Mircov: Knowledge is the barrier. Asset managers need specialist expertise covering IT and market regulation. To have this in-house is not cost effective. This is especially so when you need a person that understands both technology and regulation. The forward-looking firms therefore outsource this to specialised vendors.

Burns: Two common barriers to digital transformation among asset managers are legacy technology infrastructure and a lack of current talent and resourcing internally to support a migration to newer technology and an expanded toolkit. Each can be managed by focusing on what is truly core and critical to your operating environment.

When you identify core capabilities, you can consider whether the systems and infrastructure that are not crucial to your value proposition could be handled via new technology and a new model.

A trusted service provider can assist with this process and potentially bridge the gap to hiring or sourcing new talent.

As we engage in outsourcing trading or middle-office services for asset managers, the next-generation tech and operating model in effect is located within Northern Trust, as opposed to the manager buying new operating systems and hiring tech talent.

Keith Hale

Executive chairman, TrustQuay

The technology largely exists today; the challenge is that firms need to properly invest, adopt and improve upon it.

What is holding back innovation is a dichotomy in the industry between belief and behaviour. While the vast majority of firms believe that becoming a digital leader will make them more competitive, only a small percentage of firms actually consider themselves to be a digital leader.

The dichotomy between belief and behaviour within the industry appears to stem from the lack of investment into digitalisation. This needs to change for successful firms as they shift their thinking and look to the proven success of other industries with regard to digital transformation.

Technology providers need to play their part to clearly lay out the business case for innovation and the return on investment delivered.

"The dichotomy between belief and behaviour within the industry appears to stem from the lack of investment into digitalisation"

"The great news is that tech firms and asset servicers are here to help these asset managers achieve their goals and, in the end, the efficiencies gained will allow for cost and operational risk reduction"

Eric Bernstein, Broadridge Asset Management

Brown: There is no single barrier that impedes technology and transformation — it is the combined elements of culture, familiarity and adoption that play a key role in what barriers exist and how they are perceived. These unique cultures dictate how they perceive the safety and soundness of new technologies, regulatory concerns and integration difficulties with legacy and non-legacy infrastructure. It is incumbent upon us to assess these cultural dynamics and look at the business models and data taxonomy to bring them to the desired outcomes.

Bernstein: Asset managers are looking at operational improvements and technology upgrades now more than ever. The barriers to achieving this new normal are resources that can aid in the transformation while continuing to manage the day-to-day. The great news is that tech firms and asset servicers are here to help these asset managers achieve their goals and, in the end, the efficiencies gained will allow for cost and operational risk reduction.

Many asset managers are assessing the skills required to transform their operating model from current to future state. In many cases, they are discovering that the skills that have successfully worked in the past may not be the ones they need to help transform for the future. As a result, skills associated with new technologies and user centric design theory are in high demand.

Will Stevens

Product management director, IHS Markit

Typically, asset managers leverage products from multiple third-party service providers, all running on different technology stacks.

Often, this is in combination with in-house legacy systems which can act as a major barrier of entry for new technology and operations transformation projects.

The cost of overhauling internal systems and achieving systematic integration using industry adopted standards is often expensive and time-consuming for internal IT teams, who are often under-resourced or focused on the myriad of current and upcoming regulatory requirements.

The cost and time to achieve this in the continually evolving technology and regulatory landscape often outweighs the benefits. To mitigate these challenges, one of the best and most cost-effective ways is to onboard key operations processes onto specialised software platforms which are being offered on the cloud.

These platforms are continuously updated to remain aligned with industry regulations and standards and run on the latest technology stack.

How important is it for asset managers to collaborate with fintechs in order to unlock innovation? Do you think there is enough collaboration in the industry?

Burns: Collaboration with fintechs is key to staying current with what is available in the market. The speed at which a growing number of fintechs are moving to produce usable tools is really amazing.

Fintechs are also a good source of comparative data, as their experience with multiple clients can provide much-needed perspective on how other asset managers are adapting and utilising innovation in the technology space.

While the level of collaboration is good, it can absolutely be improved upon because so much of our own efficiency and success is reliant on technology.

Collaboration with fintechs is like identifying new areas for sales and distribution — you have to invest continuously to make sure you are getting the latest and potentially most valuable information in a vast and fast-moving market.

The trend is positive and we are seeing an increase in collaboration and talking about aspects of the business that were historically out of scope.

People are taking a holistic look at their business model, which is definitely allowing that communication and collaboration to increase and be more visible.

Bernstein: There continues to be a lot of friction in the asset management community which is constraining many from unlocking innovation.

The industry is filled with amazing technology firms and all players (asset managers, service providers, outsourcers and technology companies) need to collaborate, as the venn diagram shows that there are great opportunities for all.

The concept of coopetition is needed in order for the industry to speed up its path to excellence. We are all rowing together and many players are forming partnerships and consortiums in order to break down walls.

"A collaboration with fintech that takes away, or significantly lowers, the risk and overhead within operations should be extremely welcome"

Will Stevens, IHS Markit

Stevens: More and more fintech firms are now providing interfaces and integration into their third-party and mobile digital applications. As a result of this, it is vitally important for asset managers to collaborate with fintechs. The technology side of their operations is not normally their unique selling point, nor should it be.

Asset managers are hired to seek alpha and are judged based on their performance. A collaboration with fintech that takes away, or significantly lowers, the risk and overhead within operations should be extremely welcome. There are pockets of collaboration in the industry, but it should be much wider and encompassing all segments to really move the industry forward. Leveraging the specialism and latest innovation that fintechs offer is a faster and cleaner route to sustainable progress.

Brown: As part of our open and modular approach, we think it is critical to collaborate with the industry, which includes fintechs, to accelerate the outcomes that asset managers are looking for. BNY Mellon has collaborated with and invested in a number of fintechs across the back-, middle- and front-office to create a 'win-win' proposition to generate the accelerated innovation that clients are looking for while also providing validation of the capability of the fintech to be able to do that.

We have a variety of partnerships with a growing portfolio of fintechs providing a range of services and solutions for clients, such as Milestone — which we recently announced the intent to acquire — and Symphony. We think it is important and our vision is an ecosystem where collaboration drives the outcomes that our clients and the industry is looking for. For us, openness is a key component to working with clients to help them refine their business models.

"The industry is filled with amazing technology firms and all players need to collaborate"

Eric Bernstein, Broadridge Asset Management

Dragan Mircov

Director, client success, LPA

As we saw with the second Markets in Financial Instruments Directive (MiFID II) and are now realising with the UCITS/ Packaged Retail and Insurance-based Investment Products (PRIIPs) developments, nobody seems to know precisely what to do. Therefore, the solution has to be to work together. It is not about finding a different way, it is about the mutual protection of everyone doing something the same way. By working with a fintech partner and learning from their experience, asset managers can be assured of a more market-robust solution at a lower cost. While some firms are already extensively collaborating with third parties, this is a trend which will likely continue and grow in the coming years.

One of the biggest challenges facing firms is the need to comply with constantly evolving regulatory requirements across a multitude of jurisdictions. This can be an immense strain on one single firm, no matter the size, which is why collaborating with specialist firms is the right approach.

Regarding PRIIPs, we are continually asked questions about how to sell products to different clients across different jurisdictions. Many are not sure who is allowed to sell what, to whom and in which market. By working alone, asset managers need to hire a fleet of specialised lawyers and advisers to keep up to date with this ever changing environment, and to some extent that may be necessary. But collaboration with fintechs is a much more effective approach. Those who are not doing this risk losing out in the marketplace.

"One of the biggest challenges facing firms is the need to comply with constantly evolving regulatory requirements across a multitude of jurisdictions.

This can be an immense strain on one single firm, no matter the size, which is why collaborating with specialist firms is the right approach"

What strategies is your company working on to ramp up technological innovation?

Stevens: IHS Markit is always working to evolve and grow its product suite to stay in front of current and expected demands. Regulations are increasingly becoming more complex, which requires an exponential level of enhancement in technology, hence alongside our existing products we are introducing many new products to cater for specific needs.

These new products are fully integrated with our existing products, offering our clients new complementary tools to seamlessly manage the challenges they face. As a data and technology company, we see demand for intelligent tools to manage communication between the front- and back-office, strategy for managing digital assets, and an increase in demand for managed services, resulting in continual investment in scalable technologies to serve and grow new offerings that leverage economies of scale across our product suite.

> *"It is impossible to build and scale if you do not have the innovative culture underpinned by a reliable and resilient infrastructure — only then can you build the programmes and solutions that allow you to be an innovator"*
>
> **Hans Brown, BNY Mellon**

Burns: We have made big advances in our Whole Office strategy of offering services for the entire investment lifecycle by partnering with fintechs, making agreements with larger industry players and selectively building solutions in-house. We are able to integrate capabilities with our global operating architecture, bringing a greater capability stack to our clients and introducing services more quickly by leveraging the innovation that others are producing, which is fantastic.

Whole Office also aligns our internal structure to ensure there is continuity across what may have been traditional business silos. As clients utilise new technology available to the front-, middle- and back-office, we need to ensure our business is aligned and our service wrapper is consistent across those so that clients are getting the benefit of a multi-product relationship with a single organisation. What we have done is aligned our organisation structure to potentially avoid business line conflict to generate the best outcome from a business support, product capability and development perspective under one umbrella.

Mircov: LPA entered the asset management space with the acquisition of the acarda regulatory reporting platform and we intend to continue our investment in this space. A big chunk of the investment will go towards improving the technology incorporating elements (for example optical character recognition (OCR), natural language processing, machine learning, and AI). We have already delivered several successful projects, such as the Capmatix document generation and workflow automation software in use with more than 200 banks around the world today. Secondly, we are focused on improving the client experience from initial needs identification, through project implementation and system adaptation to ongoing software delivery — whether this is through a Software-as-a-Service (SaaS) solution or even offering an outsourced managed service where LPA takes care of the reporting and all the asset manager needs to do is issue a raw data file through a secure server.

Most significantly for us, with the adoption of cloud-based systems we are increasingly able to take the solution internationally, increasing the already established presence in key markets like the UK, France, Germany and Switzerland.

Hale: A key initiative we recently developed at TrustQuay is the launch of the first fully automated and integrated onboarding solution specifically designed and developed for the corporate services and trust administration market that includes built-in ID verification.

As part of a major new upgrade to TrustQuay Portal, which we first launched in November 2020, this new onboarding solution will allow corporate services and trust providers to deliver their clients a fast, simple and fully automated onboarding experience, with a full audit trail to help firms meet their know your customer (KYC) and anti-money laundering (AML) obligations quickly and efficiently.

Developed in partnership with GBG, the new onboarding solution uses an ID scan to check the validity of identification against a database of real documents. A selfie is then used to match the applicant to the identity document, running both a biometric validation against the ID and a liveness check to ensure the applicant is in fact the real owner. Proof of address documents are then scanned, with the underlying system verifying address using application programming interfaces (APIs) to access credit reference agencies and other databases.

With most industries already having an intuitive two-way digital interactive user experience with clients, the trust and corporate services sector now needs to catch up with other parts of the financial services market, but quickly with reasonable levels of investment. This new version of the TrustQuay Portal enables service providers to offer an end-client digital onboarding experience, without the need for long complex integration projects of generic third-party tools, since it plugs straight into our core products. Leveraging the best-in-class digital onboarding capabilities of GBG, we feel this is another significant step forward in automating and digitising the industry.

Brown: Great innovation is built on a firm foundation, and at BNY Mellon we deliver a resilient, reliable infrastructure and programmes that allow us to innovate. It is impossible to build and scale if you do not have the innovative culture underpinned by a reliable and resilient infrastructure — only then can you build the programmes and solutions that allow you to be an innovator.

BNY Mellon's open, modular approach allows us to identify clients' needs to power the growth of their business, tailor an approach for their unique requirements, and implement the solutions that future-proof and reimagine their operating model. ■

"The next generation operating model is grounded with a customer-centric design philosophy"

Eric Bernstein

President, Broadridge Asset Management

We continue to push the envelope in providing data through digital means (storage, aggregation and dissemination). In addition, all of our products are cloud-enabled and some have gone down the route of blockchain in order to achieve further benefits (jurisdictional and immutability).

The next generation operating model is grounded with a customer centric design philosophy. We are redesigning our supporting processes to be more efficient, moving aggressively through the digitisation of our solutions, offering advanced analytics and easy access to our capabilities with an API first approach to functional design.

Industry reacts: UMR Phase 5 goes live

Despite the impact of COVID-19, in-scope firms pulled together effectively over the last 12 months for phase 5 of UMR, but this has not been without its challenges...

Maddie Saghir reports

The Uncleared Margin Rules (UMR) represent a major change in the industry as this regulation aims to bring greater stability and transparency to the over-the-counter (OTC) derivatives market. UMR affects the trading of non-centrally cleared OTC derivatives and the future of collateral management. This regulation is so extensive that it has been carried out over several years in different phases. The first phase went live in 2016 and the final phase (phase 6) is set for next year.

Asset managers, pension funds and insurance companies are scheduled to come in-scope of UMR based on their volume thresholds either with phase 5, which came into effect in September 2021, or phase 6, which will come into effect in September 2022.

UMR phases 5 and 6 will introduce more and more buy-side firms to the world of regulatory initial margin (IM), which takes the form of collateral posted to help reduce risk to a given counterparty. UMR IM requirements seek to establish international standards for non-centrally cleared derivatives.

On 1 September 2021, under phase 5, buy-side firms of all sizes had to effectively manage and optimise their liquidity and collateral needs with the right solutions and technology in place.

These deadlines were initially set for a year prior, but in April 2020 the Basel Committee on Banking Supervision and the International Organization of Securities Commissions agreed to extend the deadline for completing the two final implementation phases of the margin requirements for non-centrally cleared derivatives by one year.

The deferral came in response to the worldwide market disruption brought on by COVID-19.

In the main, the delay was welcomed by industry participants as it allowed the financial industry to focus on its clients during the volatility of the pandemic.

But with this extra time afforded, did industry participants experience a smooth transition for phase 5?

The UMR phase 5 transition

Bearing in mind the impact of COVID-19, in-scope firms, custodians and vendors that are involved in the front-to-back changes generally pulled together effectively over the last 12 months for phase 5.

The lead up to the start of UMR phase 5 was intensive for in-scope parties. The move also marked the biggest phase so far in terms of newly in-scope firms. Nearly all of those new firms are buy-side with limited previous experience of IM, and experts say this means there has been a steep learning curve for those involved.

The model laid out by phase 1, 2, 3 and 4 parties made the transition smoother than it would have been if there had not been such a well-established precedent.

For example, Hazeltree, a provider of integrated treasury management and portfolio finance solutions for investment managers, spent years developing a collateral product that allows clients to operate within the frame of UMR in the same model as a tier 1 broker-dealer, while still focusing on the unique needs of the buy-side.

"The ability to calculate according to any of the three industry standard margin approaches, calculate required value (RQV) for tri-party accounts, and expanded functionality for IM credit support annexes (CSAs) are just a few of the important features that have made this transition smooth for Hazeltree clients," says Joseph Spiro, director of product management, collateral management, Hazeltree.

Meanwhile, Margin Tonic, a specialist consultancy that simplifies and accelerates high-quality change within collateral and related domains, has been working with a variety of firms for phase 5 go-live, including buy-side firms, their administrators and multiple custodians.

Weighing in on whether it has been a smooth transition, Mark Demo, head of community development, Acadia, comments: "It has not been without issue but, given the scale of clients that we had to onboard this year (which was more than four times the sum of the prior years), we would say that phase 5 was a smashing success for Acadia!"

However, not all participants were quite so optimistic last year when a State Street survey from September 2020 revealed 81 per cent of asset management firms were unprepared to comply with UMR despite the deadline extensions. Preparedness was measured by the perceptions, plans and readiness of 300 asset managers and allocators in 16 countries.

Of those surveyed, 86 per cent were preparing for either a phase 5 or phase 6 deadline. Only 19 per cent of firms in the preparation stage cited they were fully prepared for compliance. Almost 80 per cent of firms stated they were struggling to agree on an approach regarding how to settle segregated collateral with counterparties. Those that had agreed generally chose third-party custody with account control agreements.

"Those firms that have had the smoothest go-live so far are those that have used the one year COVID-19 delay the most productively. The firms that kept their IM readiness moving forwards over this period are now reaping the rewards with a smoother go-live," says Chris Watts, co-founder and director at Margin Tonic.

Although some firms did not take their feet off the gas, there is a feeling that plenty of in-scope phase 5 firms — both buy-sides and dealers — put their tools down when the one-year delay was confirmed. Watts observes that these firms have been caught up in the inevitable queues at custodians, vendors and legal teams and found it more difficult to deliver the right changes. Outcomes here often include tactical, temporary solutions, which may unnecessarily increase costs, operational risk and still need future remediation.

According to Watts, the reality is that go-live success will still play out across coming months, as standard initial margin model (SIMM)/Grid exposure (referring to calculation methodologies for initial margin) grows, firms breach thresholds and then settle collateral at the custodian accounts. Only then will firms see their end-to-end solutions working successfully.

The main challenges

There have been many challenges associated with UMR compliance. One of the important nuances of the phase 5 UMR transition, which was not as prevalent in the earlier phases, is the new IM CSA term.

This defines how Reg IM under UMR will be treated when the buy-side party is already subject to a house independent amount (IA) requirement.

Spiro explains: "Since this term is negotiated in each IM CSA separately, a phase 5 firm could have all three approaches included within different agreements among their counterparties. Depending on which approach is chosen for each agreement, the daily margin call calculation can vary significantly, adding a layer of complexity that did not exist before."

Another challenge is the communication of collateral movements to custodians. While many buy-side parties are familiar with the third-party custody model, the tri-party model utilised by dealers since UMR phase 1 is much less familiar. Even if a phase 5 firm chooses to use a third-party account rather than a tri-party account, they will still have to confirm the tri-party RQV to the tri-party custodian for the dealer's collateral posting to work. According to Spiro, this is another nuance that may not have been obvious to some phase 5 firms.

Given that there is so much to know about this process that is completely new to a buy-side firm, and firms do not get extra credit for going at it alone, industry participants believe it really pays off to work with someone who specialises in Reg IM compliance. This is also because the volumes are so much greater than in any phase prior so firms can be in trouble if they delay.

"It is why Acadia offers the ability to go-live in its production environment — monitoring, calculating and reconciling well before a firm's go-live compliance date. There should be no surprises," says Demo.

From Margin Tonic's perspective, Watts comments: "Being on the ground with IM since before phase 1, we have seen a lot of challenges! IM readiness has evolved over that time."

One of the key challenges Watts sees for phase 6 is the scale of change. He notes: "Almost all newly in-scope firms underestimate the IM solutions they will need to deliver. There is genuine front-to-back change required across risk, operations, treasury and legal for those firms who expect to breach threshold and exchange collateral."

It is therefore important for firms to understand their compliance scope now and then accelerate the delivery of those changes, by choosing the right solutions for each part of their process flow.

Additionally, 'beating the queues' is another challenge associated with phase 6. This is as the International Swaps and Derivatives Association estimates almost 800 new firms will be caught in-scope in phase 6.

"The industry queues we have already seen in phase 5 will become far longer and more painful. Firms need to do all they can to ensure they are ready with their new IM operating model as early as possible, avoiding the worst parts of those queues and therefore ensuring no trading impact, which is a critical goal for all," Watts affirms.

He adds: "The combination of a high scale of change and the industry queues to come is not a great one..."

New firms need to ensure they clearly understand the IM rules and changes, in order to quickly make the right solution decisions and get a headstart on the industry queues.

However, Watts explains internal education is often a challenge for latter phase firms, with limited internal IM experience, key teams often working in their own silos and competing priorities.

According to Watts, phase 6 firms should leverage external expertise to accelerate internal knowledge and decision-making where they have gaps, either via the likes of Margin Tonic or vendor partners who have had deep experience of previous phases.

No gain without pain

Industry participants have worked extremely hard to comply with UMR, and all of the hard work and challenges have not been in vain. Demo points out that the ability to delay operational readiness is a great financial benefit to firms who will not exceed their Reg IM threshold on the compliance data. It does, however, create a need for solutions such as Acadia's IM Threshold Monitor service. This service enables in-scope firms to see the Reg IM exposure and threshold that their dealer counterparties calculate before go-live and without cost to them.

Meanwhile, UMR is also an opportunity for firms to update their manual processes with new, enhanced technology. Spiro cites: "As operational processes become more complex, to avoid any regulatory breach, buy-side firms may take the opportunity to automate some of their manual processes, which can make them even more efficient than they were in the pre-UMR world."

Also discussing the opportunities UMR can provide, Watts suggests it can future-proof profits. He elaborates: "You will not find many firms with nice things to say about IM! But if we take a wider view, the main opportunity from IM is that the cost increases it brings are forcing firms to strategically re-assess their derivatives and collateral infrastructure."

"As a result, firms are proactively finding new ways to bring their costs down, in order to future-proof profits."

Watts explains there is a whole world of different techniques that firms can use to reduce their derivative cost base, some internal and some often via vendors.

These include but are not limited to operations outsourcing, removal of cross-product silos, single asset inventories, improved internal collateral mobilisation, increased clearing, new optimisation techniques, pre- and post-trade, among others.

"Perhaps obvious but the key for each firm is to understand their own unique circumstances and choose solutions which will have the greatest positive impact on their profits. These solutions may vary for the short-term and long-term," Watts comments.

"Those firms that have had the smoothest go-live so far are those that have used the one year COVID-19 delay the most productively"

Upcoming changes?

AST finds that there are some parts of the UMR ruling that may cause global regulators to collectively look to tweak or change in the near future.

Demo says: "The industry does expect some level of relief from European regulators around the model validation requirements for buy-side firms who are caught up in UMR but do not have traditional quant capabilities. This would level the playing field somewhat with US regulations that place the UMR requirement squarely on the prudentially regulated entity."

Spiro remarks: "Some aspects of the rules have been viewed by the industry as a bit inconsistent from the start. One example is that physically settled foreign exchange forwards are included within the average aggregated notional amount calculation to determine which firms are in-scope for UMR rules, but then once in scope, those same trades are not included in the SIMM calculation."

Spiro suggests that this leaves some firms technically in-scope for the rules, and having to repaper their agreements, but with a high likelihood of never having to actually move collateral.

Another example would be the inconsistency of rules from one regulatory jurisdiction to the next; in the US, a swap dealer has an obligation to post collateral to their counterparties, but a buy-side firm does not have an obligation to collect.

In practice, Spiro explains this means that a buy-side firm has no obligation to independently calculate the SIMM requirement. Rather, they can rely on their dealer counterparty's calculation, potentially avoiding a large expense.

Spiro adds: "This is not the case in other regulatory regimes, where both parties have an obligation to post and receive. There has been industry advocacy to try to normalise certain aspects of the rules such as these."

With potential tweaks and changes upcoming for UMR, along with the outcome of the go-live yet still to play out fully, it is hard to say how successful the transition has been to phase 5 for the industry as a whole.

Generally, given the challenges with the pandemic, the industry has worked well during this transition period. The clear winners will be those who continued to plan and prepare during the extra time afforded and those who work collaboratively with the rest of the industry. ■

The Asset Servicing Times Industry Excellence Awards

2021 Shortlists

European Fund Administrator Of The Year

- Apex Group
- BNP Paribas Securities Services
- Societe Generale Securities Services
- Northern Trust

Americas Fund Administrator Of The Year

- Apex Group
- Sudrania Fund Services
- CIBC Mellon
- SEI

Asia — Pacific Fund Administrator Of The Year

- State Street
- BNP Paribas Securities Services
- Apex Group
- Sanne

Client Service for Fund Administration Award

- Apex Group
- Maples Group
- CIBC Mellon
- Link Group

Global Fund Administrator Of The Year

- Apex Group
- BNY Mellon
- Northern Trust
- SS&C Technologies

European Custodian Of The Year

- BNP Paribas Securities Services
- Northern Trust
- SEB

Americas Custodian Of The Year

- BNY Mellon
- State Street

Asia Pacific Custodian Of The Year

- State Street
- BNP Paribas Securities Services
- Standard Chartered
- BNY Mellon

Client Service for Custody Award

- CIBC Mellon
- SEB

Global Custodian Of The Year

- Northern Trust
- BNY Mellon

2021 assetservicingtimes INDUSTRY EXCELLENCE AWARDS

Digital Asset Custody Initiative Award

- Onchain Custodian
- SECDEX Group
- State Street
- Societe Generale Securities Services
- CIBC Mellon

Best Asset Servicing Technology Product

- Calastone
- Smartstream
- Confluence Technologies
- Fenergo
- EquiLend

Asset Servicing Regulatory Solution Of The Year

- AccessFintech
- Broadridge
- TCS
- SIX
- IHS Markit

Outstanding Innovation Award

- Goal Group
- FIS
- EquiLend
- SS&C Technologies

ESG Initiative 2021

- Apex Group
- BNP Paribas Securities Services
- SIX

Equity, Diversity & Inclusion Initiative 2021

- Women in Securities Finance
- Women in Asset Servicing

Network Management Team Of The Year

- NSD Russia
- RBC Investor & Treasury Services
- SEB

Asset Servicing Rising Star 2021

- Charlotte Baker — Goal Group
- Pardeep Cassells — AccessFintech
- Ewa Skala — BNP Paribas Securities Services
- Anshul Rajput — SmartStream
- Sharde McCorkle — Sionic

Lifetime Achievement Award

- Patrick Colle — BNP Paribas Securities Services
- Margaret Harwood-Jones — Standard Chartered
- John Byrne — Sionic
- Bill Stone — SS&C Technologies

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Komainu, a regulated digital asset custody services provider, has appointed Suzanne Hubble as chief operating officer and chief financial officer.

Based in the firm's London office, Hubble brings with her extensive experience in the banking and financial services sector that will enable the firm to better tailor its products to institutions in search of digital asset custody services.

Komainu says it has seen its assets under custody more than double since the end of 2020; following this growth, Hubble's main role will be to further develop and execute the company's growth strategy.

Hubble has 20 years of industry experience and joins Komainu from HSBC where she was instrumental in the delivery of their Bounce Back Loan platform.

Prior to HSBC, she worked as Citi Bank's European head of over-the-counter client clearing, as well as on the design and delivery of ICE Clear Europe's CDS clearing house.

Henson Orser, president and acting CEO of Komainu, comments: "Suzanne Hubble is a widely respected, seasoned business strategist, and her unique and extensive experience in the institutional banking landscape is why she has been selected to further advance the business."

"Hubble will play a pivotal role in expanding Komainu's reach in the industry, and I look forward to collaborating with her directly to drive our ambitious growth plans."

"Our focus is to continue to innovate and expand upon our current services and her expertise will be key to this process."

Canoe Intelligence has appointed Vishal Saxena as chief technology officer.

In his new role at the financial technology company specialising in data management processes for asset servicers, alternative investors, wealth managers and capital allocators, Saxena will support Canoe's growing client base and strengthen the company's product and technology strategy.

Saxena brings over 20 years of academic and industry experience within financial services to the role. He has extensive experience in team building, process optimisation, software development, project management and alternative and private investments domain knowledge.

Prior to joining Canoe, Saxena was a managing director in the Blackstone technology and innovations group. During his tenure at Blackstone, Saxena oversaw application development for several business systems and enterprise platforms. This included the integration of fund accounting systems with Canoe's automated technology and supported various corporate functions.

Recognising the efficiencies gained from Canoe at Blackstone, Saxena was motivated to join Canoe as an executive team member to bolster Canoe's growth and industry adoption.

Prior to Blackstone, Saxena led various software development teams at Capital IQ, a division of Standard & Poor's, where he was most recently director of data technology. Before Capital IQ, he held various software development roles at Morgan Stanley, Citigroup and Sapient.

Jason Eiswerth, CEO at Canoe Intelligence, says: "We are thrilled to officially welcome Vishal Saxena to the Canoe team. For almost a year, we have collaborated with Vishal while implementing Canoe technology at Blackstone and have been impressed with his ability." ■

Meanwhile, Hubble says: "Since its launch in 2020, Komainu has established a great business model and talented team that is uniquely positioned to capitalise on the evolving financial ecosystem as institutions move closer to fully adopting digital assets."

"I look forward to advancing our operational excellence and further establishing our presence in the space as the best-in-class provider of custody services for institutions," adds Hubble.

Komainu has also appointed Sebastian Widmann as head of strategy.

Widmann joins Komainu from Nomura, where he served as vice president of the wholesale digital office and was the first hire of its digital assets division.

Widmann comments: "I have closely followed the digital asset space throughout the last three market cycles, and while we are now seeing increased institutional and regulatory participation in the industry, I firmly believe that we are only at the beginning of the most transformative change the financial services industry has ever witnessed."

Suneet Luthra, formerly from the senior management team of J.P. Morgan in Asia, has joined The Securities Services Advisory Group (TSSAG).

Based in Hong Kong, Luthra is an independent consultant and offers consulting services on securities services, custody, market development, fund accounting and foreign exchange related requirements.

TSSAG says Luthra partners with clients drawing on his 30 years of experience as a funds and securities expert offering an excellent understanding of custody and clearing practices, cash and foreign exchange related aspects in Asia Pacific (APAC).

During his career, Luthra has held senior management positions at Price Waterhouse, Morgan Stanley and J.P. Morgan, covering operational and agent relationship management roles.

Additionally, he has experience in market management and programme management, as well as product development. Luthra has also led several major business transformational and cross functional projects.

Viraj Kulkarni, CEO of TSSAG, states: "I have known Suneet Luthra for over two decades and am delighted that he has chosen to join our organisation. He brings a wealth of knowledge of the securities services industry both in APAC as well as further afield and an excellent network of relevant contacts which will be of great benefit to his fellow TSSAG members around the world."

Luthra comments: "Access to the TSSAG membership, which is both extensive and highly experienced in the post-trade world, was very attractive to me. I look forward to sharing my thoughts and expertise with them from the start, for the mutual benefit of our industry and ourselves".

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

The group is a network of independent firms, part of the securities services industry but also with expertise in investor, issuer, fund and capital market infrastructure services.

Citi has appointed Rapheal Mun as head of sustainability and corporate transitions (SCT) for its banking, capital markets and advisory (BCMA) group in Asia Pacific (APAC).

Based in Singapore, Mun will be responsible for leading the bank's BCMA group strategy for sustainability, ESG and client engagement in the region.

In her new role, Mun will also collaborate with product, sector and country teams to accelerate strategic sustainability projects and initiatives to maximise business opportunities.

Led by co-heads Bridget Fawcett and Keith Tuffley, the SCT team at Citi was created in May 2020 as a response to the global migration towards more sustainable business practices and the transition to net-zero.

Mun will report to Tuffley, as well as Jan Metzger, head of APAC BCMA, and Amol Gupte, country officer, Singapore.

Mun previously held the position of senior banker for Europe, the Middle East and Africa at Citi's project and infrastructure finance segment, where she was responsible for the origination, structuring and execution of debt transactions in the infrastructure, power and energy sectors, specialising in renewables and energy transition.

Before that she was part of the bank's structured finance and real estate finance team, where she structured and executed bank and bond financings across the entire business securitisation sector. ■