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J.P. Morgan Securities Services becomes ISSA member

J.P. Morgan Securities Services has become a member organisation of The International Securities Services Association (ISSA).
As part of the agreement, J.P. Morgan's Hannah Elson, managing director and global head of custody, will represent the company as a member of the board. Elson has served at JP Morgan Chase and Co since 1997.

Phil Brown, ISSA chair, says: "J.P. Morgan Securities Services joining the ISSA board is another sign of industry confidence in ISSA's commitment to drive change in the industry by collaborating with the world's best custody firms. We are delighted to have Hannah on the board."

On accepting the nomination, Elson says: "I have watched ISSA transform over the past three years, and I'm confident that the association will continue to drive change and innovation in the industry. I am excited to join the board to support ISSA in shaping the future of securities services in the coming years." ■

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Waystone Group set to acquire LFS as FCA announce pay redress over Woodford failures

Asset servicing provider The Waystone Group is set to acquire the Irish and UK businesses of Link Fund Solutions (LFS), a division of Link Group, subject to regulatory approval. As part of the acquisition, Waystone will work with investment managers and fund sponsors to build and support fund structures and to protect the interest of fund investors.

The acquisition, which follows Waystone's acquisition of T. Bailey Fund Services in 2022, is part of an effort to further strengthen Waystone's presence in the UK. It will also broaden Waystone's UK offering to include transfer agency and alternative administration. In addition, it further expands the Group's administration offering following its acquisition of Centaur Fund Administration in January 2023, together with a further strengthening of the Group's Irish Management Company (ManCo) offering — this follows the acquisition of KB Associates in 2022.

As part of the LFS acquisition, 600 staff will join Waystone. The mandate also includes the opening of the Group's first India office, where it will welcome 150 employees.

Karl Midl, CEO of LFS, comments: "We are delighted to be joining Waystone, who are well known as a leading European fund services provider in our industry. We look forward to working with Waystone to continue to build the confidence of asset managers, asset owners and investors in the fund market."

Nancy Lewis, executive chairman of Waystone, says: "The LFS acquisition further underscores Waystone's strategic ambition of becoming the global leader in asset servicing. With our dual strategy of external and organic growth, driven by strong leadership and senior management, we will continue to expand our reach and deepen the quality of services we offer worldwide."

In September 2022, The UK Financial Conduct Authority (FCA) provided an update on its investigation of the liquidation of the Woodford Equity Income Fund (WEIF), in which it said, by association, LFS could be required to pay up to £306 million in penalties. The update followed announcements made by the wider Link Group in which the company affirmed its potential acquirer, software company Dye and Durham (D&D).

D&D's proposed takeover of Link Group involved the acquisition of seven firms authorised by the FCA. One of these firms is LFS, which managed the WEIF.

On 19 April it was announced that LFS has agreed to provide a significant redress payment to investors in the WEIF of up to £235 million. The redress is to cover losses to over 300,000 investors in the WEIF, as a result of failures by LFS. As the authorised corporate director (ACD) of the WEIF, LFS is responsible for managing the liquidity of the fund. The redress agreement is subject to completion of a sale of the LFS business, which will generate up to £140 million in sale proceeds.

The FCA says it has received appropriate information from Waystone and assurances from LFS and Link Group that fair value of these assets has been represented.

The FCA's investigation found that, as ACD, LFS had responsibility for ensuring the WEIF operated with appropriate liquidity risk management and controls, and that "all investors in the fund were treated fairly."

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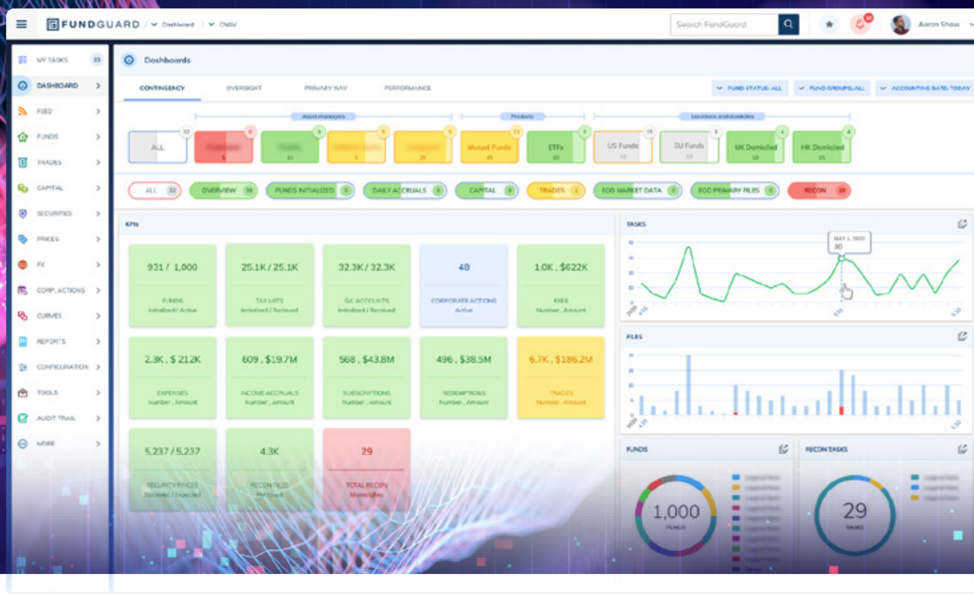

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The FCA considers LFS to have made critical mistakes and errors in managing WEIF's liquidity, and the fund failed to have a "reasonable and appropriate" liquidity profile from September 2018.

By 1 November 2018, LFS's failure to have properly measured the liquidity of the WEIF meant that investors leaving the fund from that point onwards "benefited disproportionately from access to the most liquid assets in the fund which were sold," the FCA says.

It considers that those investors who continued to hold investments in the WEIF, at the time of its suspension, were treated unfairly because this left them with a "disproportionate share of the remaining assets which were more illiquid."

There are other parties under the investigation of the FCA in relation to the circumstances that led to the suspension of the WEIF.

The association has affirmed that these investigations are set to continue and it will consider any further failings which may have negatively impacted investors.

GCEX and Komainu extend partnership to staking services

Digital prime brokerage GCEX will now provide its institutional and professional investors with access to digital asset custodian Komainu's staking services.

GCEX began its partnership with Komainu in February 2023, to offer a wider range of regulated custodians to its clients. The expansion of the partnership will allow clients to earn rewards on their digital assets while remaining under secure and segregated custody, GCEX says.

Lars Holst, GCEX CEO, says: "[Extending] our partnership with Komainu gives our clients access to secure and compliant staking services, enabling them to participate in staking rewards for digital assets. We are committed to providing our clients with the best possible service and this partnership is a testament to that."

Darren Jordan, head of sales at Komainu, comments: "Offering custody alone doesn't cut it anymore, the market demands more innovative solutions, clients require utility of their assets. That is why Komainu built a suite of services including regulated custody, staking and collateral management."

Deutsche Börse to table bid for Simcorp

Deutsche Börse has entered into a binding agreement with Simcorp, through which the German market infrastructure giant will make a cash offer for 100 per cent ownership of the Copenhagen-headquartered buy-side technology company.

Simcorp's board of directors intend to recommend to company shareholders that they accept Deutsche Börse's offer. Members of Simcorp's executive management board and board of directors have agreed irrevocably to accept the offer or otherwise sell their shares to Deutsche Börse.

The public takeover offer will be for all Simcorp shares, with the exception of treasury shares, at DKK 735.0 per share (€98.6 per share), which puts a valuation of €3.9 billion on the target company.

Deutsche Börse says, in a public statement, that this represents a 39 per cent premium to the Simcorp closing price on 26 April and a 45 per cent premium to the three-month volume-weighted average price.

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The two companies indicate that the Simcorp purchase will complement Deutsche Börse's existing data and analytics businesses and lay the foundations for a full front-to-back investment management solutions segment.

This also builds on the existing cooperation between Simcorp and Deutsche Börse subsidiary Qontigo, established in 2021.

Deutsche Börse intends to combine Qontigo with its existing investor communication arm ISS and has reached an agreement in principle with US growth equity investor General Atlantic to create a leading ESG, data, index and analytics provider, with General Atlantic becoming sole minority shareholder of the Qontigo entity.

Nasdaq Private Market launches service to improve settlement of private company shares

Nasdaq Private Market (NPM) has launched a service to settle private company transactions, regardless of trading venue. NPM's Transfer and Settlement Solution (T&S) has been designed to outsource the complex and non-core administrative activities associated with the transfer and settlement of private company shares.

The offering will provide an end-to-end share transfer workflow and dashboard for private companies, and the broker-dealers that serve them, to better manage and monitor private stock transactions.

T&S aims to address many of these systemic issues of the settlement process by storing and populating stock transfer agreements (STAs) and centralising stock transfer notice (STN) requests.

T&S ensures issuers can verify holdings prior to transfer execution and download complete investor questionnaires, while brokers and issuers can review buyer and seller submissions.

It also includes issuer and broker-specific processes to interact with participants such as custom STNs and provides buyer and seller onboarding, Right of First Refusal (ROFR) processes, STAs and flow of funds.

Users can monitor trade activity in real-time through various dashboards, to track STA execution, view submissions, participants and transfers in progress. ■

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Putting a regulatory structure on sustainable finance

CACEIS' Pat Sharman and Matthew Ives provide a summary of their consultation with asset managers and host ACDs on the UK's Sustainability Disclosure Requirements

The Financial Conduct Authority's (FCA's) proposed Sustainability Disclosure Requirements (SDRs) are creating considerable debate in the asset management industry. CACEIS recently held a roundtable with asset managers and host authorised corporate directors (ACDs), together with the Investment Association and Clarity AI, to debate the new proposals as part of the FCA's recent consultation on SDR.

In short, the FCA is putting a regulatory structure into the ESG space in the UK through the SDR proposals, which should not be seen as equal to Europe's Sustainable Finance Disclosure Regulation (SFDR). Observers have noted that the FCA looked at the SFDR regime as a starting point, but the more SDR diverged from SFDR, the more regulatory fragmentation between the two increased.

What challenges does this create? And what will be next for SDR?

Broad-based objective

The UK Government's green finance strategy focuses on the entire investment value chain and is supposed to be 'economy-wide'. There are obligations for issuers and corporations to incorporate and provide non-financial disclosures, in line with the International Sustainability Standards Board (ISSB).

This information will then flow to asset managers, who will need to provide SDR reporting. This flows to institutional investors, who already have specific reporting requirements from the Task Force on Climate Related Financial Disclosures. The process requires a lot of sequencing to work well. However, sequencing is out of step because there are different timelines for the implementation of SDR and ISSB.

SDR is a good example of how the FCA is looking to set a high bar for what is deemed to be 'sustainable', but it is important that the proposals serve the needs of consumers.

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A gap exists between the existing shape of the market and the SDR proposals, which could lead to widespread changes in the market and narrow choice — especially considering how portfolio managers construct their funds.

Furthermore, multi-asset funds and fund of funds are vulnerable because they may not receive a label — even if they have sustainable objectives. They could be investing in individual funds that meet the labelling criteria for SDR but, when aggregating everything at portfolio level, they might fail to meet the SDR requirements even though they are sustainable.

There are also numerous funds in the market with ESG tilts or exclusions. These are 'lighter shades of green' and could fall outside of the labelling definitions, despite demand from investors for such funds.

To date, the FCA has issued a policy statement on SDR indicating that it is "clarifying how different products, asset classes and strategies can qualify for a label, including multi-asset funds and blended strategies." The FCA has confirmed that the SDR proposals will now be published this autumn.

At a glance, there are key differences between SDR and SFDR. For SFDR, Articles 6, 8 and 9 represent disclosure levels, which means it is very difficult to assess what the sustainability objective of a fund is.

In contrast, SDR allows investors to carefully choose what they want their money to do when it comes to sustainability. However, recent reports have highlighted that the European Commission is considering axing the Article 9 fund category.

Meanwhile, in the US, proposals are underway to develop fund categories that mirror the UK's SDR requirements more closely, with these rules expected to be published later this year.

There will still be tweaks around the edges for SFDR — there is a current consultation to introduce thresholds for Article 8 funds that want to include sustainability or ESG-related terms in their name.

A balancing act

According to one of our roundtable participants, investors have more to consider and more that they might not understand. Industry opinion differs around the potential virtues of broadening labels. "End investors are now becoming more mindful about where their money is invested and the SDR labels will help investors to filter how they choose to invest their money for sustainability," noted another attendee.

If labels are expanded to have different shades of green, this could be more confusing for the end investor. "I don't think adding more options to SDR will make it easy for end investors," said the attendee. "There needs to be greater transparency around how a fund is meeting its sustainability goals."

The term 'sustainability investing' means different things to different people, so proper and transparent reporting as well as communication around a fund's sustainability goals becomes much more important.

Challenges remain. "I don't know if end investors know what they want," said another roundtable participant. "The SDR proposals are already determining certain levels of sophistication and narrowing of views — investors want something that is more sustainable than they have now, but they might not necessarily want to invest in an impact fund."

It appears that the term 'impact' is not always well understood by investors, but tags such as 'light green' or 'dark green' will make it easier for end investors to make choices. Focusing on the end investor has been the watchword for the industry. Some investors may just want to invest in sustainable funds without getting into the nitty-gritty, while others will be more 'sophisticated'. This is where the use of tags becomes particularly relevant. From an end investor perspective, some may specify that they want a fund to have specific ESG characteristics. Education will play an important role to ensure that investors are well equipped to interpret the SDR label — especially given consumer duty and the focus on accessibility and comprehension.

Education will also be key for the industry — particularly to shape how labels are used as a marketing tool across the distribution chain. One potential consequence is that this may narrow access or visibility for end investors to funds that do not have a label, meaning that end investors could miss out on good investment opportunities as distributors concentrate their efforts on funds that have a sustainability label.

"The FCA's behavioural research found that consumers are increasingly demanding financial products that take sustainability into account"

A recap of the SDR's three categories

The FCA's behavioural research found that consumers are increasingly demanding financial products that take sustainability into account — and this has been a key factor shaping the SDR proposals. Here, investment products must meet one of the three clearly defined criteria:

Sustainable Improvers: the investment product or fund invests in companies that are clearly transitioning to better outcomes. The essence of this category is stewardship. It requires asset managers to provide evidence to show they are engaging with and monitoring the companies they invest in to validate whether these are on the expected path to reduce their carbon emissions.

Sustainable Focus: the fund has a sustainable focus.

Sustainable Impact: the fund has a clear objective of delivering a positive environmental or social impact.

These three labels are a change from the earlier expectation that the regulation would stipulate five categories. Furthermore, the key difference between SDR and SFDR is a requirement in the Sustainable Focus category that a minimum 70 per cent of a fund's assets must meet credible sustainability standards.

How complex is the 'improvers' category'?

Some asset managers and ACDs remain concerned that end investors will struggle to understand the 'improvers' category. This raises complex questions, and even institutional investors may require further information before they are comfortable with what this classification involves. To begin with, there is a question around timeframes — how long can an improver be an improver before it needs to exit a fund's portfolio?

As part of the SDR guidance, asset managers will be required to provide key performance indicators to hold their funds accountable against their sustainability objectives. This will also require escalation plans to address fund holdings in investments that are not meeting their sustainability goals or targets.

Additionally, there is the challenge of data, especially around the assessment of Scope 1, 2 and 3 emissions and testing the robustness and validity of transition plans. This requires strong evidence of stewardship and provision of supporting data to monitor how companies are improving their sustainability goals.

> *"Expectations continue to rise regarding the role that fund boards will play in challenging sustainability criteria. For fund boards, it is critical to have access to the right information — setting key performance indicators that measure performance against objectives, helping them to challenge how the fund is being run."*

In this respect, transparency is key. It is not just a question of ensuring a consistent methodology across each asset manager — it is also essential that this methodology is transparent. Two distinctly different funds may say they can comply with this category, but they may apply very different methods to define 'improvers'.

Are fund boards ready?

Expectations continue to rise regarding the role that fund boards will play in challenging sustainability criteria. For fund boards, it is critical to have access to the right information — setting key performance indicators that measure performance against objectives, helping them to challenge how the fund is being run. Again, education remains an essential factor — recognising that some fund boards may not have the knowledge in areas such as ESG and climate risk to ask the right questions.

Similarly, in providing oversight, host ACDs must have access to the right data to ensure that the asset managers they oversee are meeting sustainability objectives.

Sustainable focus category

An important consideration for policymakers, and for the industry, is whether the 70 per cent threshold for the SDR's Sustainable Focus category is too high. Opinion currently differs on whether this is the case.

One respondent reflected on how it is difficult to explain to a retail investor that a fund is sustainable, but that it has a lower percentage of sustainability-type investments than funds with a Sustainable Improvers or Sustainable Impact label.

Another indicated that the 70 per cent threshold is welcomed — recognising that SFDR lacked specifics — and that "managing the 70 per cent threshold should be fine for asset management firms from a compliance and risk perspective, given that they already have systems and controls to manage elements like investment parameters." Further, there are practical issues to consider. Fluctuations in the underlying assets can tip funds above or below this threshold.

Significantly, the FCA does not specify how firms should define sustainability, although it is widely recognised that some form of guidance is necessary. In the SFDR regulations, Article 2 (17) attempts to define sustainable investments across three areas — a contribution to social or economic objectives, a commitment to the 'do no significant harm' (DNSH) principle and good governance.

It is for asset managers to decide how they navigate around this framework. However, more needs to be done to define sustainability for UK-based institutions.

SDR is already here in spirit

There are still questions around how the FCA will police SDR. Participants in the CACEIS SDR roundtable indicated that asset managers who are launching new funds are already being held to the standard of the SDR consultation paper for new fund authorisations. The FCA already has a wide range of tools to monitor SDR through its thematic reviews. Elements of SDR might also find their way into the Assessment of Value regime, which remains firmly on the FCA's radar.

We should also reflect on unintended consequences that may result from SDR, including the possibility that sustainability labels may re-engineer the way that funds are managed.

Could a track record for funds (relating to SDR labels) inadvertently contribute to stagnation in securities markets as asset managers aim to maintain equity and bond holdings that meet SDR criteria? Many are already doing this, and for much longer periods, to give them time to demonstrate their sustainability record.

Finally, will asset managers weigh up the challenges of fitting their funds into one of the labels and simply opt to remain outside of these categories?

Recently, many SFDR Article 9 funds have been downgraded because asset managers decided that they did not wish to fulfil the requirements applied to an Article 9 fund.

Looking forward

The route to SDR is now well travelled.

The recent FCA update on its SDR and investment labels consultation highlighted that the regulator intends to publish the policy statement in Q3 2023, and that "the proposed effective dates will be adjusted accordingly."

It is encouraging that the FCA is still firmly seeking to introduce robust standards to ensure that the UK 'remains at the global forefront' of sustainable investment. ■

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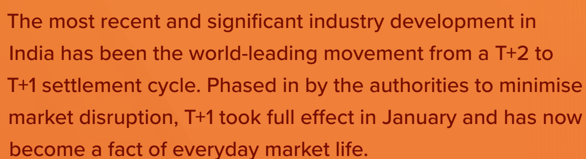
Moving on up

Brian Bollen discusses India's move to T+1 and its growing custody and funds landscape



The most recent and significant industry development in India has been the world-leading movement from a T+2 to T+1 settlement cycle. Phased in by the authorities to minimise market disruption, T+1 took full effect in January and has now become a fact of everyday market life.

"T+1 is progressing well, as we had the time to address technology and operational issues, although minor challenges around funding remain," says Leena Aich, head of sales and client coverage, Securities Services India, Citi.

India's reform zeal shows no sign of dissipating. While the US and Canada have decided to wait until 2024 before adopting T+1 for domestic equities, India has raced ahead with changes to its settlement cycle. Having previously operated a T+2 model, the Bombay Stock Exchange and National Stock Exchange of India have both successfully introduced the T+1 settlement cycle for all equities listed on their respective exchanges since 27 January 2023.

The decision by the Securities and Exchange Board of India (SEBI) to implement T+1 has been driven by a number of risk considerations. A shorter settlement duration will mean that investors incur less market and counterparty risk during the trading lifecycle, enabling them to benefit from reduced margin requirements and collateral optimisation.

With less capital trapped inside central counterparty clearing houses (CCPs), there will be greater liquidity available in the market. Aside from unlocking liquidity, T+1 could also help drive efficiencies in post-trade processes, which have historically been heavily intermediated and manually intensive. A T+1 model will encourage intermediaries, including custodians, to enhance existing technologies as well as adopt new ones in an effort to improve automation within the industry.

Implementation of T+1 required custodians to revise the instruction cut-off time for clients, make necessary changes to FX and funding arrangements, and enhance system capabilities to accommodate the new cycle.

"Standard Chartered made necessary changes in the local settlement system well before the market went live, and also introduced a night desk to process client instructions that are received overnight," affirms Standard Chartered Bank's Margaret Harwood-Jones, global head of financing and securities services.

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"Large local banks' securities services businesses and brokerage houses have been aggressively winning market share with competitive pricing. Counterparty risk has also emerged as a key evaluation criteria in the selection of foreign and domestic providers, as well as the ability to access holistic solutions"

Margaret Harwood-Jones, Standard Chartered

An investment destination

Geopolitical tensions are impacting investment flows, particularly as the war in Ukraine rumbles on. Yet despite this, India's attractiveness as an investment destination remains. It has demonstrated itself to be a fast-paced market since the opening up of the economy and has macro stability, despite three challenging pandemic years.

It also boasts a strong external sector, political stability and sound policy measures. From a structural perspective, it has a young population (50 per cent of the population is below the age of 25) and it is likely to be the third-largest economy by end of the decade. These are both key positives — especially in an environment where the world is looking to diversify its manufacturing base to more reliable locations.

The Indian government has been pursuing a series of reforms over the past several years to boost private investment and improve macroeconomic stability. Corporate tax rate cuts, the implementation of insolvency and bankruptcy code, production-linked incentive schemes, inflation targeting and a large-scale clear-up of the banks balance sheets place India in a unique position.

Some of the changes seen in the market to support this unique position include domestic reforms and growth agendas by capital markets regulators and government. Changes are intended to drive the regulatory transparency of different investment entities, promote investment activities and ensure appropriate risk governance, such as changes to the SEBI master circular for foreign venture capital investors.

Custody services

The competitive landscape has remained largely unchanged for custody business for institutional investors; the wallet is shared primarily among five large foreign custodian banks.

There is competition in the domestic custody and fund services space from local service providers, affirms Harwood-Jones. "For example, large local banks' securities services businesses and brokerage houses have been aggressively winning market share with competitive pricing. Counterparty risk has also emerged as a key evaluation criteria in the selection of foreign and domestic providers, as well as the ability to access holistic solutions.

"No new custodians have emerged in the last couple of years, but we have seen a few existing providers specialise in niche asset classes, such as being a custodian for commodities, and those catering to domestic alternate investment funds (AIF) and portfolio management service providers. No existing provider has left the business."

She adds: "Most custodians in India support both the domestic asset manager's investment in India, as well as foreign investors accessing India aross portfolio, venture capital and strategic investment routes. Those custodians

who have an international network, such as Standard Chartered, are using the same to facilitate the domestic asset manager's investments in markets outside India."

Dr Bhaskar Dasgupta, non-executive director of Apex Group's MENA and India boards, says: "India continues to be seen as a safe investment destination for various reasons, including its strong growth, responsive and progressive government and receptive regulators that are willing to hear constructive criticism about enhancing the country's business and financial frameworks.

"India has shown itself to be a resilient and adaptable market, and we see huge opportunity for growth both domestically, created by a thriving and expanding private equity and venture capital sector, and in connecting Indian capital to other international financial centres."

With rising global fears around recession and spiking inflation, there are fears about the stability of some of the world's leading financial hubs. However, there's undoubtedly room for optimism where India is concerned. India's fund management and banking sectors have shown impressive growth, but targeted action could unleash further potential.

International banks, such as J.P. Morgan, Citi, HSBC and Standard Chartered, provide all aspects of fund and custody services to large players in the market, both international and domestic.

Domestic players such as SBI, Edelweiss and Kotak focus primarily on other domestic players. There are also specialised, independent international providers, such as Apex Group, who serve international and domestic clients of all sizes.

The fund, custody and securities services providers in India have remained relatively consistent since the 2008 Financial Crisis. As Dasgupta explains: "For any international service provider seeking Indian growth, India cannot be considered an 'offshore' centre. To ensure success, it must be considered a key strategic location for delivering high-quality services for clients, whether they are in India, Indonesia or Ireland."

"With rising global fears around recession and spiking inflation, there are fears about the stability of some of the world's leading financial hubs. However, there's undoubtedly room for optimism where India is concerned. India's fund management and banking sectors have shown impressive growth, but targeted action could unleash further potential"

Dr Bhaskar Dasgupta, Apex

He adds: "Consolidation in the fund services sector, while advanced in other geographies, such as Oceania and Europe, is only just beginning in the Indian market. There have been no significant exits by fund services providers there. However, reputation is exceptionally important, with a significant proportion of new clients referred by existing satisfied and long-tenured clients.

"The global talent market, especially in India, has become more competitive than ever before. Service providers need to embrace new ways of thinking about how they grow headcount and fill critical roles. Global businesses operating and growing in India can set themselves apart as an employer of choice by emphasising the development and promotion opportunities they can offer Indian employees." ■

The change down in Africa

Brian Bollen discusses the macroeconomic changes affecting the African custody landscape and the up-and-coming players in the region

"What is important about the African custody market?"

This was the question put to a number of industry experts. Interviews were conducted just as the news of the Sudan crisis hit the front pages of newspapers worldwide. Despite this, many other African countries have been experiencing rapid economic growth.

Rwanda, Côte d'Ivoire, Benin, Ethiopia and Tanzania are all among the 10 fastest-growing economies in the world, notes Werner Gerber, regional head of customer relationship management for Southern Europe and Africa at Apex Group.

"Although Africa is a relatively small market, it holds significant potential for growth and investment opportunities, which has allowed its custody levels to grow," he says. "However, demographic trends will play a key role in determining how fast this growth will accelerate."

Gerber adds that Africa has a young and growing population, which will drive the demand for financial services in the long term. "As more people enter the workforce and accumulate wealth, they will require access to various financial products, including investment and retirement services, which often rely on custody services," he says.

"As a direct result, local and regional banks are facing increasing competition from international banks entering the African custody market, attracted by the growth potential in the region."

Region by region

Standard Chartered states that the African custody market is made up of "multiple domestic markets that are at various levels of maturity and size."

"Therefore, it simply cannot be referenced as a collective," says Michelle Swanepoel managing director, regional head, financing and securities services, Africa.

Africa's capital market and general economic growth between 2020 and 2023 is mainly attributable to domestic contribution as COVID-19 and the Russian invasion of Ukraine have challenged individual markets' fiscal positions — particularly as demand for foreign currency has increased as inflows reduced.

"In addition, the appetite for emerging market investment risk has waned and there has been a substantial outflow of investment from offshore investors. Paradoxically, domestic investment remains robust and has more room for growth, particularly with the heightened focus on the local pensions industries," adds Swanepoel.

The global bank has continued to see the development of product diversification in African markets, with new funds being tabled for approval in Nigeria and Ghana. The latter has seen the establishment of exchange-traded funds and real estate investment trusts, while in Kenya and Botswana securities lending is very much on the agenda.

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"Exciting opportunities exist in the commercialisation of technology solutions to support growth in the African funds and pensions sector," Standard Chartered says.

"There is still room for development in the post-trade environment across the digitisation agenda, with the adoption of SWIFT and other automated information exchanges by stakeholders in the trading and post-trade environment."

"Major trends include a series of infrastructure upgrades across the board," the bank continues. "Nigeria's central securities depository (CSD) is progressively introducing application programming interfaces (APIs) for clearing and settlement processes."

In South Africa, Strate, the country's principal central securities depository and central collateral platform, intends to develop a full API suite for all processes and services.

The Botswana CSD has introduced more automation as part of its system upgrade. The Kenyan market is working towards end-to-end SWIFT usage in the equities post-trade environment, while Ugandan settlement infrastructures have plans to expand the use of SWIFT in securities transactions.

Proxy voting

Depositories continue to seek new revenue streams and improve return on system investment in private markets, unlisted securities and commodities markets. For institutional investors and their intermediaries, the landscape is primarily shaped by regulations and the fact that their clients still require intermediary services for voting. Therefore, software companies may need to find a balance between direct shareholder e-voting and intermediated e-proxy voting in the near future. In December, software company Proxymity announced an agreement to connect exclusively to Computershare in South Africa to ensure the company would have golden source announcements, real-time voting and vote confirmations throughout the shareholder chain of ownership.

Bennie van der Westhuizen, CEO of Computershare South Africa, says: "Since the announcement, respective parties have been testing and integrating systems which are expected to come online soon. Vote Connect Total enables clients that have investments in South Africa to benefit from Proxymity's unique ability to convey golden source announcements, real-time voting and vote confirmations across the entire proxy voting ecosystem."

He adds: "Shareholders want convenience, certainty and trust in the technology they use. Our issuer clients also want regtech solutions that help drive greater transparency — such as the voting decisions of the underlying investors. Issuer clients want more governance, which is critical when it comes to shareholder engagement. Proxymity seeks to deliver this with their platform."

Corporate and digital developments

Switching attention to corporate developments, the recent acquisition of Maitland Group by Apex is being seen as a highly relevant motion to change the local landscape for third-party fund administration in South Africa. Apex entered the South African market via the acquisition of SANNE in 2022. Due to the purchase of Maitland, Apex now employs more than 1000 local experts in Cape Town and Johannesburg. The company also plans to hire over 500 new experts in Johannesburg over the next year to deliver its solution to a global client base of asset managers, capital markets, private clients and family offices.

"The fund administration market in South Africa is mature and increasingly dominated by domestic-based, third-party fund administrators as well as global custodian banks offering fund administration and broader banking services," explains Fiona Green, director at Adapa Advisory.

She adds: "While many major asset managers have already outsourced components of their back offices to domestic and international providers, there are larger pension funds following suit. Investment administration requirements such as portfolio accounting, performance measurement and compliance monitoring are being outsourced to custodians or third-party fund administrators."

Maitland and Apex recently won a significant mandate in South Africa, meaning that Apex will now provide portfolio management services to Eskom Pension and Provident Funds — the second-largest retirement funds in the country.

Digital assets

Financial institutions and asset owners continue to explore opportunities to diversify and expand capabilities to support digital assets in Africa.

"A notable trend in South Africa has been the increased engagement between local banks and digital asset technology providers," Green says. "The demand for digital assets in the local market is currently driven by retail demand, which has been the case for some years now."

At this early stage, engagement requirements are centred around proof of concept — an overall assessment of the digital asset ecosystem, accompanied with an analysis of how it parallels or integrates with current technology infrastructure.

Green concludes: "There is increasing interest amongst financial institutions to understand the new technology and the various ways it can be leveraged to support current and new operating models." ■

Here to stay?

Digital assets have faced a lot of criticism lately, but what's the real state of the market?

Lucy Carter reports

As a fairly nascent market, attitudes towards digital assets differ across borders, businesses and even between friends and colleagues.

Differences in attitudes across geographies "are driven by regulatory stance," says Bradley Duke, co-CEO at ETC Group. "In Europe, German and Swiss regulators really stand head and shoulders above everybody else in terms of being proactive in constructing a regulatory framework that crypto can operate within." As a result, market participants are far more comfortable engaging with the asset class as they feel that "the regulator is looking out for them," Duke explains.

In the UK, the FCA originally took a hesitant stance on crypto and, as a result, regulation is lagging behind European competitors. ETC Group already has crypto products listed on SIX, Euronext Paris and Euronext Amsterdam — but not the London Stock Exchange. "Wherever the regulator is, the markets follow," Duke affirms, "including the clearing houses."

Regulation

In many jurisdictions regulation has been lagging behind the digital asset industry from the outset, in part because regulators didn't expect the market to take off as much as it has. A panellist at Citi's Digital Money Symposium this year addressed policymakers' wait-and-see approach, which they explained has caused regulations to often be out of date by the time they go live.

This lack of preparation may be a factor in some participants' hesitancy to engage with these asset classes — a lack of solid infrastructure, inconsistent guidelines and changing standards don't spark confidence. In terms of governance the industry can seem, at times, like the Wild West.

"A lot needs to be done around regulation," says Solene Khy, head of product management and product strategy for digital assets at Murex. Crypto-native custodians who have considered regulation from the start "shouldn't be afraid of what's coming," she reassures, but those who haven't "will probably not be part of the future landscape" unless they make fundamental changes to their operations.

But there's hope on the horizon: the European Parliament recently approved the EU's Markets in Crypto-Assets regulation (MiCA), which aims to protect consumers and improve financial stability around the asset class. This is particularly prescient following

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> ***"Investors expect their custodians to support services such as trading, post trade and asset servicing"***
>
> **David Newns, SIX Digital Exchange**

the numerous scandals around crypto assets in recent months. However, "the onus is not exclusively on regulators," says Vikas Srivastava, chief revenue officer at Integral. "Technology providers from other parts of the financial markets need to step into the fold and bring over their tried and tested solutions." As digital assets continue to become a staple of portfolios, "there is a strong business case for market participants to show their customers and prospects they are taking measures with technology to shore up their offerings."

Custody

"Custody is the main challenge in the digital asset space today," Khy states. Between crypto-native centralised exchanges, crypto-specialist custody firms and tech providers offering the tools for clients to build custom custody services, there are several options on the market for organisations to choose from. Banks, too, are looking to take advantage of growing interest, expanding their existing custody channels and partnering with crypto-native technology firms to appeal to existing and new clients. However, there's still "a lack of traditional trusted and regulated custodians that can securely store digital keys," she adds.

This isn't helped by the fact that the use cases of digital assets are continually diversifying, with custodians under pressure to be able to service the asset class in all its forms. Additionally, according to David Newns, head of SIX Digital Exchange, investors now "expect their custodians to also support services such as trading, post trade and asset servicing."

As a result, and following the Credit Suisse and Silicon Valley Bank incidents coupled with the 2022 crypto exchange crashes, "both incumbent and new investors are opting for multiple custodians to diversify counterparty risk," Newns says.

NFTs and hype cycles

The lifecycles of various digital assets tend to follow a consistent route. A product will become popular, seeing enthusiastic support from celebrities and cultural figures, before people begin to question the rationale behind it and it fades (or crashes) out of the zeitgeist.

One such example of this is non-fungible tokens (NFTs), which have faced a fair amount of ridicule over the last few years. From criticisms around their impact on art to technical questions about the unenforceability of copyright, from stilted celebrity endorsements to comparisons with pyramid schemes, buzz around them seems to have faded.

Several celebrities have been criticised or had legal action taken against them after promoting various digital assets, many of which used unregistered bounty programmes to draw in customers. Such incidents deal the digital asset ecosystem another reputational blow, framing them as risky, unreliable and sketchy.

Even large institutions can end up on the wrong side of the fence when it comes to jumping onto the latest trend; the UK government abandoned its plans to produce an NFT through the Royal Mint less than a year after the scheme was announced.

However, ETC Group co-CEO Bradley Duke argues that NFTs are broadly misunderstood. "Everyone thinks of NFTs as an ape smoking a cigarette," he says, stating that NFT technology has been "tarred" by the reputation it gained from this narrow use case.

In reality, NFTs are "the missing piece of the puzzle," Duke suggests. More than a [vessel] for 'art', they confer "real, provable and enforceable" ownership — "like a deed to a house" for any form of digital asset. This use of NFTs will become increasingly important as the world becomes more digital he predicts, and the technology should not be written off after the initial "speculative bubble" has burst.

Excessive emissions

Digital assets do not have the best track record in terms of their ESG credentials. Environmentally, it's a well-known fact that crypto mining uses colossal amounts of energy. The process "consumes as much energy as a country like Argentina or Australia per year," states Daragh Tracey, senior strategy manager at Fenergo.

As concerns around the climate, and the impact that cryptocurrencies are having on it, have escalated over recent years, the industry has begun to take steps to reduce its environmental impact. Ethereum moved from proof of work to the more energy-efficient proof of stake in September 2022, which reduces emissions by a staggering 99.992 per cent. The move, which Tracey affirms was a "massive technical challenge", broke through to mainstream media and provided hope for the more ESG-conscious investor that crypto may become a viable, ethical investment.

Whether the rest of the market will follow suit remains to be seen, but Ethereum's landmark shift is certainly a step in the right direction.

> ***"[Digital assets] are an exciting innovation with some real social upliftment opportunities"***
>
> **Bradley Duke, ETC Group**

Open to all?

Digital assets have been seen by some as exclusionary, rarified investments available only to the elite, playthings of the rich and famous — perhaps unsurprising, given that one Bitcoin is worth more than US $3000. On the other hand, meme stock, easily accessible platforms like Robin Hood and celebrity endorsements have significantly chipped away at this image, presenting digital assets as something that anyone, with or without previous industry experience, can get involved with.

So will digital assets be just as available as traditional assets — and will that happen anytime soon?

"The thing about crypto is that you just have to have a phone. You just have to have a device that's connected to the internet, and you can be part of the story," says ETC Group's Duke. He argues that digital assets are "an exciting innovation with some real social upliftment opportunities," and an impact that can go far beyond the diversification of a portfolio.

He highlights the role that crypto can play in less economically stable jurisdictions: "it can be a lifeline," he explains, allowing those in countries "with rampant inflation or a failed banking system," or who are unbanked or underbanked, to connect to the global economy.

Rather than a personal, returns-based approach, many are enthusiastic about digital assets and cryptocurrency "because they see the banking system is broken, exclusionary and expensive, and they have a vision of how the world can be," Duke says. Taking a different perspective on the asset class could go a long way to rectify some of the reputational damage the market has faced.

The next big thing?

Security tokens and central bank digital currencies seem to be one of the next big trends in digital assets, emerging from the chaos as pillars of hope, if not complete certainty, that digital assets could be a safe investment. With clear regulation frameworks and the backing of trusted institutions, they offer some sense of reliability and trustworthiness to investors who have been disappointed one too many times.

That being said, numerous failures in the digital asset world — exchange collapses, criminal allegations and personal losses — haven't prompted a complete loss of faith. Earlier this year, a report from management intelligence platform Acuiti reported that 75 per cent senior executives active in crypto derivatives trading were 'quite' or 'very' optimistic about the digital asset market over the next quarter, with only 14 per cent expecting FTX's 2022 collapse to reduce industrial participation in cryptocurrency markets.

The financial industry is committed to making digital assets work. Although it requires trial and error, and failures are inevitable, progress is being made. Driven by market participants, and now with the support of regulators and policymakers, the development of digital assets and their custody marches on. ■

Citi promotes Vikram Singh

Citi has appointed Vikram Singh as CEO of Citi Malaysia. Based in Singapore, he will report to Amol Gupte, South Asia and ASEAN head.

Singh will be responsible for leading the Malaysia region and will have oversight of the Citi solutions centres in Malaysia, located in Kuala Lumpur and Penang.

Singh has more than 24 years of experience in the financial industry. He joined Citi in 1999 and has held various senior roles across India and the Philippines, covering corporate and investment banking. He was most recently head of Asia Pacific regional account management, global subsidiaries group from 2021 to 2023, and was head of corporate and investment banking in the Philippines from 2016 to 2021.

Citi has been present in Malaysia since 1959 and has more than 4000 employees working in the region.

Commenting on Singh's appointment, Gupte says: "Malaysia is a key market for Citi and has a strong institutional franchise. Vikram's long career and experience with the firm will be invaluable to lead the next stage of growth in a market that also supports many of our global businesses and functions." ■

Citi Securities Services has appointed Mike Hughes as global head of custody product development.

Based in London, Hughes will report to Matthew Bax, global head of custody.

He will be responsible for driving Citi's custody strategy across all its proprietary markets and global models.

Hughes will work with the client, technology and operations teams to meet Citi's product suite and client acquisition goals.

He has more than 20 years of experience in the financial industry, specialising in cash, trade and securities.

Hughes spent more than 17 years at Deutsche Bank where he held a number of senior roles, including global head of fund services and head of global transaction banking for the UK and Ireland.

He was also head of alternative fund services for EMEA and Asia between 2006 and 2010.

During this time, Hughes helped to set up Deutsche Bank's MENA global transaction banking franchise, headquartered in Dubai.

Hughes joins Citi from the independent administrator Ocorian, where he was a global head of services lines and a member of the board.

Prior to that, he was at J.P. Morgan, where he led the bank's global custody business.

Commenting on Hughes' appointment, Bax says: "Mike is a well-known global industry leader and has an outstanding track record on delivery and execution. We wish him all the success in this new strategic role."

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Stephen Everard resigns from Goal Group

Stephen Everard has resigned from his role as CEO at Goal Group. According to Companies House, Everard resigned from the board on 22 March.

James Cole, formerly finance director of Goal from 2015 to May 2019, was appointed company secretary of the board on the same day.

Goal has confirmed that chairman and board member Elliot Howard will be Goal's interim CEO.

Everard won the Lifetime Achievement Award at the Asset Servicing Times' 2022 Industry Excellence Awards (pictured above). His career at Goal has spanned more than 20 years.

Prior to joining Goal in 2002, Stephen held senior roles at Citigroup and Bank of America.

Commenting on Everard's departure, Howard said: "We would like to thank Steve for his continued dedication to Goal during his 20 years of service and wish him all the best in the future."

Stephen Everard was unavailable for comment. ■

Software provider Confluence Technologies has appointed Joan Binstock to its board of directors.

Binstock has more than three decades of experience in the asset management industry, and currently serves as a board member at Morgan Stanley Direct Lending Fund and Brown Brothers Harriman US Mutual Funds.

She is also independent director and audit chair for KKR Real Estate Select Trust.

Earlier in her career, Binstock was chief financial and operations officer and partner at financial services firm Lord, Abbett & Co, chief operating officer at Morgan Grenfell & Co and lead principal at EY.

Commenting on her appointment, Binstock says: "Confluence has a strong reputation in the industry for providing innovative and proven solutions that help customers in the asset management industry navigate regulatory compliance and make better investment decisions.

"I look forward to working with the team to continue to drive growth and success for the company."

Mark Evans, CEO of Confluence, adds: "[Binstock's] extensive experience in the asset management industry, across a broad set of asset classes and working with multiple technology providers, is invaluable as we continue to expand our solutions to better serve the investment management industry." ■

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