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ISSUE 304 23 November 2022

A taxing future?

Industry experts discuss the current challenges in WHT

ASX faces industry criticism for delay to CHESS replacement project

The Australian Securities Exchange (ASX) has faced industry criticism after choosing to pause its CHESS replacement project, as part of a plan to "reassess all aspects" of the planned update.

The decision follows ASX's own internal assessment and the completion of an independent review, conducted by Accenture. The independent report identifies significant challenges with the solution design and its ability to meet ASX's requirements.

ASX's decision has been called "a barrier to the country adopting technologies", by Tony Boyd, a columnist for the Australian Financial Review.

He adds: "Unfortunately, ASX management and its board of directors have proven over the past seven years they do not have the technical skills to manage a large-scale technology project, or the self-awareness to know that what they are doing is investing in a technology dead end."

Despite the controversial decision, the ASX has said the current CHESS system "remains secure and stable", and is "performing well".

Accenture's review was commissioned by ASX to review aspects of the CHESS replacement project focused mainly on scalability, resiliency and supportability of the application, and to advise on confidence in executing the application delivery plan.

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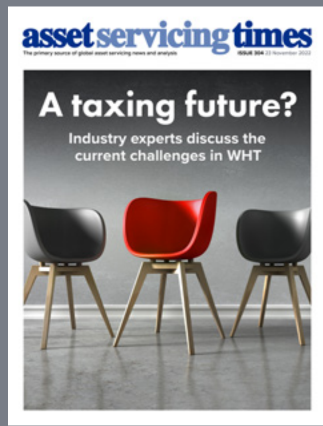

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published by Black Knight Media Ltd

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It finds that the application software is 63 per cent complete when considering functional requirements.

However, the report also identifies complexity in the integrated solution design, including in the way ASX requirements interact with the application and underlying ledger.

Accenture says: "These complexities contribute to challenges in achieving the necessary supportability, scalability and stability for clearing and settlement."

The report identifies vendor management issues in the way teams from ASX, and its delivery partner Digital Asset, operate and interact, which present challenges in project delivery.

The report also observes a "number of inefficiencies" in the delivery lifecycle through to testing, with siloed execution and reporting resulting in misaligned views of status on delivery progress, risks and issues.

Commenting on the report, Damian Roche, chairman of ASX, says: "We began this project with the latest information available at that time, determined to deliver the Australian market a post-trade solution that balanced innovation and state-of-the-art technology with safety and reliability.

"However, after further review, including consideration of the findings in the independent report, we have concluded that the path we were on will not meet ASX's and the market's high standards. There are significant technology, governance and delivery challenges that must be addressed.

"ASX provides critical market infrastructure. What we do matters. We must do it right and we will."

ASX has appointed Tim Whiteley as project director for the next phase of the CHESS replacement project.

He will be responsible for revisiting the solution design, establishing new project governance arrangements, strengthening vendor management and positioning the project for the next delivery phase.

CHESS' original go-live date was set for April 2022, but was then pushed back to April 2023. This was mostly due to the impact of COVID-19 on the industry, particularly throughout 2020 in areas including collaboration and productivity. Though most users indicated in 2021 that they could meet the new proposed live date of April 2022, many asked for extra industry testing as well as more time to prepare for the new system. Some users also requested additional functionality that reduces manual processes, such as electronic corporate action elections.

The Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia (RBA) are co-regulators of licensed clearing and settlement facilities.

In a joint statement they say: "ASX's announcement marks a significant setback to the replacement of critical national infrastructure for Australia's cash equity markets and now brings into sharp focus the longevity of the existing CHESS platform."

Joe Longo, chair of ASIC, adds: "The ASX has failed to demonstrate appropriate control of the programme to date, and this has undermined legitimate expectations

that the ASX can deliver a world-class, contemporary financial market infrastructure."

European financial authorities gather evidence on greenwashing

Three European supervisory authorities have released a call for evidence on greenwashing. The objective is to provide a better understanding of the major features, drivers and risks linked to greenwashing in financial services and to provide examples of this practice.

The three authorities, the European Banking Authority (EBA), the European Securities and Markets Association (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), have launched this call for information, recognising that building a more detailed understanding of greenwashing practices will help to inform policy making and financial supervision. It will also improve the reliability of sustainability-related claims in financial services. With rising demand for sustainability-related products and services, the regulatory authorities recognise the need to develop a better understanding of areas that may become vulnerable to risk of greenwashing.

Drawing on evidence from industry stakeholders, this call for evidence will also help to construct a picture of how greenwashing practices may erode the sustainability objectives of the sustainable investment value chain and the financial product lifecycle.

In issuing this call for information, the regulators recognise that 'greenwashing' is a portmanteau term that can relate to a diverse range of environment, social and governance considerations and their links to finance services.

In this respect, these regulatory authorities welcome responses from financial institutions falling under their supervisory oversight, along with a wide range of other stakeholders including retail investors, consumer associations, non-governmental organisations and the university sector.

Respondents are invited to submit their contributions by 10 January 2023. They are asked to concentrate on reporting greenwashing risks and examples of how these occur in a practical context in financial services which fall under the scope of the three European supervisory authorities.

A final report, detailing the findings of this call for evidence, is targeted for May 2024.

Majority of firms are not ready for CFTC Rewrite, says S&P Global Market Intelligence survey

There is a stark contrast between European and US financial regulation readiness, according to an S&P Global Market Intelligence survey.

The Global Regulatory Reporting Survey highlights that the financial services industry is being more proactive in preparing for upcoming regulatory change.

However, a disparity has been found between the two regions and their readiness for upcoming regulation, including European Market Infrastructure Regulation (EMIR) Refit and Commodity Futures Trading Commission (CFTC) Rewrite.

The survey found that 38 per cent of respondents with EMIR Refit requirements are confident that they will be ready, or have made significant progress on the programme, which is expected to go live in the first half of 2024.

In contrast, more than half of respondents with CFTC Rewrite reporting requirements are not ready for the implementation date in December.

According to S&P Global Market Intelligence, the industry is taking a more proactive approach to existing and new regulations, with more than half of respondents making changes in 2022 to enhance existing processes or prepare for new regulations.

The most common change has been an increased use of automation to prevent and manage errors and inefficiencies in regulatory reporting.

The survey indicates a growth in a combination of in-house and vendor reporting, particularly among Tier 1 firms, with 64 per cent of respondents currently using a hybrid approach.

Additionally, managed services for regulatory reporting is expected to increase over the next few years, with 60 per cent of survey participants identifying managed services as a tool being considered in their future plans.

The Global Regulatory Reporting Survey data was collected during August and September 2022 from 89 respondents from banks, asset managers and brokers.

Igor Kaplun, head of Cappitech business development, S&P Global Market Intelligence, says: "The survey results indicate that more than a year ahead of implementation, those firms with EMIR Refit reporting requirements are taking a proactive approach to regulatory readiness.

"As with any large-scale regulatory change, it pays to prepare early to stay ahead of the next wave of changes on the horizon."

Ronen Kertis, head of Cappitech, S&P Global Market Intelligence, adds: "The industry has matured significantly over the past decade and there is a realisation that reporting requirements will continue to change and evolve, and firms need to plan ahead, not only for new regulations, but in terms of how best to benefit from improved technology and global solutions.

"In some regions, we are starting to see a genuine shift in the way in which firms consider and plan for their regulatory reporting requirements, while there are other regions where work still needs to be done."

GLEIF and SWIFT extend partnership to provide mapping of MICs to LEIs

The Global Legal Entity Identifier Foundation (GLEIF) has expanded its collaboration with SWIFT by providing certification for the mapping of the market identifier code (MIC) to the legal entity identifier (LEI). The MIC is an International Organization for Standardization code used to process and clear trades.

Mapping the MIC to the LEI will further enable market participants that use GLEIF and SWIFT data to link and cross-reference key entity identifiers.

The initiative is expected to ease the process of gathering, aggregating and reconciling counterparty information based on interoperability across parallel identity platforms, says SWIFT.

Following the successful certification process, GLEIF will publish open-source relationship files monthly, in a CSV format, which will map the MIC to the LEI.

Currently, more than two million LEIs have been issued to legal entities globally. Of the approximate 2600 MICs assigned to date, approximately 50 per cent of them currently pertain to organisations that are legal entities or foreign branches and, therefore, qualify for the mapping against LEIs.

The mapping service is free of charge and aimed at financial institutions and public authorities involved in risk analysis and market monitoring.

The cooperation between GLEIF and SWIFT builds on a partnership established in 2018 to link the business identifier code (BIC) to the LEI.

Stephan Wolf, CEO of GLEIF, says: "The mapping of open LEI data to the MIC enables market participants to efficiently and accurately gather and cross-check counterparty information, decreasing the cost and potential for manual error.

"The LEI is a critical data connector globally and GLEIF's continued pursuit of enhanced interoperability between the LEI and other identifier systems worldwide helps ensure that the highest quality entity identification reference data is obtainable to all. This makes it easier to conduct compliance, know-your-customer, regulatory reporting and due diligence."

Anne Suprenant, head of standards registration authority at SWIFT, comments: "Collaborating with GLEIF on the certification of mapping the MIC with the LEI, is a significant milestone. Following the success of the BIC-mapping exercise, we have now extended the benefits of cross-identifier mapping to a broader audience. We now offer entity

identification efficiencies that support greater trust and transparency for global market participants."

eToro selects Broadridge for proxy voting services

Social investing network eToro has selected Broadridge Financial Solutions (Broadridge) to provide proxy voting services.

The service will go live for US-listed stocks later this month, with global capabilities to follow.

This follows a recent eToro global retail investor survey, which found that 73 per cent wish to vote in annual general meetings (AGMs), with the majority of these favouring an online approach.

Through the partnership with Broadridge, eToro users (including those with fractional shares) will be able to vote by proxy in AGMs.

Within the eToro survey, age and investing experience play key roles in voting interest. 80 per cent of 18 to 34 year-olds expressed a desire to vote, in contrast to 65 per cent of over 55s.

Similar numbers were seen between those who had three to five years' experience in investing (79 per cent) and those with more than 20 years' experience (65 per cent).

The corporate issues that investors were most interested in voting on were dividends (49 per cent), executive pay (33 per cent) and climate strategy (28 per cent).

Yoni Assia, CEO and co-founder of eToro, says: "Retail investors have not always been given the platform, the voice and the support that they deserve, but this is rapidly changing and retail investor access to proxy voting is a crucial step in this journey.

"eToro's users can now have their say in the corporate decision making at many of the biggest companies in the world. This is a huge milestone in the retail investor story and one that could have a lasting impact on the business world."

Martin Koopman, president of bank broker-dealer investor communication solutions at Broadridge, adds: "Retail investors are increasingly seeking to share their voice with the companies in their portfolios by voting on important issues relating to corporate policy. ■

A taxing future?

Industry experts from Goal Group, EY, BBH and ICI discuss the current challenges in the withholding tax reclaims space, the biggest pain points the industry faces, and crypto's place among these considerations

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What are the biggest challenges facing the world of withholding tax reclaims?

Vicky Dean: Withholding tax (WHT) reclaims are a fickle beast, continuing to change and evolve continually. Throughout the year, forms, rates, processes and rules change, often at short notice, and it is incredibly difficult to keep up. Due to this being a low priority in many organisations, the reclaims are often grouped together and submitted close to becoming statute barred.

With recent changes coming into effect, this means that reclaims are sometimes rejected and then you are running up against the clock to rectify issues and resubmit before the money is lost. Keeping up-to-date with the changes is vital but also difficult. Unless you are a small or medium-sized enterprise (SME) or have existing relationships with key sources, they can be incredibly hard to find and understand. While these challenges are not likely to ever go away, vendors such as Goal Group (Goal) can ease the burden of this and provide solutions to match client needs at a compelling and flexible price point.

Dawn Schaefer: The biggest challenge is getting your money back. The tax reclaim process is not always straightforward. Twists and turns can occur along the way before a successful payment. It is not as simple as filing a form with beneficial owner information and income details and receiving a payment within six months. Forms, reclaim requirements and documentary evidence supporting eligibility have become more complex, and even a perfect tax reclaim filing may still prompt further questions from tax authorities — starting the process all over again.

Tax authorities have evolved with the times, and their efforts to mitigate tax avoidance and ensure proper entitlement create a significantly more burdensome administrative environment when compared to the 'address rule' approach of the past. In addition, there is no one-size-fits-all tax reclaim process, and there are more than 40 markets in which tax reclamation opportunities exist.

To be successful, you need to know all the rules in each jurisdiction, inside and out, and have the proper checks and balances in place. For service providers, client awareness and active cooperation is critical, as the statute of limitations can tick by very fast. On the flipside, proper upfront preparation and due diligence from client to global custodian to sub-custodian can streamline this process and make it more effective.

Sarah Belin-Zerbib: As the foreign WHT space becomes increasingly complex and nuanced, tax authorities, financial intermediaries and global investors are still in search of a solution to streamline the reclaim process. Despite increased awareness of the need to enhance the process, it is currently still a very cumbersome, generally paper-based process and remains characterised by a lack of standardisation.

Certain key notions like beneficial ownership and tax residency still vary from one country to another, which creates major obstacles in determining tax-relief entitlement for certain institutional investors.

The number of financial intermediaries involved in the chain of payment, as well as the way custody accounts are structured (notably omnibus accounts), exacerbates this very manual process further.

From a global tax policy perspective, certain initiatives such as the base erosion and profit shifting (BEPS) Multilateral Instrument (MLI) make foreign WHT reclaims even more complex. For those countries that have signed the MLI, the treaty-based recommendations from the BEPS package can be implemented swiftly. The BEPS package provides 15 Actions that equip governments with the domestic and international instruments needed to tackle tax avoidance. It represents one of the most important changes to cross-border tax norms in history.

The deployment of Treaty Relief and Compliance Enhancement (TRACE) regimes across the world was expected to result in a standardised tax withholding system facilitated by authorised intermediaries. Its implementation in Finland in 2021 has considerably increased the due diligence and related liabilities of custodian banks and the documentation burden of their clients.

Katie Sunderland: The biggest challenges to reclaiming WHT include procedural inefficiencies, such as paper and original ‘wet signature’ filing requirements, frequent changes and uncertainty regarding legal and process requirements for receiving treaty relief, and lack of consistency across markets. These challenges are compounded by the sheer volume of transactions that must be processed.

Delays in recovering relief, to which funds are entitled, can negatively impact investor returns. Fortunately, there is momentum for change. The increased automation of local markets, which could make the biggest difference, is gaining attention. Denmark and Germany, for example, have implemented reclaim processes that are largely electronic. Even in those generally developed markets, the processes of which are well understood, processing times can be substantial; while the average is about 18 months, in some markets it is 36 months or more. Moving towards ‘quick refunds’ or ‘relief-at-source’, as some markets already are, would benefit fund investors greatly.

Uncertainty regarding treaty eligibility and processing requirements can delay recoveries significantly. These issues are most pronounced when there is not a well-defined process for recouping treaty-entitled amounts. Difficulties also arise when there are no clear rules or processes for specific investment vehicle types. Tracking relief, with correct tax rates applied, is an involved process. The task is even more daunting due to the volume of claims and instances in which the incorrect rate has been applied and must be challenged. Success may depend on engaging a third-party service provider to assist. These additional delays, and associated costs, harm fund investors.

Different requirements in different markets also create challenges. Bringing more consistency across markets has long been an industry priority. The Organisation for Economic Co-operation and Development (OECD) developed the TRACE packageover a decade ago, and the European Commission is currently developing a quick refund process for potential adoption across the European Union.

Vicky Dean joined the Goal Group EMEA team in 2014 within sales and relationship management.

Responsible for tax-related services, Dean has since taken on various sales-based and client services roles within the company, including the establishment of the New York office in 2015 and expansion of the business in a new region.

Prior to joining Goal Group, Dean held senior sales roles in financial services, luxury yachting and in the world of duty-free, where she worked as an export sales manager.

Vicky Dean
Managing director, EMEA global head of client services
Goal Group

What are the biggest pain points associated with this process?

> *"Unfortunately, managers often find themselves at the mercy of someone else's timeline before they can proceed — regardless of the efficiencies and diligence built into their own processes"*
>
> **Katie Sunderland, ICI**

Schaefer: The biggest pain point is that it is primarily paper-driven. This raises the risks and the need for expert support and control. Although electronic mechanisms to file have emerged, most tax reclaim forms must still be signed in ink, and either stamped or accompanied by original certificates of residency from investors' local tax authority.

Tax inspectors are still physically opening envelopes and reviewing tax reclaim applications and supporting documentation for completeness and accuracy. In the case of US residents, the Internal Revenue Service's certificate of residence process is still paper-driven, and over the last few years the COVID-19 pandemic has impacted the government's fulfillment capabilities.

Sunderland: The biggest pain points are finding talented people to perform specialised roles and ensuring that all documents required for filing are available.

The requirements for receiving treaty relief can be complex — both procedurally and substantively. Individuals working in this area must have specialised knowledge, demonstrate careful attention to detail and be prepared to solve problems quickly. Even the slightest issue can lead to significant delays and potential lost relief.

Fund tax managers need assistance from others to file for treaty relief. Unfortunately, managers often find themselves at the mercy of someone else's timeline before they can proceed — regardless of the efficiencies and diligence built into their own processes. These impediments have downstream effects ranging from delayed account openings to excess tax withholding, which again, may prove difficult or impossible to reclaim.

The IRS, for example, may not yet have provided required certificates of tax residence (CoRs) or may have prepared them inaccurately, preventing timely filings. The digitalisation of these processes would allow for more accurate and faster processing times and, ideally, at-source WHT relief when available. Digital investor self-declaration forms, in lieu of certificates of tax residency, would also provide much needed consistency and expediency in reclaim filings.

Documentation issues also arise when local markets change their tax rules and requirements — particularly when associated implementation challenges have not been addressed. Clear guidance is needed to resolve a myriad of interpretive questions.

Danielle Clark: While global custodians offer a variety of foreign WHT related services, they essentially act as facilitators in the treaty relief process and rely on information and self-certifications provided by their clients regarding treaty entitlement position and profile.

This leaves a substantial burden on global investors that may not have the resources and in-house technical expertise to properly address these questions. In an increasingly complex and fast-moving tax landscape, what used to be the completion of tax forms with basic key information has become an obstacle course for many global investors.

In certain contexts, such as securities held through brokerage relationships, tax relief services may not be offered (or only minimally offered) by financial intermediaries. In those cases, global investors must take full ownership of the process and hire tax experts to assist them. Indirect holding of securities through various intermediate structures, including partnerships, is also a factor increasing complexities in recovering these taxes.

Where securities are held directly through a global custodian, certain markets may not be serviced for reclaims. In countries such as Italy, Indonesia, Russia and South Korea, providing an incomplete or erroneously completed relief-at-source form may result in permanent financial losses, as it is difficult to obtain a refund of overwithheld tax when relief-at-source is missed. Even when reclaim services are offered, incidents like this are harmful from a liquidity perspective.

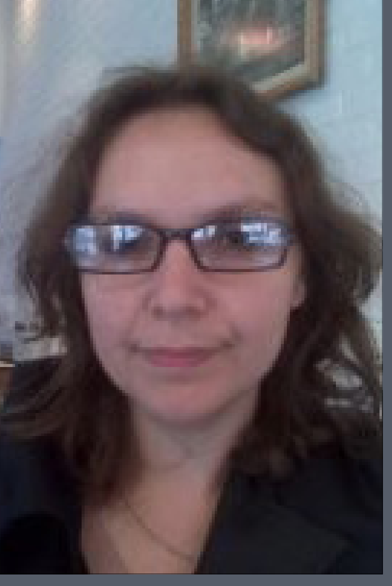
Overall, lack of oversight can result in accumulated issues and consequential financial losses. Over the past several years, Ernst & Young (EY) has observed an increased awareness among institutional investors of the benefits associated with improving their oversight. As a result, they have developed best practices with support from their tax advisors.

Dean: The world of WHT reclaims is a minefield! The rates, the forms, the processes, the submission requirements, the language barriers and the millions of permutations mean that WHT reclaims are often outsourced, pushed to the bottom of internal priorities, or ignored altogether.

As with many niche areas in financial services, it is difficult to find people who are SMEs in this field, and even when you do find those people, managing the processes can be daunting, time consuming, complex and labourious. Our technology has been deliberately designed to remove these barriers and create a seamless end-to-end process, allowing financial institutions the power to perform these services without spending infinite amounts of money trying to do it themselves, which often results in an elevated headcount.

Sarah Belin-Zerbib is a New York-based managing director in the international tax and transaction services practice at Ernst & Young (EY) and a member of EY's Global Withholding Tax Reporter team. She relocated from EY - Société d'Avocats (Paris) in July 2006.

Belin-Zerbib has over 25 years of experience in the taxation of multinational financial services enterprises. She advises US and Canadian financial institutions in connection with foreign withholding taxes. Recent projects include assisting with the filing of the European Court of Justice withholding tax reclaims, as well as supporting global custodians in the reclaim process.



Sarah Belin-Zerbib
Managing director – international tax and transaction services
Ernst & Young LLP (EY)

How do you manage the continuous changes to treaties, forms, and specific market requirements?

> *"Given variables, it is imperative that we use a variety of sources and leverage our excellent relationships with the tax authorities, globally"*
>
> **Vicky Dean, Goal Group**

Sunderland: Third-party tax service providers, including global custodians, assist by compiling and communicating changes to treaties and specific market requirements such as forms. Most providers have expansive networks that provide up-to-date and accessible information. These third parties also assist clients to implement changes in firms' processes, enabling the industry to keep on top of local market changes with minimal interruption to process flow. Industry associations and industry peer networks can also prove invaluable. Both provide additional ways to stay abreast of changes and offer practical perspectives on implementing them.

Dean: At Goal, through our dedicated global research department, we have partnerships with many industry specialists who we rely on to provide information which is essential to ensure the data we maintain in our applications is current and complete. Given variables, it is imperative that we use a variety of sources and leverage our excellent relationships with the tax authorities, globally. By engaging these sources and compiling the information in our Global Tax Reclamation Solutions and tax and revenue management applications, our clients have all the information they need at their fingertips. Goal is responsible for managing this information in the background so that our clients only need to import data — all the hard work is done for them.

Belin-Zerbib: Our firm has worked with global investors and their custodians on foreign WHT matters for more than 30 years and has supported them with meeting the challenges faced in this industry. Specifically, EY's Global Withholding Tax Reporter (GWTR) has been the authoritative online tax reference tool for current and historical WHT information, including reclaim and relief-at-source forms and instructions related to portfolio investments. More than 100 foreign EY member firms currently contribute to our GWTR services. Our team is also supported by specialists focused on tax controversy, international tax and BEPS, including the EY Global Tax Desk Network, for real-time assistance. Our global investor clients are also seeking more support with the identification of over-withheld taxes and the filing of reclaims in countries not serviced by their custodians or brokers. More recently, they have been requesting assistance with the tracking, monitoring and completion of relief-at-source and reclaim tax forms filed through their custodians.

Schaefer: I always tell new employees: "there are no two days alike in the tax world." Changes occur every day, and impacts can arise from governments' announcements of new laws or budgets, tax authorities' changes to administrative or procedural requirements, issuers', paying agents', depositories' and sub-custodians' changes in practice or process.

It can seem like information can originate from just about anywhere! This information then needs to be physically read by a tax analyst and catalogued. Thereafter, steps need to be taken once the impact is determined. The impacts of changes include communication to clients, custody and fund accounting systems updates, and tax documentation changes.

In the perfect scenario, this information could be read by artificial intelligence (AI) software and automatically routed into a workflow system based upon key words, but subject matter expertise is still required to properly track, analyse, coordinate, and implement it. In addition, the words 'tax' and 'risk' are used together a lot these days. Units managing tax-related matters are keenly aware of the risk and legal implications of what looks like an administrative process. This should not be underestimated.

Danielle Clark is a member of Ernst & Young (EY) LLP international tax and transaction services practice. She is the sector leader for the wealth and asset management practice. Her experience covers a broad range of sectors in the financial services industry including banks, broker/dealers and investment funds. She has developed many global investing business service offerings for EY including the Global Withholding Tax Reporter, the PFIC Analyzer, Corporate Actions Tax Analyzer, Rapid Reclaim Analyzer and the Rapid Security Analyzer. In addition to leading these service offerings, Clark also conducts foreign-related compliance health checks for multinational financial institutions in the withholding tax space and heads up the firm's reclaim recovery services. She has more than 24 years of experience in the taxation of financial services multinational institutions. She is a member of the US Supreme Court Bar and has spoken at many international and domestic tax conferences.

Danielle Clark
International tax wealth and asset management leader
Ernst & Young LLP (EY)

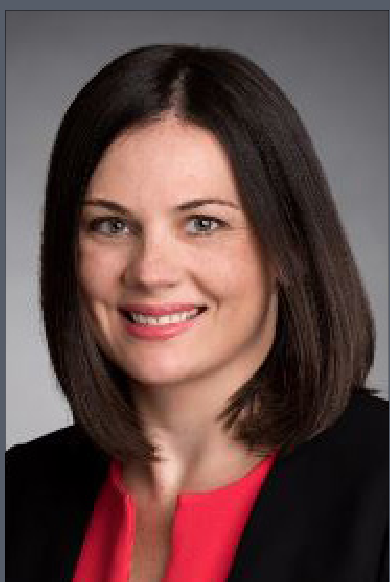
What is the biggest asset within the WHT reclaim space? People, technology, or both? What are you seeing?

Katie Sunderland is assistant general counsel, tax law for the Investment Company Institute (ICI) and ICI Global. Sunderland has experience with a broad range of tax issues that affect the investment fund community, including managers, investment funds and investors.

At ICI, she primarily works on issues affecting both US and non-US regulated funds, such as treaty entitlement and EU tax files.

Prior to serving at ICI, Sunderland was an associate for Washington DC-based Squire Patton Boggs, from 2014 to 2017. Before that, she was an associate at Schulte Roth & Zabel LLP from 2010 to 2014.

Katie Sunderland
Assistant general counsel, tax law
Investment Company Institute



Schaefer: People and technology are equally important in this space. Technology is essential to manage the intricate tax withholding rules, tax reclaim form completion, overall status tracking and payment aspects.

There is no one-size-fits-all solution, and each market or tax authority has their own requirements. As a global custodian, having a competent team of subject matter experts who can implement rules that vary by market, instrument and residency (or entity type) into the system are critical, as is the ability to effect systematic change in real time. There is still a significant reliance on subject matter experts to maintain this massive data warehouse of rules and exceptions.

In addition, as a global custodian BBH manages clients' supporting tax documentation, which is required to accompany tax reclaim applications. Therefore, we must be able to present requirements to clients to receive tax documentation back in a timely manner.

A technological workflow system is a must, but the subject matter experts who move 'paper' through the process and provide transparency to clients every step of the way are also critical.

Sunderland: People and technology are both big assets. Technology — internal- and external-facing — is essential for working with service providers and addressing local market requirements. Human capital, of course, is needed to support the interpretation, assimilation and implementation of that information into firms' processes.

Dean: Both. Automation and technology are leading the way, we are seeing replacement of legacy infrastructure, moves to cloud-based technologies, advanced levels of automation, and reliance on key information and accessibility through applications. A lot of this has been driven by the COVID-19 pandemic, with organisations needing to look deeply into their setup and how it can work to support their clients and provide business as usual at a distance.

It is incredibly important to focus on the people working alongside technology in order to advance in any line of business — particularly when it comes to financial services, it is a necessity to provide as much support and automation as possible. It is also key to focus on people and their relationships with your clients. Having the best of both worlds allows clients to find levels of support they may not have with AI.

Clark: A combination of both, without question. The first step to take, from a global investor perspective, is to build a more robust oversight of foreign WHT positions, starting with more access to information, as well as better data management solutions. For instance, the management of custodian requests for tax relief documentation, or forms via email, presents some challenges in terms of prioritisation and proper monitoring of outstanding items.

Solutions to address these challenges involve ‘triaging’ foreign WHT forms requests, identifying missteps, measuring consequences and remediating. Building workflows, trackers and dashboards has increasingly become part of the best practices implemented by our clients in this area. Combining in-house, dedicated resources with the services of a trusted tax advisor is also essential to navigating a constantly-changing tax landscape.

From a broader perspective, building a global technology-based solution, to which all parties involved have access, appears to be the only sustainable pathway to enhance the tax relief process and decrease the current pressure on resources. Technology can streamline and secure the documentation of treaty entitlement, and support the various reconciliation processes and the proper identification of the beneficial owner. If anything, the COVID-19 pandemic has shown the limits of this very paper-based and manual-oriented process. Adopting a digitalised environment is an imperative that still needs to find its means. New technology solutions, notably distributed ledger technology (DLT), have the capacity to answer a number of fundamental WHT claim questions. Deployment of such solutions requires the collaboration of all the involved actors: investors, financial intermediaries and governments.

Dawn Schaefer is head of Brown Brothers Harriman & Co’s (BBH’s) global tax services’ client profiling, tax data, and change management pillar. She is responsible for functions ranging from establishing compliance and servicing profiles, managing and supporting reduction at source and reclaim support services and maintaining tax-related data and intelligence across BBH’s platform, as well as coordinating change across servicing divisions.

Schaefer has more than 28 years’ experience in the financial services industry, leading and participating in tax industry groups. Prior to joining BBH, Schaefer managed tax-related functions at State Street and BNY Mellon.

Dawn Schaefer
Vice president, global tax services
Brown Brothers Harriman & Co.

Do you believe crypto assets will be affected by WHT in the future as the two areas become more regulated? If so, how?

> *"Decentralised digital assets have raised new challenges for tax authorities, while increasing tax risk for service providers and their customers"*
>
> **Sarah Belin-Zebib, EY**

Belin-Zerbib: In a recent article, EY noted that global investment in digital assets has increased significantly in the past 13 years. Blockchain-powered products bypass conventional intermediaries, accelerating transaction times, reducing costs and making innovation possible. Decentralised digital assets, however, have raised new challenges for tax authorities while increasing tax risk for service providers and their customers.

The digital assets industry continues to evolve at great speed, generating a high level of tax ambiguity. Digital assets service providers' mandated role may be relatively light at the moment, but that lack of accountability is likely to be short-lived. This will come as no surprise but, so far, the solutions that local governments are either implementing or contemplating are contradictory — this will undoubtedly create many challenges in the future.

Crypto assets may be affected by withholding taxes. We are expecting the trend towards contrasted regulations to continue along with the corresponding burden this will mean for global investors and financial intermediaries.

Dean: Over the last year, we have seen lots of noise surrounding the regulation and tracking of crypto assets, and once this has been established, and they become more transparent and accessible, we believe that there may be implications in relation to WHT.

Currently, crypto assets are only normally taxed upon sale, but if they become regulated and transparent, we would expect them to be treated the same way as any other cross-border investment and WHT-deducted based on market requirements. If they follow the same pattern as other cross-border securities, then hopefully this will mean that a portion of the tax withheld can be reclaimed depending on the security type, market of investment and domicile of the investor. Given that the current discussions have involved authorities providing guidance on what taxes they are expected to pay, it may be a while until we see these guidelines rolled down to withholding taxes.

Schaefer: It is reasonable to expect that crypto assets will be more broadly subject to taxation in the future. We have been watching developments in this space, including the contemplation of reporting requirements that enable governments to have sight of gains relating to the sale of crypto assets. The nature of crypto exchanges may result in a completely different set of responsible parties or operating structure to withhold tax 'at source' – as the question will be what each government considers the 'source'.

Sunderland: The impact that withholding taxes will have on digital assets is yet to be determined. Clearly, digital assets are growing in importance for investors and regulators. However, their tax treatment varies among countries, even those with clear rules.

Some clarification regarding tax reporting of transactions involving these assets is provided by the OECD's Crypto-Asset Reporting Framework (CARF). While the timeframe for CARF implementation has not been announced, it is expected to take a few years. The extent to which withholding will be applied to digital assets may depend, in part, on the effectiveness of tax reporting.

What do you see in the future of WHT reclaims?

> *"The future we envision revolves around a set of technology solutions facilitating immediate and secure access to information on both ends of the tax relief process"*
>
> **Danielle Clark, EY**

Dean: There has been talk for many years of markets, particularly in Europe, standardising the reclaim procedure. However, to this day, we still see different markets introducing different rules, rates and submission requirements. While we are still a long way from this happening, we are seeing tax authorities revisit their processes and modernise the way in which these reclaims are handled.

We are often asked to be part of the discussion when it comes to the future of tax reclaims and would hope to provide further insight by engaging with thought leadership and whitepapers, both independently and as part of some of our high-profile industry working groups.

One of the big changes we want to see is the education of the investment community; helping them understand that this is something they are entitled to. While not widely publicised, or explained, we want to break that taboo and use our network to increase awareness and provide options to ensure that these services are being carried out and the financial services community are fulfilling their fiduciary duty.

Schaefer: As a global custodian, we advocate for technological advancement, standardisation and efficiency in market practice, process and operating model evolution. Technology is a key factor, as straight-through processing is needed to enable global custodians to file thousands of tax reclaims and electronic transmission from generation to final payment.

In this case, one could define 'nirvana' as the elimination of any need to file reclaims in deference to an efficient, effective, global reduction-at-source model. While such a global nirvana may be elusive, we will continue to engage with industry bodies to advocate for optimal solutions.

Sunderland: Evolution takes time. The good news is that there is momentum at the OECD, in the European Union, and in some local markets to improve cross-border investing; this momentum includes simplifying the process by which funds receive treaty relief, while enhancing tax compliance. These improvements may include the adoption of a digital investor self-declaration that can be used in multiple markets, and quick refunds, or at-source relief, for low-risk claimants or transactions. Improvements could also include streamlined and efficient automatic exchanges of information that would provide greater comfort to tax authorities.

Clark: To address the many challenges of the reclaim process, the future we envision revolves around a set of technology solutions facilitating immediate and secure access to information on both ends of the tax relief process, while supporting the various reconciliation processes involved in the granting of foreign WHT relief.

To be viable, such technology-based solutions will need to meet the needs of all the key players in the process, from local tax authorities to global investors and financial intermediaries. This change will only happen if local governments agree to regulatory changes, acknowledging secure digitalised documentation and certificates as a valid replacement for archaic paper documentation. Global organisations have a crucial role to play in convincing their governments that change is now long overdue. ■

Catering to the demand

Michael Hall talks to Jenna Lomax about what Spectrum Markets can offer the retail trading space, how the relationship between digital and traditional assets will continue to change, and if crypto derivatives should be monitored as part of ESG policy

What should investors be aware of when it comes to protection from financial market instability, particularly at this moment in time, given the current geopolitical landscape?

If the last couple of years are anything to go by, we have seen a lot of volatility, and it is continuing as we speak — it is becoming the norm and is something we can't control. However, if we look at instability in the market, that is definitely something that can be addressed and that Spectrum aims to reduce as a venue — it is what we focus on.

There has been a lot of progress in regulation and regulatory frameworks. MiFID II, MiFIR and other trading rules stipulate different pre- and post-trade transparency requirements, and require ongoing consultations which keep developments fresh. This, to an extent, dictates how stable the trading environment can be.

On the other side of regulation is technology, which plays a huge part in the instability topic.

Some industry participants' technology is built on legacy systems, which can lead to trading halts and operational issues in periods of volatility, such as the COVID-19 pandemic. However, Spectrum is a brand new technology designed on a bespoke proprietary system.

Combining good technology with a good regulatory framework is something that financial institutions can manage — ensuring that there is a robust environment for trading to happen when there are times of volatility.

It is about ensuring that your technology is ready for any volatile market, and that there is scalability, resilience and capacity to be able to adapt. There are, of course, ongoing consultations and new regulatory frameworks being published that will ensure that there are parameters to create a robust environment for financial markets.

Can crypto derivatives always be considered as a safer way for new buy-side participants to get access to an asset class?

There are definitely risks with trading all products, however there are a lot of benefits to trading exchange traded derivatives. Turbo Warrants listed on Spectrum Markets (Spectrum), for example, have a lot of benefits. The product is on venue, so users have pretrade controls, pre- and post-trade transparency, and many other on-venue benefits that come with trading products in this way.

Within the product itself, users can choose a predetermined 'knockout level' of the product. For example, if you were to buy the physical underlying of the crypto or share, and the value of that asset were to go down to zero, you would lose your investment down to zero. Unless you are sitting by a computer all day, you cannot really determine when you want to pull out of that trade — different order types can help, but in some instances there are no guarantees if the market falls too quickly.

Therefore, what Turbos allow you to do is choose a predetermined maximum loss on a trade — this can be set going into the trade, and users can access its movement remotely. If there are market movements against a user, they have entered the trade knowing their maximum loss.

On a derivative, you can take a long or a short position — you can either use the short position just for hedging purposes, or you can use it to benefit from a fall in price. It complements your trading strategy, depending on what you are looking to impose on the markets.

When considering the trading of derivatives in the post-trade environment, there is a lot of new technology jargon within the crypto world that people are still getting used to.

However, if you look at how traditional derivatives and crypto derivatives are settled and held as custody, that is actioned through the utilisation of an infrastructure that has been around for decades — it fits into the same mold.

There are definitely benefits to having a system that is more familiar with traditional post-trade processes. Broadly speaking, there are benefits, but it is about providing choice on your strategy.

Do you think the COVID-19 pandemic necessitated a rise in the use of crypto derivatives? What did you see?

We launched just before the pandemic, in 2019. Spectrum's launch was coupled with an increase in overall trading across the board — not just at Spectrum. This gave rise to existing traders, who potentially wanted to look at their portfolios and reanalyse where they wanted to invest for the longer term. COVID-19 did create volatility, and therefore opportunity, in the market.

There was a lot of room, a lot of different kinds of products entering into the market. We did not offer cryptos at the start of the pandemic, but we have recently started to offer them, which is a result of significant demand from our clients.

Spectrum talks directly to the broker, which is our client, and they are the ones closest to the retail client — their clients. Interacting with them, getting that feedback over the last year or so, has allowed us to create a product that is very specific to their needs. We wanted to wait to offer crypto to make sure that we had the right products in line with their feedback.

When a broker connects to Spectrum they naturally consume our market data for all asset classes and underlyings.

Adding a crypto derivative to that offering is no different; it is the same product, the same settlement, and the same connection — it fits within an existing framework that they are familiar with. Equally, the client is used to trading on their portal. Therefore, there is demand from the brokers themselves on those products.

Do you think digital assets will continue to sit alongside traditional assets, or will they become more ingrained within them as the norm?

There is definitely a demand and a directional trend that is becoming more popular around digital assets — not just crypto. We are yet to see what there will be a digital representation of, in terms of an asset, and what the actual use cases will be in the real world.

There is a lot of encryption and blockchain technology that exists, but how applicable is that to the real world currently? It is still in its infancy.

It will become more mainstream, but it is about getting clearer, transparent, internationally recognised regulation — a framework that is able to cater for that product, whatever it may be, in whichever form it may take.

In the meantime, what Spectrum is trying to offer is access to a new and popular product within an existing framework that we know is secure, and that caters for the demands of today.

We have a service called intraday issuance which allows issuers on Spectrum to react to market movements and offer flexibility around consumer demand.

Spectrum is the first of its kind to introduce this feature simultaneously across multiple European countries. Previously, investors outside of Germany and Switzerland had to wait until the next day for new securities to become available again, which can be very frustrating — that is not a great experience for a client. We recognised this, and worked with our issuers and our technology to establish an algorithm that notices when there is a gap in the market. We look to create new products that clients can then trade with.

"Crypto will become a general asset class that forms part of any portfolio, much like equities, foreign exchange or commodities"

Should crypto derivatives be monitored as part of ESG policies? What are you seeing, what has been your experience?

As with any asset class in trading, there is a link to ESG topics. They are becoming more relevant in trading. Focusing on the 'environmental' part, there is progress being made with Etherium at the moment, which will, very shortly, change from proof-of-work to proof-of-stake. In the past, there was a huge amount of energy required for proof-of-work, and reducing that to proof-of-stake in the future will be a more environmentally friendly way of minting coins.

The 'governance' part of ESG is the part a lot of people forget. Moving forward, there is definitely a need for wider regulation, and it needs to be internationally recognised on the crypto itself. At the end of the day, the investor makes their own decision. We are there to provide tools for them to access, but it is up to them to invest where they see fit.

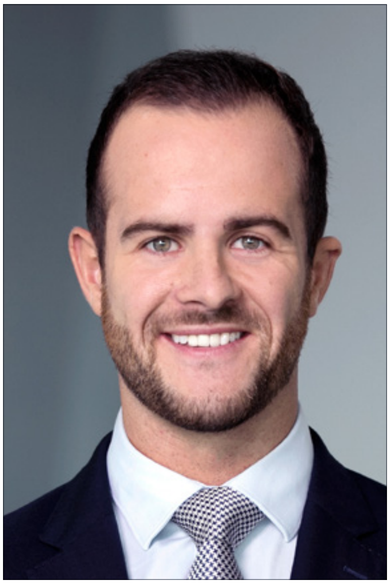
Do you have any predictions for the future of crypto derivatives?

Looking at the crypto market, its adoption is becoming increasingly popular. There are many articles and many charts that show how familiar it is with other asset classes — how many clients have actually traded it versus equities. The more regulation that is put in place, the easier it will be to create a simpler tool for people to trade.

Crypto will become a general asset class that forms part of any portfolio, much like equities, foreign exchange or commodities. There will be a segment for digital assets and more interest from retail investors, given the current demand. There will be more financial institutions that want to cater for that demand, including Spectrum. ■

Spectrum Markets brings a new approach to retail trading for those who want 24-hour trading access to the markets.

Headquartered in Frankfurt, Germany, Spectrum offers its clients the service of dealing in securitised derivatives for the Pan-European retail market, with a 24-hour lit trading venue.



Michael Hall
Head of distribution
Spectrum Markets

Puzzle pieces

With SFDR II coming into force in a matter of weeks, the regulative picture remains incomplete with major issues still unaddressed by regulators

Lucy Carter reports

Sustainable Financial Disclosure Regulation (SFDR) regulatory technical standards (RTS) come into play 1 January 2023. Firms had to have documents in order by 31 October 2022, or risk their visa stamps not being released before the implementation date. But there is still confusion around what the new regulations will actually do, how they will work, and what they mean for companies. SFDR was first introduced by the European Commission (EC) as part of its 2018 Sustainable Finance Action Plan, with its first iteration going live 10 March 2021. In the Official Journal of the European Union, it is defined as: “harmonised rules for financial market participants and financial advisers on transparency, with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes, and the provision of sustainability-related information with respect to financial products.”

In other words, SFDR requires firms to meet certain disclosure requirements regarding their ESG impacts and initiatives. This should make it easier for end-investors to understand and compare products and make more informed decisions. The regulation marks a significant shift in industry action: “Before the SFDR, there were no regulatory or legal parameters around what is considered a sustainable investment,” Colette Zoe Bebee, senior consultant at Deloitte Luxembourg, says. SFDR II is certainly a step forwards in regard to ESG consideration, but how well will it work in reality?

Unsteady implementation

It’s been a rocky road to the new RTS, with SFDR Level II implementation pushed back twice. Yet, in spite of the extra time that the EC has taken to ensure a smooth transition for the industry, market participants say there are still serious problems that are yet to be addressed.

While the original SFDR was ostensibly updated to provide more details as to what disclosures should contain and how they should be presented, a primary issue facing companies remains a lack of clarity. There are no concrete guidelines of what counts as a sustainable investment, so firms may be unsure as to whether they are complying with SFDR or not. The hazy definition of ‘sustainable’ may also allow for greenwashing to run rampant, despite it being something that SFDR II is professedly designed to prevent. While transparency is a tenet of SFDR, the vagueness of regulations and definitions make it difficult for its sustainability goals to be realised.

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> *"The [ESG data collection] situation is bound to improve, though it might take some time"*
>
> **Haojin Ba, LPA**

However, some are more optimistic about the effects that the regulation will have. Will Chignell, chief commercial officer of ESG at Apex, suggests that with SFDR II implementation "the ethical, proactive and strategic companies will realise that assessing with rigour, in a meaningful, measurable way, so they can prove competence, will eradicate any accusations of greenwashing, cutting them apart from competitors who might not be so thorough". Although there is currently a scramble for clarity, the regulation could lead to a more competitive and ESG-engaged market.

Nevertheless, confusion is still a serious issue and could cause market fragmentation rather than competition, according to a Eurosif paper published earlier this year (EU Sustainable Finance & SFDR: Making the framework fit for purpose). If different countries start to bring in their own standards for sustainable investment products, or take different approaches to product classification, then cross-border distributions will be disrupted, Eurosif says, prompting higher costs and operational difficulties.

Representing industry trade bodies, the European Supervisory Authorities presented the EC with a series of questions regarding the RTS changes in May this year, followed by a further eight inquiries in September. Several of these have been left unanswered, leaving those who will be significantly affected by the new regulation worried and confused.

Guessing game

There is also the question of data, which is a problem on a number of levels, from accuracy to availability. SFDR II states that principal adverse impacts (PAI) disclosures can be estimated if necessary, however there are no clear guidelines — a recurrent theme, it seems — on what needs to be included when calculating indirect exposures.

Haojin Ba, product manager and head of regulatory management at LPA, believes that "the [ESG data collection] situation is bound to improve, though it might take some time". Yet time is not a readily available asset, so it seems inevitable that SFDR II's early days will not be smooth sailing.

The current lack of information also somewhat undermines the regulation's goals. Sergio Venti, consulting partner at Deloitte Luxembourg, says that this could cause "a knock-on effect on the very nature of 'sustainable investments'".

He explains: "PAIs are used to identify harmful effects on environment and society, a precondition for any investment to be called 'sustainable'". Without further clarification around PAIs, and soon, companies will struggle to uphold ESG targets and trust in 'sustainable investments' could be impaired.

Quantity over quality?

Additionally, a large quantity of data is being requested from companies. With the sheer volume of information being handed over, there is a risk that data will be difficult to use and will ultimately be unhelpful. This, too, may make it harder to avoid greenwashing, with exposures potentially hidden in a mass of incomprehensible figures. In a classic case of quantity over quality, new SFDR regulations could end up being more performative than productive.

The market concentration that will result from new regulations will also cause fees to rise, leading to price hikes across the board. This will particularly be a challenge for smaller and moderately-sized firms, who will not have the same data cost budgets that are available to their larger counterparts.

Broadridge's Amijee does not think that this will be the biggest hurdle facing firms. "Wrestling with complex data and ambiguity has always been a part of investment analysis, so parsing through sustainability information is not very different," he says.

This belief in the capability and adaptability of asset managers is shared by Daron Pearce, brand ambassador for EMEA at Goal Group, who argues that companies are used to high quantities of data being requested from them. Instead, he proposes, the question of data quality lies with regulators — "will [they] use the data provided in a meaningful way?"

Whether or not the regulators are asking for the right data will surely become apparent as SFDR II kicks in and becomes an operational reality, but as of yet, it is still up in the air whether companies will be able to provide the data in question at all.

Eliane Meziani, senior advisor for public affairs at CACEIS, agrees that data quantity may not be the problem — technology developments have made it possible for companies to keep up with increasing volumes of data demands. However, she warns that the data itself, particularly of the non-financial variety, may prompt quality, validity and transparency issues. Similarly, LPA's Ba emphasises the importance of technology for the road ahead. "The biggest challenge for firms is to implement an IT ecosystem for ESG and SFDR that includes sustainability indicator monitoring tools," she says. Finding the right technology required to effectively comply with SFDR II will be a problem in itself, with time, money and labour costs for a single regulation piling up.

An impossible task

PositionGreen's annual ESG report has already predicted that more than half of Scandinavian firms will be unable to comply with SFDR II as a result of poor Scope 3 emissions (indirect emissions that occur in the value chain) reporting. Without significant changes in data regulation, SFDR II simply will not run smoothly for a huge number of market participants.

"The poor reporting of Scope 3 is an issue of concern for all asset managers and not just for Scandinavian firms," says Afzal Amijee, commercial director at Broadridge Fund Communication Solutions, as "Scope 3 reporting is probably one of the most challenging ESG metrics to measure, track and report on a consistent basis".

He stresses the fact that SFDR is "just one piece of the sustainable finance agenda", a component meant to be complemented by other regulation and guidance. This is a sentiment that Deloitte's Venti echoes, saying that "from a regulatory perspective, the problem should be solved once the Corporate Sustainability Reporting Directive enters into force".

> ***"Scope 3 reporting is probably one of the most challenging ESG metrics to measure, track and report on a consistent basis"***
>
> **Azfal Amijee, Broadridge**

But of course, it is not that simple: "Unfortunately, due to a timing mismatch, SFDR reporting requirements must be implemented first. This means that asset managers are asked to report a figure that is not yet disclosed by most of their portfolio companies," he affirms.

The absence of regulation coordination in this early instance does not provide much hope for a straightforward rollout next year. Structures are not yet in place to enable many companies to comply with SFDR II, something that will doubtlessly provoke further mistrust in ESG veracity from market participants.

Time's up

Compliance timeframes may also prove difficult. The Commission de Surveillance du Secteur Financier (CSSF) has said that it aims to release data stamps by 31 December 2022, provided that companies have filed the relevant documents before 31 October. The two-month deadline is fairly tight, and the question of whether documentation will actually be ready in time for implementation remains to be answered.

Goal Group's Pearce has a positive outlook, assuring that "the industry is working towards the deadlines with great energy". However, he acknowledges that "the simple answer is that some [firms] will be ready, and some will need extra time".

"SFDR's objectives are clear. Whether it is actually possible to comply with its wide-ranging requirements to the full is another matter"

Eliane Meziani, CACEIS

After a two-year delay, it would be easy to assume that companies and regulators alike have had time to work together and ensure a transition that is as easy as possible, but it seems that SFDR II's arrival will be no less chaotic than its predecessors'.

"Compliance with SFDR demands that managers establish entirely new risk management procedures," says CACEIS' Meziani. "This is a serious challenge for asset managers in terms of technology governance: ensuring that all the necessary systems and digital processes are implemented in a timely manner. It involves significant change to the human, technical, organisational, financial and sales sides of their business."

Further SFDR compliance requirements add more pressure to an already overloaded industry. "SFDR's objectives are clear. Whether it is actually possible to comply with its wide-ranging requirements to the full is another matter," Meziani adds.

What happens now?

Although the rise in recent years of sustainable investing demonstrates an awareness of one of the central concerns of our time, the constant regulation additions and amendments, and the lack of clear guidance, may be seen as a panicked rush to keep up with market demand rather than a genuine search for sustainability.

On top of this, as funds are rapidly reclassified — moving between SFDR's Article 6, 8 and 9 classifications — greenwashing and opaque ESG data remain concerns that the industry does not seem to be able to find a solution for.

Considering the role of regulation, Pearce concludes that "global standards are required to ensure fair and appropriate comparisons of funds from an ESG perspective. SFDR II is an important and positive step towards these standards."

Companies may be actually changing their approaches, bringing in a new era of sustainable investing. But, as Deloitte's Bebee says, SFDR is just the "first moving piece" in the regulation that is yet to come.

It is clear that SFDR II will not be the catalyst that solves every problem around sustainable investing — in fact, it may even create more along the way. However, the industry's consideration for ESG and sustainability is undoubtedly a positive shift.

Considering the broader context of ESG regulation, Apex's Chignell warns that contradicting regulatory frameworks across countries are an issue that needs to be addressed for regulations like SFDR II to be effective and efficient. "The inconsistencies between various proposed and existing disclosure regulations continue to exist," he says. "This fragmentation may increase the reporting burden for companies offering financial products across different jurisdictions."

Although the road ahead may be a little bumpy, as it has been so far, the industry is slowly but surely heading in the right direction. "The sustainable movement has much momentum behind it and there is a strong determination, especially within the EU, to transition towards a more sustainable economy," CACEIS' Meziani states. She adds that companies can "no longer just pay lip-service to green issues," a stance that could see them face serious reputational damage.

"The future of sustainable investing will be a phased journey," Bebee predicts. The development of ESG regulatory requirements, although they are not yet ironed out, is better than nothing at all.

"As investors build their knowledge not just on the topic of 'what is sustainable investing?' but also on: 'do my investments simply align, or actually enable sustainable objectives?' we would naturally hope that sustainable investing becomes a better-informed decision," she concludes. ■


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Thomas Gardner
Head of sales, financing and securities services, Hong Kong
Standard Chartered

Connecting the dots

Thomas Gardner, head of sales, financing and securities services, Hong Kong, at Standard Chartered, explains how Asia's asset growth is highlighting the importance of regional custodians

The search for yield is bringing more global asset managers to Asia, even as the local industry is growing quickly. Global investment houses and local funds are seeking to invest in Asian assets on behalf of global and regional asset owners to gain access to the growth opportunities there. Many of these institutions are discovering that Asia's markets are more easily navigated in partnership with a custodian bank that specialises in the region.

Resilience in diversity

In recent years, the focus on APAC assets has intensified. Global assets under management (AuM) crossed the US $100 trillion mark in 2020, and between 2009 and 2019, AuM in Asia, excluding Japan and Australia, posted a ten-year average growth of 16 per cent, against 7 per cent and 6 per cent in North America and Europe respectively. China was the main driver. That trend looks set to continue.

Despite a couple of difficult years for China, the region's lodestone, its medium and long-term prospects remain positive — given the size of its internal market and the still-rising prosperity of its middle classes. The diversity and strength of regional economies beyond China bodes well for Asia's resilience, bolstering its appeal to global investors.

At the same time, asset owners are no longer predominantly invested in just the US or Europe; there is a growing demand for regional asset managers focused on Asia, something that has been encouraged by the region's regulators. Key Asian markets have eased market entry requirements and launched various schemes to support their local industry.

New vehicles such as Hong Kong's open-ended fund company (OFC) and Singapore's variable capital company (VCC) have made it easier for fund managers to establish local fund structures, preserve client confidentiality and access grants and incentives. By June this year Singapore had registered 590 VCCs, despite the vehicle type only being established in 2020.

Managing the complexity of legacy

Asia's diversity might be a source of economic resilience, but it also poses an administrative challenge for investors and asset managers. While local custodian banks exist, they may only service plain vanilla funds with primary exposure to a single market. On the other hand, whilst also servicing domestic managers effectively, regional custodian banks are more suited to providing solutions to manage the complexity that global asset managers face, through a strong regional footprint, advanced reporting and multi-faceted service capabilities.

Some of Asia's biggest asset owners tend to be national in nature and perspective. Asia's insurance industry, for instance, evolved at a country-by-country level.

While regional insurers have emerged as a result of cross-border acquisitions, their portfolio companies usually remain quite separate, with their own management teams, technology stacks, operational flows, fund administrators and custodians.

This creates a web of complexity for custodians in Asia. Insurers' legacy companies have their own individual systems that interact with each other via improvised technological fixes, in order to achieve reconciliations. Standard Chartered's experts can work with such insurers to mitigate the latency and risk of inherent errors to this kind of arrangement.

Standard Chartered, as a regional custodian, has spent time with clients in the region to understand Asia-specific challenges, looking at how it can leverage its focus on innovation and data to drive more efficient operational and reporting processes. The strength of its solutions is derived from its physical presence in these markets.

Its teams have extensive local knowledge and experience, often fostered through industry working groups and continuous engagement with Asia's regulators, asset owners and managers. This also allows regional custodians to share local trends and insights with their clients. Standard Chartered's organisational structure is designed to give a local, regional and global view.

Its strategic investments are also aligned to service regional relationships and offer flexibility and interoperability in servicing its clients' operating models.

This includes its regional custody infrastructure, which gives its clients a real-time update of their holdings across markets via a shared ledger concept.

Additionally, its data strategy focuses on providing clients with a suitable channel of choice to enhance data quality and connectivity – channels such as application programming interfaces, chatbots and more.

Understanding Asia's regulators

Asia's regulatory environment is another source of complexity for global funds entering the region. While they may have a good understanding of the regulators in their home country, getting to grips with their counterparts elsewhere can be time consuming. Each regulator operates independently, and each market has its own nuances – Taiwan is very different to Korea, which in turn is very different to the Philippines.

This is where Asia specialists can help — leveraging decades of experience for the countries in question. As a pioneering custodian bank in Singapore, with more than 80 years of custody presence, Standard Chartered has had a unique vantage point to understand the evolution of Asia's most important markets – and help its clients navigate through it.

Custodian banks with a longstanding regional footprint can illuminate the current regulatory context to clients and assist with administrative processes, for instance by pre-populating documentation.

Regional specialists are also able to foresee and even shape how regulations will change. For example, the COVID-19 pandemic made exchanging physical signatures very difficult due to social distancing rules.

Through its existing relationship with the Taiwanese regulator, Standard Chartered advocated for e-signatures to be accepted in local documentations. Being on the ground, and having a strong market presence, enables regional custodians to advocate for clients more effectively.

Such relationships don't just help surmount regulatory hurdles, they also make it possible to perceive opportunities at an early stage. Standard Chartered was recently appointed custodian for Singapore's first authorised VCC T+0 money market fund by iFAST, a demonstration of its long-standing partnership with iFAST in Asia and the expertise of Standard Chartered's financing and securities services business.

Asian markets are rapidly evolving, with changes that have direct implications for foreign investors' market access. By partnering with institutions that have a deep-rooted understanding of the region and a strong, continent-spanning physical presence, global investors entering Asia can accelerate their plans and gain exposure to the region's tremendous growth potential. ■

Timothy Bonin joins UMB Fund Services

Timothy Bonin has left BMO Global Asset Management to become director of fund operations at UMB Fund Services. Based in Wisconsin, Bonin served as vice president, chief financial officer and treasurer of BMO Funds for more than 16 years. With more than 25 years' experience in financial services, Bonin has experience in the investment advisory, open-end mutual fund, closed-end mutual fund, exchange-traded funds, and hedge fund industries.

Bonin also held the role of financial services senior manager at PwC from 1993 to 2006. ■

Northern Trust has appointed Alvin Chia as head of digital assets innovation for the APAC region.

Based in Singapore, Chia will report to Justin Chapman, global head of digital assets and financial markets. In the role, Chia will work with industry bodies, fintechs, regulators and government entities to provide APAC clients with the bank's digital asset strategy and influence market change in the region.

Chia joins from Bain and Company, where he was most recently expert senior manager of innovation. Prior to this, he was vice president of innovation at DBS Bank for more than three years. He has also held several academic positions at the National University of Singapore.

Commenting on Chia's appointment, Chapman says: "We continue to see the pace of innovation continuing across the funds administration and custody sector, with the APAC region experiencing a transformational period in light of new technologies. We are pleased to appoint Alvin to this new role, leveraging his skills in fintech to help us continue to drive change and support our clients' requirements."

Northern Trust's digital assets and financial markets group was launched in June 2022, and combines the digital and traditional market functions of its asset servicing business.

Technology subsidiary of FIA, FIA Tech has appointed Debby Planer to the newly created role of vice president, head of connectivity.

Based in New York, Planer will report to chief technology officer Yossi Leon. She will lead the team that develops and manages connectivity to central counterparties, execution platforms, back-office providers and brokers to acquire and manage data flows into and out of FIA Tech's product offerings.

Prior to joining FIA Tech, Planer was global head of FX professional services at Osttra, previously CME Group, overseeing a team of project managers responsible for implementing FX post-trade solutions.

Before this, Planer led the New York client services team at Traiana.

Leon says: "We are thrilled that Debby has joined FIA Tech, she has great expertise in building teams of connectivity and integration experts and managing integration to complex and diverse data sources. She is a valuable addition to our team."

BNP Paribas appoints Franck Delbes as CEO of Manaos

BNP Paribas Security Services has appointed Franck Delbes as CEO of Manaos, replacing interim CEO Philippe Ruault. Delbes will be responsible for spearheading Manaos' continued development of ESG and fund data services for institutional investors.

Manaos is an investment services platform which connects institutional clients to ESG data and analytics.

It also provides clients with easy access to ESG data and analytics providers to help them calculate the overall ESG performance of their portfolios and access cross-provider ESG information on underlying funds.

Delbes has 25 years' experience in the investment industry and was most recently global head of operations at multi-manager investment firm Architas. ■

Taskize appoints Alan Samuel to senior role

Post-trade solutions provider Taskize has appointed Alan Samuel as global head of sales.

Based in London, he will be responsible for continuing to drive the growth Taskize has experienced globally this year.

Samuel has more than 30 years of experience in market infrastructure. Most recently, he held the role of chief sales officer of London Stock Exchange's listed low-latency cloud provider Beek's Group. Prior to this, he was an account director at Equinix.

Before Equinix, Samuel served at BGC Partners, where he focused on the management of e-FX institutional sales.

The growth of the Taskize's network has been driven by the wave of new regulations such as the Settlement Discipline Regime of the Central Securities Depository Regulation and the Uncleared Margin Rules, along with industry initiatives such as T+1 settlement.

Commenting on his new role, Samuel says: "Taskize is leading the way in post-trade issue resolution for the financial services industry. As an innovator in the field of post-trade financial technology, I am excited to join the Taskize leadership team and be a part of the next phase of their growth story."

Philip Slavin, CEO of Taskize, adds: "Alan's background dovetails perfectly with our sales strategy. As more market participants look for solutions that facilitate faster and more efficient resolution of settlement breaks and margin disputes, Alan's industry experience makes him ideally placed to help drive our continued expansion." ■