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European Supervisory Authorities publish overview of information and technology used by TTPs

The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and ESMA have published an overview of information and communication technology (ICT) supplied by third-party providers (TPP) to financial services companies.

Collectively known as the European Supervisory Authorities (ESAs), the EBA, the EIOPA and ESMA released the publication as part of preparations for the Digital Operational Resilience Act (DORA).

The analysis aims to map the provision of ICT services by TPPs to financial entities in the European Union. It also looks to support the ESAs' policy making process in light of the European Commission's call for advice to further specify the criteria for critical ICT TPPs and to determine oversight fees.

The data collection was the first of its kind, covering ICT-related contractual arrangements for entities across the financial sector.

Overall, the exercise identified that around 15,000 ICT TPPs directly serve financial sector entities across the EU.

It found that the most frequently used ICT TPPs support critical or important functions for their clients in a range of services. In addition, most critical services were classified as 'non-substitutable' by financial institutions.

The ESAs say that the data collection underlined the importance of ensuring that financial entities provide unique identifiers in the data submitted, and the need to develop an appropriate ICT services taxonomy. ■

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Confluence Technologies launches Prism Analytics

Confluence has announced the availability of liability reporting in its Portfolio Analytics and Reporting (PARis) solution. The solution aims to give investment consultants and asset owners a more comprehensive and balanced view of their pension plans.

Confluence's PARis solution allows users to analyse critical measures of institutional plan performance. This enables them to meet future retirement payment obligations and to provide a better understanding of their institutional plans.

With the assistance of liability reporting, investment consultants and asset allocators can report on pension benefit obligations, track-funded status, duration matching analysis and liability glide path modelling, alongside PARis' suite of pension plan asset reporting.

The technology solutions provider has also launched Prism Analytics in an effort to assist the investment management industry with data analytics.

The solution provides asset managers with access to channel level flows of assets and revised allocations, and post-transaction fees by channel, investment type and vehicle. It also gives them access to public and private mandates won or lost by a manager.

Fed by data from Confluence's PARis platform, Prism Analytics aggregates insights from the industry's top consultants, as ranked by P&I on institutional assets. All data is provided by investment consultants who have fiduciary responsibility.

Prism assists in eliminating guesswork, finding potential buyers and making sales more targeted and actionable, says Confluence.

Damian Handzy, managing director of the analytics division at Confluence, comments: "We're seeing a growing demand by asset managers for greater insights and transparency on plan investments, including those without disclosure requirements, such as private plans." ■

Universal Investment and Alumia partner on fund servicing initiative

Universal Investment Group has partnered on a joint venture with investment advisory firm Alumia, expanding its fund servicing capabilities through the independent matching of asset managers and investors.

Alumia, the majority shareholder in the venture, provides investment strategies to asset managers and owners. The firm assists clients in business expansion through co-investment, capital introductions and access to the company's network.

Universal Investment Group provides fund services, structuring and administration solutions and risk management to securities, real estate and alternative investments.

The firm currently holds approximately €987 billion in assets under administration, and is active across eight European locations.

David Saab, CEO of Alumia, says: "For asset managers, building an experienced and global sales force, while meeting regulatory requirements and also using digital channels, has steadily become more challenging and costly."

Abu Dhabi Pension Fund picks Northern Trust for custody services

Abu Dhabi Pension Fund (ADPF) has selected Northern Trust to provide its global custody services and alternative asset administration services, effective 1 January 2024.

The ADPF is a growing pool of sovereign sponsored pension assets in the Middle East.

Tasked with managing contributions, pensions and end-of-service benefits

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for United Arab Emirates (UAE) nationals affiliated with the government and private sectors in Abu Dhabi, the ADPF also extends its services to the retirees and their beneficiaries.

Northern Trust will assist the ADPF with investment allocation, liquidity management and portfolio optimisation. As part of the mandate, Northern Trust will also provide securities lending services.

James Wright, head of asset owners, EMEA at Northern Trust, comments: “We are delighted that ADPF has appointed us as their global custodian. As a leading provider in the region, with more than 35 years of experience in servicing clients in the Middle East, we are excited to continue to grow in the market and are committed to delivering client-centred solutions to large, complex asset owners.”

Ali Alqemzi, chief operating officer for investment at ADPF, says: “Northern Trust stood out due to their focus on asset owners, particularly those with sophisticated allocations across public and private assets.

“Their ability to adapt to the evolving financial landscape, as evidenced by their investment in technology and development of solutions that are targeted to funds such as ourselves, is important to us as we grow, and our asset allocation needs evolve.”

Sumsub brings document-free identity verification to the UK

Identity verification firm Sumsub has introduced its Non-Document Verification solution to the UK market.

Non-Document Verification will be facilitated by a partnership with OneID, a UK Government-certified identity provider, ensuring compliance with data regulations.

Sumsub claims its partnership with OneID will allow the firm to offer document-free verification for 95 per cent of the UK’s adult population.

The firm says this process uses data from leading UK financial institutions to onboard end-users in less than five seconds, compared with an industry average of two minutes.

These institutions include Barclays, Bank of Scotland, Chase, First Direct, Halifax, HSBC, Lloyds, MBNA, Monzo, Nationwide, NatWest, RBS, Santander, Starling, TSB and Ulster.

In the onboarding process, users select their bank and navigate through its page or app within the same session window.

When logged in, users provide consent for personal data sharing, after which Sumsub retrieves the required information and completes the process.

The firm will offer Non-Document Verification to clients from various industries including fintech and crypto investment.

Sumsub will distribute Non-Document Verification with a code-free approach, allowing customer compliance teams to adapt to regional and country-specific regulation with a proprietary workflow builder and web software development kit (SDK), which the firm says do not require in-house developers to implement.

Clients will also be able to include their corporate branding when implementing the SDK.

Tokenisation progress is moving in the right direction, but has not yet reached a “critical mass”, Sibos panellists say

> **"It’s an issue of interoperability at the end of the day"**
>
> **Gottfried Leibbrandt, CLS**

Tokenisation is not yet mainstream, as use cases have not reached a “critical mass”, a panellist at this year’s Sibos conference observed. The comment was made by Gottfried Leibbrandt, board chair at CLS, during the ‘Tokenisation: Mind the gap between digital assets and existing payment rails’ panel. After outlining a definition of tokenisation and bringing attention to the benefits of the technology, panellists explored the industry’s approach to tokenisation and shared their predictions for the future.

Jorgen Ouaknine, group head of innovation and digital assets at Euroclear, emphasised the importance of determining the business problem that needs to be solved before finding the most appropriate technology solution, something that Euroclear discusses with clients before embarking on new projects. While use cases are innumerable, something proven by the many examples both within and outside the financial services industry given by panellists, Ouaknine stated that the business case is often “the missing part” when it comes to tokenisation initiatives.

The topic of atomic settlement sparked dissent between panellists. Kelly Mathieson, chief business development officer at Digital Asset, stated that tokenisation will ensure certainty of ownership and prevent the possibility of unsettled legs of payment, adding that the structural benefits that this could produce are beyond the industry’s current scope of imagination. Enabling cash on ledger will enable this, she continued, a project that is currently high on the agenda.

However, Leibbrandt raised concerns that certain definitions of atomic settlement could cause problems with liquidity availability, as participants would have to pre-pay their transactions, and increase risk. This would particularly increase liquidity costs in the wholesale market, he added.

Ouaknine commented that tokenisation is an “industry play” that will require market and participant engagement, and echoed Mathieson’s earlier statement that tokenisation “will not be an overnight process”. Both speakers noted that the industry is currently making gradual progress, but is heading in the right direction.

When it comes to tokenisation infrastructure, Mathieson questioned whether interoperability can truly be achieved through “bridges”, asking whether these could become a digital form of message transfer. The subsequent need for reconciliation and the potential fragmentation that this would cause may be a concern.

Leibbrandt agreed that “it’s an issue of interoperability at the end of the day”, and advocated for the development of standards and common protocols as tokenisation continues to evolve. ■

UniSuper picks BNP Paribas for triparty collateral services

Australian superannuation fund UniSuper has selected BNP Paribas Securities Services to provide triparty collateral services for its trading activity.

This appointment aims to help UniSuper meet its initial margin rules obligations, which require financial institutions to post collateral to back up their non-cleared over-the-counter (OTC) derivatives trades to mitigate counterparty risk.

UniSuper and BNP Paribas established a working relationship in 2015 when BNP Paribas began to provide custody services to the fund.

Dharmendra Dayabhai, head of portfolio analysis and implementation at UniSuper, says: "When selecting a collateral manager, we looked at what other areas of our business would benefit and saw the potential optimisation advantage in combining the roles of the custodian, collateral manager and securities lending agent."

GLEIF and Open Ownership partnership advances LEI integration in line with the Beneficial Ownership Data Standard

A collaboration between GLEIF and Open Ownership has resulted in Legal Entity Identifiers (LEIs) being integrated into datasets — produced in line with the Beneficial Ownership Data Standard for the first time.

To achieve the new integration, Open Ownership leveraged an existing mapping partnership between the GLEIF and OpenCorporates databases to extend LEI mapping to its own datasets. LEIs are now embedded into Open Ownership data records where entities have both an OpenCorporates ID and an LEI.

The goal of the collaboration is to promote greater transparency in corporate ownership and control in support of safer, faster, and more efficient global payment activities.

The initiative allows for the Open Ownership's database to be easily connected with other datasets through use of the LEI, in addition to Open Corporate IDs and national business identifiers already contained within the database.

GLEIF says the inclusion of a standardised universal identifier, within beneficial ownership datasets for companies and other corporate vehicles, is "crucial for accurately connecting them with other information, such as company filings, licensing information, procurement disclosures, revenue reports and politically-exposed persons lists."

It adds that this "offers significant potential to revolutionise screening processes and enhance support for global anti-money laundering, counter-terrorist financing, customer due diligence and sanctions enforcement efforts."

The Open Ownership database currently provides more than 27 million beneficial ownership records for 9.6 million companies. It also conducts advocacy for data publishers to use its Beneficial Ownership Data Standard. Open Ownership's data is connected to the Open Corporates database, to ensure that high quality data is sourced from national business registries in 140 jurisdictions.

Autonomous AI still has a way to go, Sibos speaker affirms

While autonomous AI is a feasible possibility, the industry "shouldn't expect it anytime soon", a speaker at this year's Sibos conference in Toronto predicted.

The comment was made by Kevin Blair, senior vice president of asset servicing at Northern Trust, during the 'Closing the gap to full automation in asset servicing' discussion.

Blair began the session by outlining the external factors driving the industry's growing interest in automation.

Accelerated settlements, regulatory increases, increased volumes and fee pressures are all encouraging greater automation, he said, as are changing demands from a new generation of market participants. Data is now expected to be transparent, accessible and delivered on a real-time basis, which automation can assist with.

Touching on the collaborative finance theme of the conference, Blair highlighted the importance of working as an industry to ensure that there is standardisation across the board when it comes to evolving technologies.

Northern Trust is working with vendors to further automate routine processes in order to free up more time for activities that add value for clients, he explained, with strategic partnerships and investments helping to create products that can benefit participants across the industry.

Another key topic at this year's Sibos is data, which has a key role to play in the development of automated processes.

Blair emphasised the importance of data governance and data quality, advocating for data capture to occur earlier on in the process. This will prevent bad data "infecting" systems further down the line, he explained.

Data from external sources can also be an issue, with Blair stressing the need for industry-wide collaboration and standardisation.

Considering AI, Blair divided the wide-reaching technology into two buckets; tools mimicking human actions, which are already widely used, and tools mimicking human behaviour. The latter can learn to detect patterns and operate more complex algorithms, with use cases including anti-fraud initiatives and data extraction.

Blair added that these tools are already in operation, with a large number made available on an open-source basis and able to be deployed instantly.

There are a number of challenges when it comes to implementing AI technology, with data quality, availability and bias potentially leading to suspicious or incorrect results.

Blair added that firms must be able to explain the results that their AI programmes are producing, avoiding a "black box" situation.

Considering further use cases for automation in the asset servicing industry, Blair named reconciliation, file processing and predictive analytics as areas that could benefit.

The latter can enable firms to optimise their working conditions and staff organisation, he explained, and provide evidence to "hunches" that would otherwise go unevidenced.

However, he added that autonomous technology could prove challenging to use given the highly regulated nature of the industry.

Closing the session, moderator Sanjay Prasad, head of capital markets and wealth for the US, Canada, UK and Ireland at TCS Financial Solutions (TCS BaNCS), summarised that current real-time technologies are achieving two 9s level of efficiency, and data quality is perhaps biggest roadblock toward the last mile.

If an emerging AI suite of technology can be used to "fine-tune" and cleanse data, "taking out the noise", it can help asset servicing firms to improve their operations from two 9s to four 9s and beyond.

Blair concluded that while he believes automation has the potential to streamline processes and "make life easier", humans will remain involved in the process for the foreseeable future. ■

In addition to providing OpenCorporates to LEI mapping, GLEIF has also certified mapping relationships between S&P Global's Company ID, SWIFT's Market Identifier Code and Business Identifier Code and the Association of National Numbering Agencies' (ANNA) International Securities Identification Numbers (ISIN).

HKEX announces FINI go-live date

Hong Kong Exchanges and Clearing Limited (HKEX) has confirmed 22 November 2023 as the go-live date for its new digitalised IPO settlement platform, Fast Interface for New Issuance (FINI).

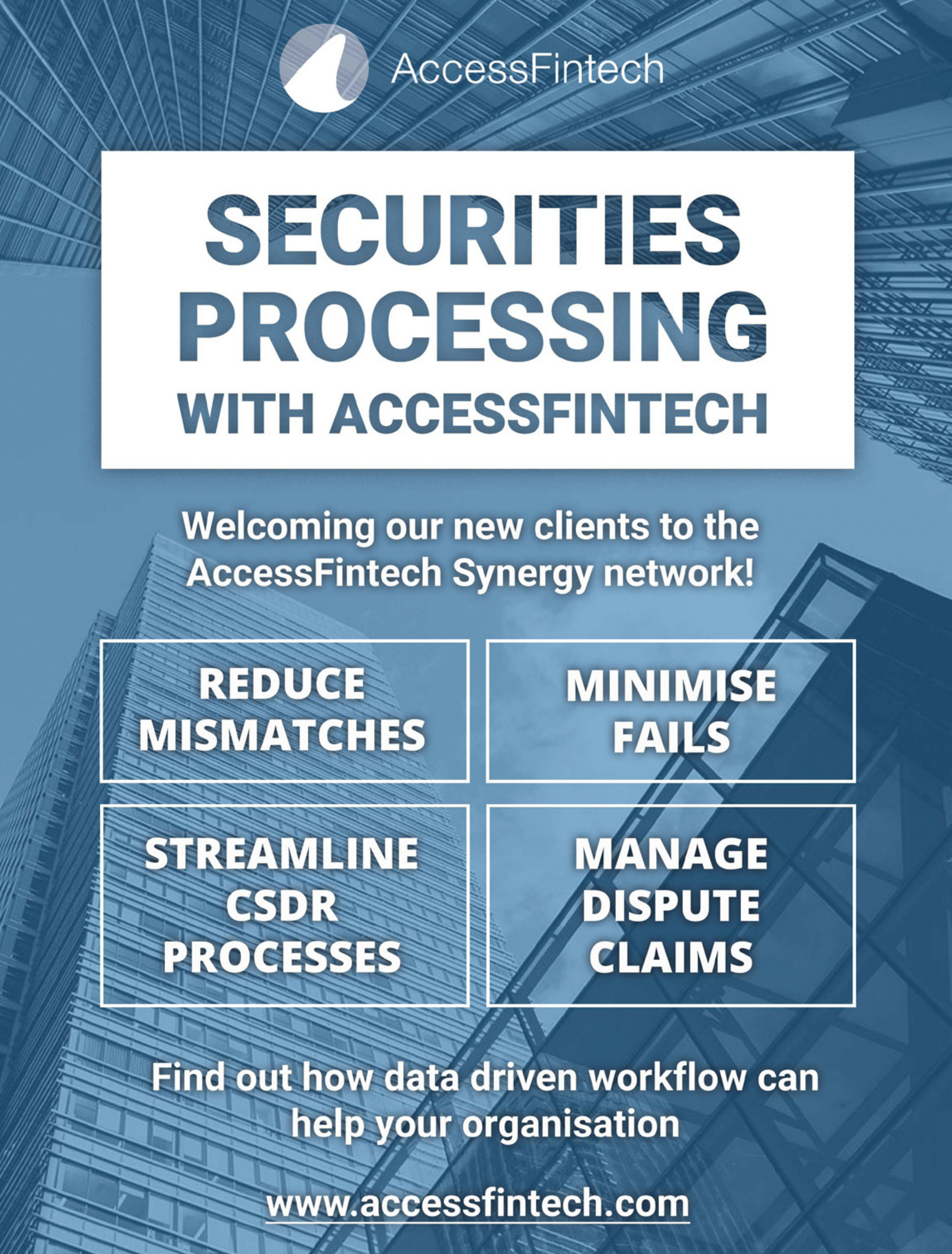
Listings with a prospectus published on or after 22 November will be processed using the new system, with relevant FINI-related listing rules, Hong Kong Securities Clearing Company Limited (HKSCC) rules and HKSCC operational procedures going live alongside the new platform.

FINI will replace the existing IPO settlement platform, which uses the central clearing and settlement system, and will shorten the time between the pricing of an IPO and the trading of shares from T+5 to T+2. This will improvise efficiency and support Hong Kong's long-term development as a capital raising centre, the exchange says.

Various stakeholders will be able to perform their roles in a digital IPO on the cloud-based platform. A public offer pre-funding model is being implemented to reduce the scale of locked-up funds in oversubscribed IPOs. To prepare for the FINI transition, HKEX has run testing, market practice sessions and rehearsals with Hong Kong IPO market participants.

Nicolas Aguzin, CEO of HKEX, comments: "FINI is a major development for Hong Kong's capital markets, bringing greater efficiency and convenience to market participants and issuers, helping them to better manage their risks and costs.

"The new platform also underpins HKEX's steadfast commitment to further enhancing the competitiveness and attractiveness of our markets, modernising Hong Kong's market infrastructure and promoting collaboration."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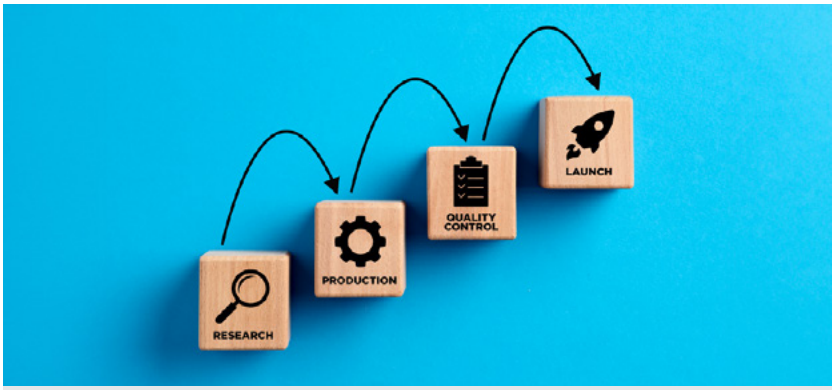


SmartStream launches new version of collateral management solution

SmartStream has launched the latest version of its Transaction Lifecycle Management (TLM) Collateral Management, V.6.

The release introduces a "modern, intuitive and thin client user interface" according to the London-based firm. The TLM solution is designed for users with different skill sets, including those who are less experienced in the collateral management operations.

TLM Collateral Management, V.6 is designed to assist organisations with data integrity and validation for all collateral management processing.

SmartStream indicates that its updated solution will aid with the demands presented by T+1 settlement. The firm adds that financial institutions must automate all aspects of their collateral management processes in a condensed time frame, including agreement, booking, substitutions and settlement notifications.

Jason Ang, global programme manager, TLM Collateral Management, SmartStream, says: "For this new version, we have worked closely with many customers to design a more intuitive user experience that requires less training so that users can be up and running quickly.

"In response to the demands of the industry we have included adapters that automate the substitution and interest claim processes. This latest version provides improved navigation results that are more accurate, enabling quicker decision making."

Ang adds: "In addition, the public APIs included in this version make upgrading even easier, eliminating the need to compile after every iteration. However, what makes this version of our TLM Collateral Management solution truly different is that it can be deployed cost effectively, in any size financial institution, while still offering the same functionality rich system." ■

Xceptor and Delta Capita partner to streamline post-trade services for T+1

Data automation platform Xceptor and managed services provider Delta Capita have partnered to streamline their clients' post-trade processes in preparation for the T+1 settlement deadline.

By using Xceptor's data automation platform and Delta Capita's expertise, the companies say their clients can reduce manual errors and improve compliance with T+1 settlement requirements.

The firms can capture and validate standard settlement instructions (SSIs), simplifying trade confirmations and facilitating efficient block allocations.

Delta Capita provides a full suite of validation, settlement and other trade lifecycle services across all asset classes while Xceptor, established in 2003, provides digital data services.

Josh Monroe, chief revenue officer at Xceptor, says: "We are confident that our joint proposition will provide market participants with a powerful solution to simplify the complexities of post-trade processing.

"We aim to deliver substantial improvements through the integration, bringing scale and cost-competitive options across SSIs, confirmations and allocations, while helping our clients unlock new opportunities."

Karan Kapoor, global head of regulatory and risk consulting at Delta Capita, adds: "Ongoing fines and penalties related to CSDR, coupled with a lack of preparation for the T+1 deadline, is causing industry-wide concern.."

Waystone and KBA complete merger

Risk and compliance solutions provider Waystone and UCITS management company KB Associates (KBA) have completed the merger of their Irish management companies.

The merger creates a management company with €175 billion in assets under management, benefiting from KBA's UCITS-focused experience and Waystone's alternatives knowledge.

Waystone gains 100 KBA consultation across Ireland, London and Luxembourg, helping Waystone Group to develop its geographical reach. The companies have implemented a single global solution across the locations, developing an enhanced governance structure and a consistent operation model.

Waystone is also in the process of finalising its Link Fund Solutions acquisition.

Rachel Wheeler, global management company solutions CEO at Waystone, says: "The integration programme team have worked to ensure a true and seamless integration of KBA into the Waystone Group.

"The integration has facilitated the implementation of a new and simplified operating model, meaning we are now even better equipped to provide comprehensive and innovative solutions to our clients as they continue to navigate an increasingly complex regulatory landscape."

Andrew Kehoe, CEO of Waystone Management Company, comments: "Having integrated our organisations, we look forward to delivering substantial benefits to our clients. By combining the expertise and depth of experience of both organisations, we've expanded our suite of services to create an unrivalled ManCo offering."

TS Imagine partners with Cassini Systems on analytics services

Trading, portfolio and risk management solutions firm TS Imagine has partnered with analytics provider Cassini Systems to enhance the margin and collateral analytics available through its product suite. Cassini offers pre- and post-trade margin and collateral analytics for the derivatives market, with its solution covering margin, collateral and cost analytics for cleared and uncleared over-the-counter (OTC) derivatives, futures and options.

Through the partnership, TS Imagine users will gain access to these intelligent analytics for OTC and exchange-traded derivative (ETD) products. By using the front-to-back solution, clients will be able to bring post-trade analytics into the pre-trade process, the companies say.

Cassini's solution allows users to calculate margin requirements and optimise their collateral usage in derivatives markets, analyse margin exposure drivers and movements, reduce initial margin levels and maximise margin efficiency.

Andrew Morgan, president and chief revenue officer at TS Imagine, says: "Working closely with Cassini, we can help investment and risk management teams streamline workflows, cut complexity and control their total cost of ownership. This partnership will deliver our clients best-in-breed functionality through a single system — a significant advantage in fast-paced markets."

Liam Huxley, CEO and founder of Cassini Systems, comments: "This partnership is an important milestone for both firms, opening our customised calculations and analytics to new audiences in combination with TS Imagine's technology to empower users across the hedge fund and prime brokerage space."

UOB joins LCH's SwapClear and ForexClear

United Overseas Bank (UOB) has joined LCH SwapClear and ForexClear as a direct clearing member. It is the first global member of LCH to join both clearing services simultaneously. UOB is the first Southeast Asian bank to join ForexClear as a direct member, and is the final Singapore local banking group to join as a direct member of SwapClear. SwapClear facilitates liquidity access in the over-the-counter interest rate swap market, and grants users access to 95 per cent of the 'vanilla' interest rate swap market.

FX solution ForexClear provides capital, margin and operational efficiencies for both deliverables and non-deliverables.

The announcement continues LCH's growth in the region, with the SwapClear platform seeing 80 per cent growth in APAC currencies or currency pairs notional cleared since 2021.

Isabelle Girolami, LCH CEO, says: "APAC is a key strategic market and growth driver for LCH, and we are committed to enabling our members to benefit from economies of scale, along with margin, capital, and operational efficiencies that our services deliver. We look forward to continuing our collaboration with UOB as it looks to increase its clearing activity and benefit from LCH's solutions and set of products available."

Leslie Foo, group head of global markets at UOB, comments: "We are the first ForexClear member in Southeast Asia as we seek to contribute to the growth of ASEAN. Our partnership with LCH will enable us to unlock further liquidity across multiple asset classes, particularly as regulations have placed greater financial resource requirements across our portfolios." ■

Julia Bricker
Managing director, North America
WTax

Lelanie Marais
Head of tax technical
WTax

With challenge comes opportunity

WTax's Lelanie Marais and Julia Bricker discuss the obstacles and fortuity of the WHT landscape, and what the FASTER directive will mean for European participants in particular

What are the biggest opportunities and challenges in the current withholding tax space?

Lelanie Marais: In terms of opportunity, there is always more to be done for investors, financial intermediaries and service providers. Many investors aren't aware of additional reclaim opportunities outside of their standard process — be it through alternative reclaim mechanisms or additional recovery opportunities in more complex, emerging markets. It is key for investors to understand their relief entitlement and to ensure they are classified appropriately in order to secure optimal withholding tax (WHT) relief or recovery. While misclassification of investors can lead to missed opportunities, it is common, due to the complex field of WHT recovery and the differing tax legislation across investment markets. Engaging with experts such as WTax, who have an in-depth understanding of the tax regulations across various jurisdictions, provides investors with the opportunity to improve and maximise WHT yields.

European Court of Justice (ECJ) reclaims, also commonly referred to as 'Fokus Bank claims', have always been an attractive WHT recovery opportunity for investors; they allow certain types of investors to fully recover withholding. The ECJ reclaims are centred around the premise that the EU Member State — in which the dividend paying companies are resident — treats foreign shareholders less favourably for withholding tax purposes compared to domestic shareholders. Such a discriminatory treatment generally cannot be justified under EU law. While this reclaim opportunity has existed from as early as 2009, the positive developments made in court cases over the last few years have once again highlighted that ECJ reclaims can maximise WHT yield.

In terms of challenges, there are almost too many to name. The WHT recovery process is still incredibly manual and investors have to deal with diverging approaches, particularly the complexity of documentation requirements. Furthermore, the concepts of 'beneficial ownership' and the associated entitlement to tax relief are not clearly defined or unanimously applied across countries. This creates barriers for those seeking relief, as well as those seeking to facilitate relief. Financial intermediaries are weighing up the benefits of providing tax relief services with the risks and obligations associated with granting such relief.

In order to address some of these challenges there have been various policy efforts from international bodies, such as the Organization for Economic Co-operation (OECD) and the European Commission (EC), to design a more efficient WHT system. These efforts have been ongoing for more than a decade. The latest EC initiative is the EU Commission's proposal for a Council Directive on Faster and Safer Relief of Excess Withholding Taxes 2023/0187, also known as FASTER. The proposal, and its consultation by the industry, has created an opportunity for various parties to discuss process optimisation in this complex space.

With many FASTER discussions still ongoing, there is a lot of uncertainty in the industry, a desire for change and also some concern around the practicalities around adopting the proposal by the EU Commission. As developments unfold, we expect to see more opportunities, and potential challenges, in the ever-evolving world of WHT recovery.

In what ways is technology becoming more of an asset for a typically manual-based business such as WHT? What are you seeing?

Marais Although the WHT recovery and relief process is still heavily reliant on manual intervention, many industry participants are taking steps to automate processes wherever possible.

This includes the auto-population of certain documents, technology-enabled submission of relief or reclaim documents, and the use of tools to help identify and track potentially suspicious transactions.

Similarly, tax authorities are recognising the importance of digitalisation, with most offering some sort of technological solution. The availability of digitalised procedures, including e-filing and the acceptance of e-documents and e-signatures, differs significantly between tax authorities.

Technology is not only being used for process improvements, but also to identify and mitigate risk. Many tax authorities are enlisting the help of technology to analyse the numerous amounts of data reported to them by various parties involved in a transaction.

Where tax authorities have launched online portals for electronic submission of WHT relief, we have seen great efficiencies and faster processing times, combined with greater transparency on claim statuses. Many are working to integrate their systems into these e-filing portals through API connections in order to achieve greater automation.

Furthermore, financial intermediaries and service providers are utilising optical character recognition and other tools to help with matching, storing information and tracing income payments, in order to reconcile events through custody chains.

The FASTER directive re-emphasises the importance of technology in the WHT landscape by contemplating the distribution of electronic tax residency certificates across EU Member States. Although the processes in this space are still relatively dated, much is being done to bring technology to the forefront of the WHT process.

What are WHT reclaims, and why is reclamation so important? What is driving market demand and interest?

Marais: WHT is a tax withheld when dividend or interest income is paid to foreign investors. While each investment country has a statutory rate at which tax is imposed, there are many ways in which the rate of tax can be reduced or reclaimed, if levied.

The most common mechanism for relief is through the utilisation of a double taxation agreement between two countries, in order to reduce the WHT to a mutually-agreed maximum tax rate, provided other conditions of the agreement are met.

The mechanism of relief at source offers relief from WHT. In other words, the income is taxed at the correct (reduced) rate at the time of payment. In order to benefit from relief at source, an investor would still have to provide certain documents or information to evidence its entitlement to a reduced rate. Should the deadlines for relief at source be missed, or relief at source not be available in a particular country, there are usually ways to recover part or all of the tax after it has been withheld.

The process of filing a retrospective reclaim, to recover the excess WHT charged, is the WHT reclaim. As WHT imposed on investment income can be as high as 35 per cent, it is essential to effectively manage WHT recoveries, as WHT leakage has the potential to erode investment returns.

WHT recovery has attracted more interest over the last few years as a result of multiple court cases which have shed light on these taxes and sought to challenge any discrimination against foreign investors. Similarly, investors have also started to pay more attention to the substantial receivables they have gathered for these recoveries. The emergence of external service providers to assist with reclaims has also raised interest in this area.

To what extent has the geopolitical climate of the last few years affected tax reclaims processes?

Julia Bricker: Global WHT relief and recovery processes are still fragmented; each country has their own approach toward tax documentation requirements and process flows. However, we have observed increased collaboration and alignment between countries in recent years. As the most recent and relevant EU proposal, FASTER aims to standardise relief and reclaim processes across Member States of the European Union, though we may see some of these practices extend beyond the EU.

There have been geopolitical effects on WHT, the most notable being the numerous tax treaties suspended as a result of the Russia-Ukraine conflict. As with many other transactions in Russia, WHT reclaims were halted even before the suspension of tax treaties — when it became difficult to move reclaim proceeds out of Russia. Prior to the Russia-Ukraine war, the COVID-19 pandemic had consequences on the WHT sector.

Due to the unprecedented circumstances, some tax authorities needed to reconsider the paper-based approach to tax reclaim submissions, and even relief at source procedures became slightly more lenient in certain jurisdictions.

In addition, the financial aftermath of the pandemic underpinned some tax authorities' decisions to introduce additional taxes for investors, such as the solidarity tax in Belgium, and the new financial transaction taxes introduced in Hungary.

Lastly, climate change is at the forefront of many countries' political agendas.

The WHT industry welcomes the introduction of electronic filing opportunities that tax authorities have implemented. The move encourages consideration for a paperless WHT relief system.

The FASTER directive is a clear example of the industry's direction of travel, and sits in line with ESG considerations.

"My advice to people starting a career in this space is to connect with others in the industry as much as possible; learn from those who intrinsically understand the challenges we face"

Julia Bricker, WTax

During the last couple of years, some areas of the global market have struggled to retain staff or recruit new talent. Has the WHT sector experienced this at all? What would you say to those thinking about starting a career in the WHT space?

Bricker: Our experience has been quite the opposite. The space is incredibly nuanced and requires a fundamental understanding of capital markets, the nature of different, global investment vehicles, and of course the resulting WHT treatment and its ability to recover.

We have found that young people are particularly interested to learn about our niche environment, as it's dynamic and ever-changing. The industry is looking for people to make an impact, and with technology implementation being considered the way forward, the opportunities for people from various backgrounds to enter this space are endless.

The only area where the industry is struggling to retain talent is in manual, paper-based tasks, as people are seeking more job satisfaction and growth. This is forcing the industry to consider how it can use machine learning and other optimised technologies to simplify certain processes.

My advice to people starting a career in this space is to connect with others in the industry as much as possible; learn from those who intrinsically understand the challenges we face.

Those already in the industry should work collaboratively with all stakeholders to pave the way for more efficiency and to minimise WHT leakage.

How do you expect the wider WHT landscape to change before 2025?

Bricker: The EC's FASTER proposal will likely drive the most significant change in the coming years. Its public consultation period closed on 18 September 2023. The commission is now in the process of summarising all the feedback received for presentation to the European Parliament and Council, with the aim of feeding it into the legislative debate. The intended date for FASTER's implementation is currently 1 January 2027.

We don't expect material changes in the landscape before 2025. Given the complexities of this topic, the number of stakeholders involved and the legislative changes needed to accomplish change, progress in this area will continue to be slow.

However, we do expect that tax authorities will continue to increase the 'burden of proof' for WHT relief and reclaims by implementing further holding periods and documentary evidence in support of entitlements.

We hope the ECJ continues to add more pressure on the remaining Member States who have not yet acknowledged discrimination to start refunding claims. In particular, we expect some developments in the German market as a result of various cases potentially coming to a close over the next year.

Finally, as investment returns come under greater scrutiny, we expect that investors will demand more in the way of WHT relief and reclaims. We predict that they will also continue to place pressure on service providers to ensure their WHT leakage is minimised. ■

Seizing the moment to automate collateral management

Following a series of market stress events, reducing manual intervention and creating greater efficiencies in collateral management has become increasingly necessary. Data standardisation and automation of key processes offer a way forward, says Amy Caruso, head of collateral initiatives at ISDA

In financial markets, meaningful change is usually achieved in incremental steps. It might start with a new regulatory requirement or a switch in market convention, but further work is often needed, sometimes over a period of several years, to fully realise certain efficiencies, cost savings and reductions in risk.

Collateral management is a case in point. Following the global financial crisis in 2008, market participants were required to exchange collateral on their cleared and non-cleared over-the-counter (OTC) derivatives trades, which contributed to an overall reduction in systemic risk. But as firms focused on meeting the regulatory requirements, they often lacked the bandwidth to pursue standardisation and automation of collateral management processes, continuing to rely heavily on manual intervention.

In recent years, a series of market shocks has shone a light on the implications of a lack of end-to-end automation, generating momentum to digitise documentation, automate workflows and standardise data across the different phases of collateral management. With more collateral being posted and collected each year, it is critical these processes are as efficient as possible to avoid collateral management becoming a source of risk in itself during periods of market stress.

Risk mitigant

During the 15 years that have passed since the Financial Crisis, increased clearing of over-the-counter (OTC) derivatives and margin requirements for non-cleared derivatives have led to a huge increase in the volume of collateral in the system. Central counterparties require margin to be posted against cleared trades and the amount required may increase during periods of volatility, while the number of firms required to post margin on non-cleared trades has grown with successive phases of implementation of initial margin (IM) regulations since 2016.

IM and variation margin (VM) collected by leading derivatives market participants, subject to the margin rules for non-cleared derivatives, totalled US$1.4 trillion at year-end 2022, compared to US$1.3 trillion at the end of 2021, according to an International Swaps and Derivatives Association (ISDA) survey. Based on responses from 32 firms, which comprise most of the entities included in the first three phases of implementation, US$325.7 billion of IM was collected by year-end 2022. This represents a 7 per cent increase on the US$304.1 billion of IM collected by the same group of firms at the end of 2021.

"ISDA has been working to promote automation, reduce risk and bring greater efficiencies to collateral management. In 2017, we published a blueprint for the optimal future state of collateral processing and we followed up with four collateral management transformation toolkits in 2020"

In September 2022, the sixth implementation phase of IM requirements brought hundreds of smaller banks and buy-side entities into the scope of the rules. Going forward, any legal entity with an aggregate average notional amount of non-cleared derivatives of more than €8 billion must now comply with the IM requirements. As more entities cross that threshold in the future, this will lead to the exchange of ever larger amounts of collateral.

The rising volume of collateral in the system certainly helps to insulate market participants during periods of market stress, but it has become clear that the end-to-end framework for delivering collateral is in desperate need of improvement. Key processes such as margin calls, settlement, substitutions and recalls are not currently automated, while a lack of interoperability and real-time data transfer between OTC and exchange-traded derivatives, repo and securities lending activities has become a source of operational risk.

ISDA has been working to promote automation, reduce risk and bring greater efficiencies to collateral management. In 2017, we published a blueprint for the optimal future state of collateral processing and we followed up with four collateral management transformation toolkits in 2020. These kits provide resources to help firms identify opportunities to improve collateral management, including digitising ISDA documentation, automating margin calls and collateral settlement, and streamlining portfolio reconciliation and dispute management.

Addressing fragilities

A series of unconnected market shocks during the past three years has highlighted the fragilities in collateral management and underscored the urgent need for greater efficiency and automation.

In March 2020, the onset of the COVID-19 pandemic triggered the ‘dash for cash’ in financial markets, with widespread selling of assets and heightened volatility. In early 2022, Russia’s invasion of Ukraine led to volatility in energy markets, while a UK government fiscal announcement in September 2022 prompted a sudden spike in gilt yields. In each of these cases, the external shock was unique, but it led to a drain on liquidity as assets were sold off, with central banks intervening on several occasions to stem the disruption in key markets.

A common thread running through each episode was a huge increase in margin calls driven by a spike in volatility, leading firms to sell assets or tap repo markets to generate cash to post as collateral, putting extra strain on liquidity. In the UK, some liability-driven investment (LDI) funds had specified in their trade documentation that only cash could be posted as collateral. During the gilt crisis, this meant they had to sell long-dated gilts to meet their obligations, contributing to further margin calls and forced gilt sales, which ultimately required the Bank of England to step in with a large round of gilt purchases.

For many market participants, these unconnected shocks have shown that inefficiencies in the management of collateral are not just an operational strain during normal market conditions, but can become a major source of risk when volatility strikes. With mounting margin calls and settlement volumes, as well as operational and data challenges, the continuing reliance on manual processing meant firms were unable to meet their obligations in a timely manner, or had to find additional resources to alleviate the strain.

Even before the gilt market crisis, international policymakers had been exploring areas where margining practices could be improved. In September 2022, the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions published a review that identified six areas for further work. These include enhancing the liquidity readiness of market participants, increasing transparency and streamlining VM processes in cleared and non-cleared markets.

As policymakers continue to work on those six key fields, ISDA is moving at pace to build on our efforts to transform collateral management. In addition to the toolkits that have proved to be a valuable resource for our members, we have worked with the industry to publish suggested operational practices that cover a range of processes, including onboarding custodians and counterparties, margin call affirmations and confirmations, settlement and substitutions, reporting, and portfolio reconciliation and dispute resolutions.

As we seek to consign manual processing and operational inefficiency to the past, we want to work with all market participants, including buy- and sell-side firms, technology vendors, infrastructure providers and custodians to promote greater standardisation and automation.

For that, we are leveraging the Common Domain Model (CDM), a free-to-use data standard for financial products, trades and lifecycle events that is available as code in multiple languages. The CDM has already been used to develop standard digital representations of collateral specifications and to support operational provisions of ISDA's most widely used credit support documentation. ISDA is now working on other use cases with the aim of improving interoperability and streamlining the processing of collateral.

An efficient collateral management process starts with document negotiation and execution. Firms can use the ISDA Create online documentation negotiation platform, which brings efficiency and transparency to the process of developing and executing key documents. Crucially, the CDM allows legal data captured during the negotiation process to be made available as a standardised digital output. This can reduce manual onboarding to collateral management systems, thereby addressing some of the root causes of disputes and post-trade operational discrepancies.

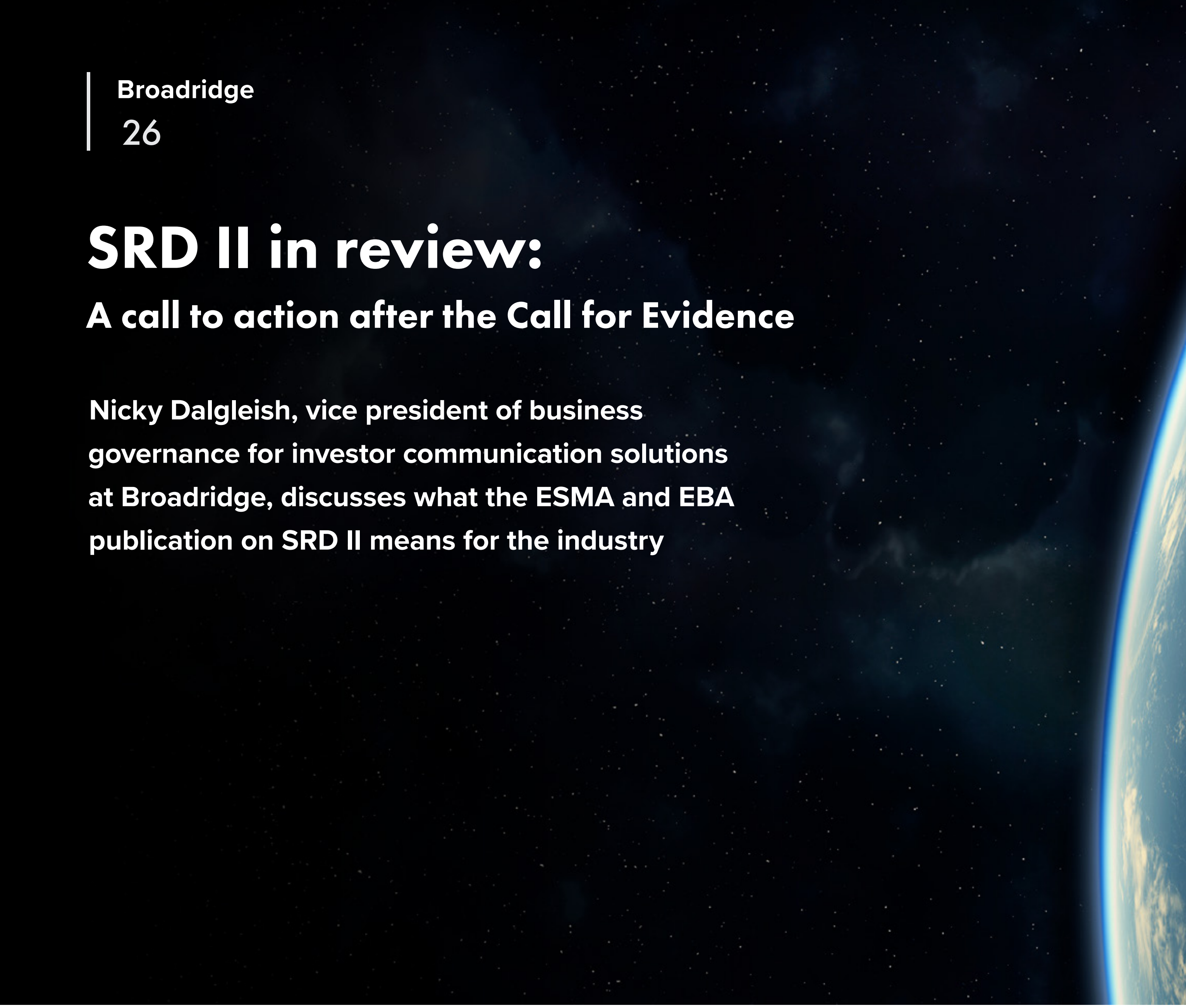
As collateral management spans multiple markets, including exchange-traded derivatives, OTC derivatives, repo and securities lending, it is critical that efforts to bring greater efficiency extend to the full ecosystem.

To that end, ISDA has worked with the International Capital Market Association (ICMA) and the International Securities Lending Association (ISLA) to identify common challenges and leverage the CDM to promote data standardisation and automation. Together with ICMA and ISLA, we have developed collateral representations across products, which will reduce onboarding time and improve interoperability and collateral optimisation processes.

Following the experience of recent market stress events, which highlighted the need for collateral management transformation, we are now on the cusp of a new era. Building on the successful implementation of regulatory IM requirements, the constructive and collaborative work that is now being undertaken across the industry will lead to a disciplined framework for collateral management that is more efficient and resilient than ever. ■

"As we seek to consign manual processing and operational inefficiency to the past, we want to work with all market participants, including buy- and sell-side firms, technology vendors, infrastructure providers and custodians to promote greater standardisation and automation"

Amy Caruso
Head of collateral initiatives
International Swaps and Derivatives Association



SRD II in review:

A call to action after the Call for Evidence

Nicky Dalgleish, vice president of business governance for investor communication solutions at Broadridge, discusses what the ESMA and EBA publication on SRD II means for the industry

At the end of July, The European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) handed their report on the implementation and effectiveness of the revised Shareholder Rights Directive (SRD II) to the European Commission.

Their analysis and recommendations were adapted from national regulators' opinions on ESMA's Call for Evidence. The opinions came from a total of 73 market participants, including Broadridge.

Broadridge representatives also met separately with ESMA to discuss their insights and recommendations, based on the company's extensive experience providing SRD II-compliant proxy voting and shareholder disclosure services.

Harmonisation

The ESMA and EBA report highlighted processes that would benefit from harmonisation across EU markets. It also outlined that definitions such as 'shareholder' and 'eligible securities' needed more clarification between different jurisdictions.

Respondents taking part in the report reflected that there isn't a clear industry consensus on the definition of 'shareholder'. Some 56 per cent of respondents favoured the term 'beneficial shareholder', 12 per cent preferred 'nominee shareholder' and 32 per cent said they would choose another term.

In the report, ESMA and the EBA contemplated the possibility of harmonising the definition of shareholder for 'disclosures only'. This would be a disappointing outcome and a lost opportunity to achieve the objectives of ESMA's Capital Markets Union plan.

The interpretation of the definitions adds complexity and cost, as intermediaries and their service providers must implement market-specific requirements into their processes. These complexities will remain if the shareholder definition is harmonised for disclosure only. In addition, assuming the definition of beneficial shareholder is chosen, it seems unbalanced to mandate the disclosure of information about beneficial shareholders in markets which won't reciprocate this by mandating voting rights for these investors.

In any event, the report suggested publishing a list of definitions for 'shareholder' and 'eligible securities' across all markets to improve certainty. At Broadridge, we welcome this suggestion, assuming it is an interim step. We are interested to see whether the scope of SRD II will extend beyond shares in the future, as contemplated by the report.

It is also good news to see that ESMA and the EBA recommended harmonisation for proof of entitlement requirements. The antiquated 'power of attorney' processes currently required by many EU markets are costly to support and scale. They can also create a barrier to the effective exercise of underlying investor voting, particularly with regard to straight-through processing (STP).

Straight-through processing

In their report, ESMA and the EBA made several recommendations to improve STP of voting and shareholder disclosure. They suggested that issuers should be obligated to send golden operational records in an agreed format — to a central securities depository or first intermediary — to initiate both disclosure requests and corporate events, such as shareholder meetings.

The agreed formats would allow for STP and remove the reconciliation currently required to remove inconsistencies between announcements and requests received from different local market participants.

This is an exciting development. However, it may be a mistake to remove the ability of issuers to send these golden records, such as disclosure requests, to other intermediaries in the chain. In certain markets, there are concerns about bottlenecks at the first intermediary level — particularly while the uptake of ISO 20022 is still a work in progress.

There is also concern that the lack of choice could result in uncompetitive charges for the distribution of such records.

A promising suggestion is to introduce a regulation, rather than a directive, to mandate the use of machine-readable formats and other technical requirements of SRD II. These requirements would directly apply to market participants and would remove any risk of inconsistencies in local transpositions.

Broadridge is also excited to see ESMA's enthusiastic recognition of the value of ISO 20022, and the need for the scope of these technical requirements to be expanded to the proof-of-entitlement process, which requires significant manual intervention.

Vote confirmations and other key focus areas

In their report, ESMA and the EBA highlighted that respondents thought that vote confirmations had the most shortcomings. They noted that vote confirmations are not being provided in many markets and, where they are, they are only available in paper-based form. This is consistent with Broadridge's experience.

Recognising the mixed evidence on the effectiveness of the current voting confirmation framework and the lack of potential fixes, ESMA and the EBA recommended that the European Commission recognise different strategies to assist asset managers with their compliance and ESG engagement, such as publishing voting records.

This would be consistent with the proxy voting disclosure regime in the US and a recent proposal published for consultation by the UK Financial Conduct Authority's Vote Reporting Group.

The report also suggests more transparency around charges relating to the transmission of voting and shareholder disclosure data and services as well as further reform of the proxy advisor industry, particularly in regard to the increase of its role in ESG.

In light of this, Broadridge expects that the oversight of proxy advisors will significantly increase.

Next steps

ESMA and the EBA's report will be adapted into a European Commission report to the European Parliament and Council.

Considering the review cycle and implementation timelines for SRD II, we expect that the next version of the directive, or regulation, will come into effect in 2025. ■

Nicky Dalgleish
Vice president of business governance for investor communication solutions
Broadridge

John Dowdall joins Broadridge FCS

Broadridge Fund Communication Solutions (FCS) has appointed John Dowdall as head of European regulatory intelligence.

In the Dublin-based role, Dowdall will be responsible for monitoring regulatory developments and providing support to clients as they adapt to the changing landscape.

Dowdall has more than 25 years of industry experience, and most recently served as founder and chief revenue officer of digital procurement platform Pulse Market. Prior to this, he was a principal at EirCSD.

Earlier in his career, Dowdall was a business consultant at Telekurs Financial (now part of SIX), and founded regulatory data exchange Silverfinch.

Commenting on his appointment, Dowdall says: “Joining Broadridge is a natural fit. What has attracted me is the ambition of the team and strategic vision for how, as an organisation, we can help transform the fund industry.”

Stephen Johnston, head of Broadridge FCS, adds: “John has experience working in financial institutions and consultancies covering data solutions and regulation with engagements including MiFID, PRIIPs, Solvency II, SFDR, SDR, corporate social responsibility, and retail disclosures for the UK and EU.” ■

MUFG Investor Services US has hired David Glick as a business development associate.

Based in New York, Glick joins the multinational investment management company from Citi, where he was most recently director of fixed income for Citi Private Bank, Citi’s bank for high-net worth individuals.

He began his tenure at the global bank in 1994.

Glick also held a variety of roles within sales, business development and relationship management throughout his career at Citi.

DTCC has appointed Brian Steele as managing director and president of clearing and securities services.

He will report to Francis La Salla, DTCC president, CEO and director.

Based in New York, Steele will be responsible for all of DTCC’s clearing and securities services businesses including equity clearing and settlement, fixed income clearing, wealth management services, asset services and institutional trade processing (ITP).

Steele has also been named chair of the ITP Board of Managers, and will become a member of the DTCC Management Committee, Management Risk Committee and Investment Management Committee.

With two decades of industry experience, Steele joins DTCC from Goldman Sachs.

He spent more than 19 years with the bank, most recently as global head of market structure solutions for the global markets division. Earlier in his tenure, Steele held roles leading digital transformation,

Akber Jaffer to lead SmartStream

Solutions provider SmartStream has appointed Akber Jaffer as its new CEO.

Jaffer will replace Haytham Kaddoura, who has held the role since May 2016. Kaddoura will continue to be an advisor at SmartStream as well as a member of its board.

Jaffer previously held senior leadership roles at Finastra and Colt Technology Services.

Commenting on his appointment, Jaffer says: "I believe in the company's mission, and I am committed to building upon its broad and excellent capabilities. Together with the talented team of colleagues, who have been instrumental in the company's success, we will continue to deliver market-leading solutions and drive value for our customers and partners."

Kaddoura says: "We are confident that Akber is the right leader to take SmartStream to new heights. His extensive experience and vision align perfectly with the company's mission and he will drive the development of new technologies to meet the demands of the industry."

SmartStream adds that it "expresses its gratitude to Haytham Kaddoura for his contributions during his tenure and wishes him success in his future endeavours, while welcoming him to the board of the company." ■

exchange and clearing operations and trading control operations.

Alongside this, Steele serves as a board member for AccessFintech, IT firm Droit and financial services provider Acadia, part of LSEG.

Commenting on his appointment, Steele says: "[I will] use my experience to advance initiatives that will strengthen market structure, develop new products and capabilities that address industry pain points and protect the stability of the global financial system, and support clients as they navigate a challenging and fast-moving environment."

RBC Investor Services (RBC IS) has appointed Claire Johnson as CEO, effective 16 October 2023.

She will report to Doug Guzman, group head of RBC Wealth Management and RBC Insurance. Johnson will replace current CEO Francis Jackson, who has decided to step down after four years in the role. Both Jackson and Johnson will collaborate closely to ensure a smooth handover as RBC IS renews its focus on the Canadian asset servicing market.

Johnson brings more than three decades of financial experience to RBC IS. She most recently worked as president of TSX Trust, a position she held for five years. Before this, Johnson worked at CIBC Mellon for 22 years. She served as chief financial officer, and held other senior roles across investment funds management and product management.

She began her career in financial services as an accountant at PwC. Additionally, Johnson recently served as a board member of the Securities Transfer Association of Canada. ■