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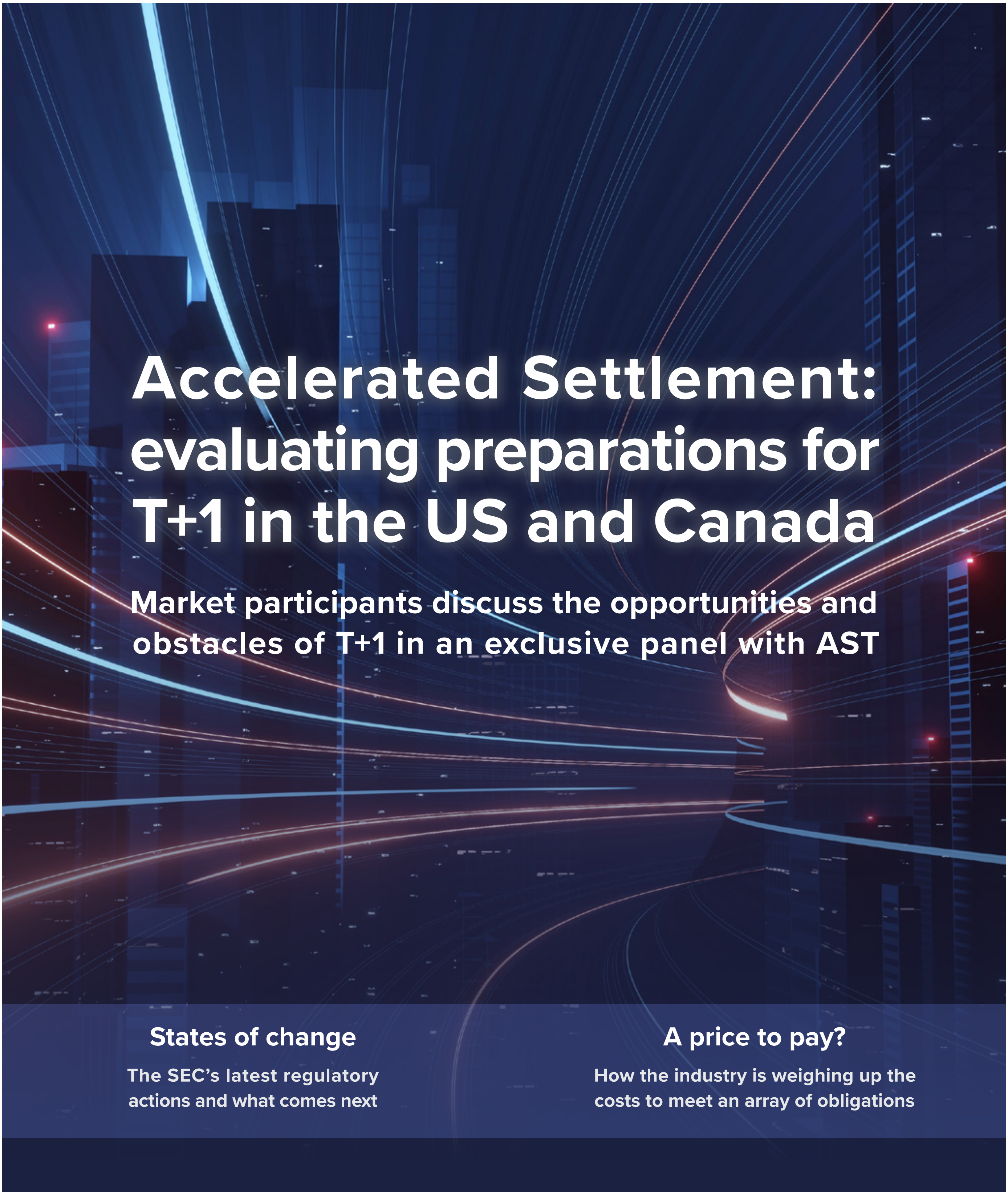

Accelerated Settlement: evaluating preparations for T+1 in the US and Canada

Market participants discuss the opportunities and obstacles of T+1 in an exclusive panel with AST

States of change

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A price to pay?

How the industry is weighing up the costs to meet an array of obligations

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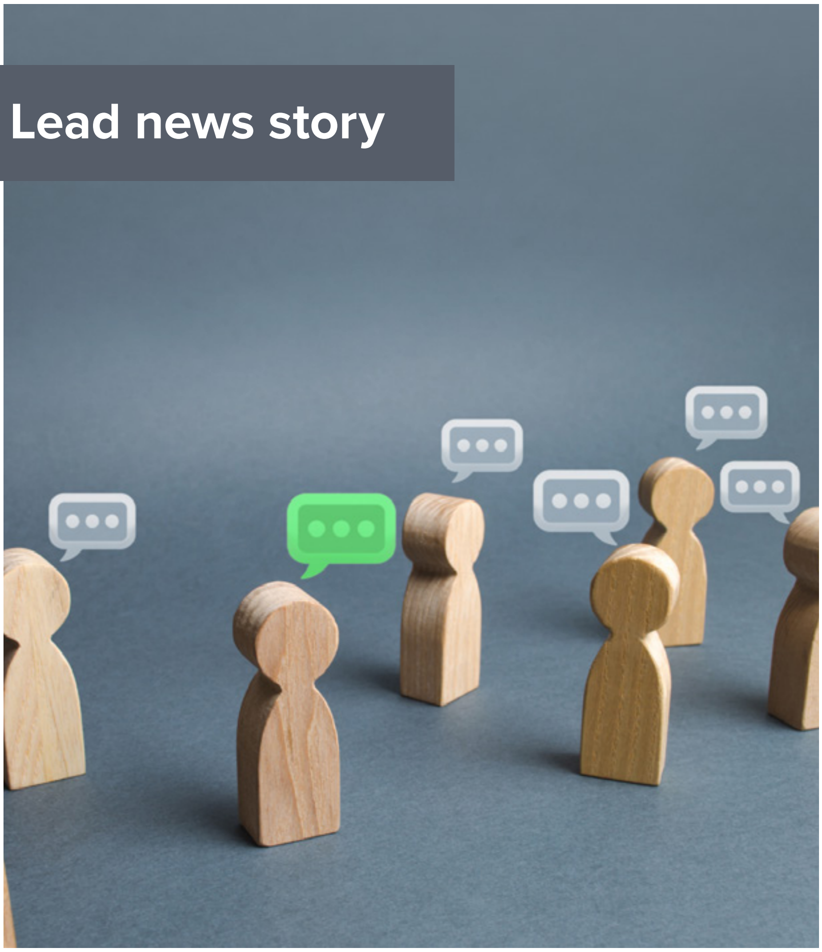

ESMA launches shortened settlement call for evidence

The European Securities and Markets Authority (ESMA) has launched a call for evidence on the potential costs and benefits of a reduced settlement cycle in the EU.

Alongside considerations of a shortened settlement cycle in the EU, the call for evidence will look into whether regulatory action will be needed to reduce the impact of other jurisdictions' move to T+1.

ESMA has requested input from all stakeholders involved in financial markets, particularly market infrastructures, their members and participants, investment firms, issuers, fund managers, retail and wholesale investors and their representatives. Feedback will be welcomed until 15 December.

A report detailing the report's main findings will be published and submitted to the European Commission in 2024.

An earlier report may also be provided regarding possible regulatory actions that could be taken to address the impact of the US' move to T+1 on EU market participants. ■

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J.P. Morgan's TCN facilitates first collateral settlement for a live-client

J.P. Morgan's Tokenized Collateral Network (TCN) has facilitated a collateral settlement for a live-client over-the-counter (OTC) derivative transaction for the first time.

As part of the initiative, BlackRock and Barclays are now live on TCN, an application which sits on J.P. Morgan's Onyx Digital Assets platform, operating as a private blockchain.

It is used for tokenised asset movements, including collateral settlements.

This means counterparties can transfer the ownership of the collateral assets on TCN for the transfer of assets on a near instantaneous basis, says J.P Morgan.

During the transaction, tokenisation occurred within a matter of minutes through connectivity between the fund's transfer agent and TCN. The transfer between BlackRock and Barclays was near instantaneous.

Shares in money market funds (MMFs) were used as collateral between bilateral derivatives counterparts for the first time.

The ability to tokenise assets, and use them under both title transfer and pledge structures, outside of any limiting market operating hours, has the potential to fundamentally change the collateral market, says J.P. Morgan.

BlackRock has tokenised the representation of shares in a BlackRock Money Market Fund through TCN. The use of blockchain settlement technology to transfer the ownership of MMF shares will also bring additional utility to MMFs, which has the potential to increase their resiliency.

The tokenised representation of the MMF shares were transferred to Barclays to cover collateral requirements – the underlying documentation was amended to support the delivery of MMF shares as collateral.

J.P. Morgan has said that it expects to expand TCN's capabilities across equities, fixed income and a range of asset classes in the future.

TCN was built jointly between J.P. Morgan's collateral services team and Onyx Digital Assets. ■

Abu Dhabi Pension Fund picks Northern Trust

Abu Dhabi Pension Fund (ADPF) has selected Northern Trust to provide its global custody 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 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.

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." ■

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J.P. Morgan Fusion launches Data Mesh solution

J.P. Morgan has launched the Securities Services Data Mesh, a data solution that allows investors to access critical investment data from J.P. Morgan's custody, fund accounting and middle-office services. It is delivered via Fusion by J.P. Morgan. The Data Mesh platform aims to mitigate issues around asset servicing data integration. This is particularly relevant to problems with ingesting data at scale, the company says, as portfolios and investments grow in size and complexity.

Using cloud-native channels including REST APIs, Jupyter notebooks and Snowflake's financial services data cloud, investors will be able to integrate data into their workflows and existing applications.

Tim Fitzgerald, global head of securities services at J.P. Morgan, comments: "The securities services industry has become increasingly data-driven. Fusion is a central tenet of our offering, and its expansion to cloud-native delivery of custody, fund accounting and middle-office data gives our clients the tools to focus on the evolution and growth of their businesses." ■

SmartStream launches updated collateral 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. ■

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ASX agrees to change in line with RBA recommendations

The Australian Securities Exchange (ASX) has announced that it will implement all recommendations from the Reserve Bank of Australia's (RBA's) 2023 Financial Stability Standards assessment.

The assessment analysed ASX's clearing and settlement facilities from 1 July 2022 to 30 June 2023.

It coincided within the timeframe in which ASX agreed to reassess its CHESS replacement project and revisit the solution design.

During this time, ASX also initiated its board renewal programme, undertook significant executive management change, launched a five-year strategy and expanded business investment, underpinned by revised capital management settings.

The assessment required ASX to place high priority on recommendations related to board process, internal audit, stakeholder management and the management of ageing technology assets, including CHESS.

The assessment recognised that ASX had made improvements to its regulatory reporting and acknowledged that new leadership has driven improved engagement with the RBA, a greater level of transparency and improved executive accountability. ■

Citi settles first trades on HKEX's Synapse

Citi Securities Services has settled trades for China Asset Management on Hong Kong Exchanges and Clearing's (HKEX) Synapse platform.

The trade was among the first trades executed and settled on the newly-launched Synapse platform.

Synapse is HKEX's new integrated settlement acceleration platform, designed to complement the existing Northbound Stock Connect post-trade infrastructure. The platform went live for trades settlement on 9 October.

Launched in 2014, Stock Connect is a mutual market access programme connecting the equity markets of Mainland China and Hong Kong. Citi says it is "paving the way for Hong Kong and international investors to access the China A Share market."

Citi has worked closely with HKEX since 2019, the year it was invited to participate in the Synapse pilot project.

Citi is the first and only bank in Hong Kong to offer a programme such as Synapse and has also aligned its custody platform with the solution. ■

Euroclear launches private market funds service

Euroclear has launched a service for private market funds as part of an effort to expand its suite of funds services. The initiative complements Euroclear's existing money market, mutual and alternative fund offerings.

The service, which is integrated into FundSettle, Euroclear's funds platform, will utilise the technology of the recently acquired Goji, a fintech specialising in the servicing of private market funds.

Euroclear says that by using the service, investors will benefit from a streamlined digital solution that covers the entire investment lifecycle, from initial commitments and capital calls to asset servicing and distribution. By making their funds available on the platform, asset managers can significantly expand their reach through Euroclear's network of distributors, it adds. The new launch follows the inclusion of MFEX's distribution and data services. ■

SIX picks Megaport for data services

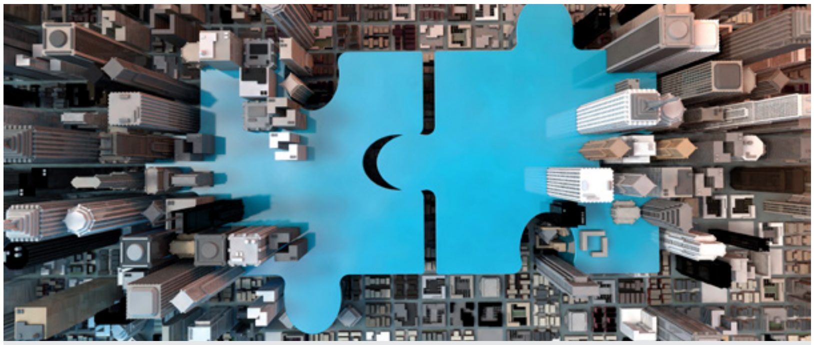
SIX has chosen Network-as-a-Service company Megaport to provide its customers with private access to its data services, via any major public cloud provider.

As part of the mandate, Megaport will offer SIX customers secure and rapid connectivity to its suite of data services via the cloud or physical data centres.

The expanded connectivity offering, known as SIX Connect, will increase the connectivity options available for users from any public cloud environment. SIX will offer private cloud access to all customers, irrespective of cloud provider preference, via AWS, Microsoft Azure, Google Cloud and Oracle Cloud, among others.

SIX Connect will be available to more than 100 cloud regions as well as hundreds of data centers across North America, Europe and Asia Pacific.

Commenting on the launch, Henk D'Hoore, global head of product development, financial information at SIX, says: "This represents a leap forward, not just for SIX but for the entire financial community we serve." ■



Apex completes MJ Hudson acquisition

Apex Group has completed its acquisition of MJ Hudson's business outsourcing division and non-regulated investment advisory business.

The business outsourcing division constitutes MJ Hudson's ManCo operations in Luxembourg and Ireland, as well as its Channel Islands fiduciary, fund administration, and investment advisory.

The acquisition broadens Apex Group's ManCo service provisions, delivered under the FundRock brands.

It will also increase the group's presence in the Channel Islands, with approximately 200 clients using MJ Hudson's fiduciary and fund administration services in the region.

MJ Hudson's Irish ManCo business will continue to operate under the Bridge Fund Management brand, providing third-party management company and fund governance services to Irish-domiciled UCITS and alternative investment funds. The company's Luxembourg ManCo will be integrated into the FundRock brand. ■

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Ocorian acquires Asia-based corporate services provider

Ocorian has acquired corporate services provider A-Pass in Asia. As part of the mandate, A-Pass has rebranded and become part of Ocorian.

Established in Hong Kong in 2006, A-Pass provides company secretarial, accounting, payroll, trust and tax services. Its clients include publicly-listed companies, start-ups and high-net worth individuals.

Ocorian says the acquisition of A-Pass will add scale to its existing business in Asia, creating a combined business with the ability to serve a broader range of clients' requirements.

Andrew Burgin, who was previously managing director at A-Pass, will lead Ocorian's combined business in Hong Kong. Robin Harris, previously director at A-Pass, will become regional head of APAC at Ocorian.

Ocorian's global network of funds, capital markets, corporate and private client specialists deliver entity administration, fiduciary and compliance services. ■

SEC appoints Infotrend for digital asset data

Solutions architecture specialist Infotrend has been awarded a three-year contract to provide blockchain and digital assets data, and advanced digital asset ecosystem analytics, to the Securities Exchange Commission (SEC).

Through the mandate, Infotrend will develop data dictionaries and catalogues for the SEC, along with both logical and physical data models. An extract, transform, load (ETL) framework will be established for the commission, as will testing protocols and training methodologies. Infotrend will also furnish the SEC with strategic communication approaches.

In order to enhance the data coverage provided to the SEC, Infotrend has partnered with digital asset data and analytics firm Amberdata. The latter will supply its market, blockchain and decentralised finance data suite.

Through Amberdata, the SEC will have access to historical and real-time data, with analytics tools providing actionable information to assist with research, trading, risk, analytics, reporting and compliance.

Gurpreet Singh, CEO of Infotrend, states: "It is an honour to continue our partnership with the SEC as we empower the commission with insightful lenses into the digital assets ecosystem to support its mission objectives: to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation." ■

Phoenix American selected for fund administration

Real estate debt firm Great Oak Funding has chosen Phoenix American to provide fund administration services for its VII fund.

Great Oak Funding Finance VII is a new US $100 million commercial real estate debt offering to be sold through broker-dealers and registered investment advisors.

Phoenix American says the fund will benefit from its back-office infrastructure which focuses on client and investor service, specific to private equity commercial real estate investment funds.

Phoenix American will also offer its STAR-XMS transfer agent system, fund accounting capabilities and its investor relations service suite. ■

Schroders selects Xceptor's platform for data services

Investment manager Schroders has selected Xceptor's platform to manage its cash flow data handling and customer onboarding.

Schroders initially appointed Xceptor to process incoming transfer agency cashflows into their investment book of record on BlackRock Aladdin.

Following this mandate, Schroders expanded Xceptor's usage across its operations.

Schroders now runs all of its externally sourced data on its processing system. It says this eliminates the need for multiple applications, end-user computing applications and end user devices, many of which performed similar activities. ■

TMX launches ESG Data Hub

TMX Datalinx, the information services division of Toronto and Montreal Stock Exchange (TMX), has launched the TMX ESG Data Hub.

The Data Hub is designed to support global clients as they integrate ESG into their investment decision-making processes.

A number of ESG data services are included, such as climate action plan tracking, quantifying impact, company and controversy screening and corporate peer analysis.

TMX Datalinx has partnered with a number of providers to create the suite of services. Impact data and analytics provider GIST Impact and ESG ratings as well as data specialist Inrate will provide assessments of ESG impact. TMX's Wall Street Horizon will provide forward-looking corporate event data to institutional traders and investors.

Fintech firm OWL ESG will assist with the gathering, analysis, research and application of ESG data, and MT Newswires will serve as a financial news source for the platform. ■

Accelerated Settlement: evaluating preparations for T+1 in the US and Canada

Moderator

Bob Currie, Group Editor, **Asset Servicing Times**

Panellists

Sudha Datta, Managing Partner and Co-Founder, **Soterium**

Rebekah Flohr, North America Head of Custody, **Citi**

Ron Landry, Head of Product and Canadian ETF Services, **CIBC Mellon**

Mike Norwood, Director, Global Trading Product Owner, **EquiLend**

Introduction

Bob Currie: Welcome to the Asset Servicing Times panel discussion on Accelerated Settlement taking place here at Sibos in Toronto.

This examines the US and Canadian transition to T+1 securities settlement scheduled for May 2024, with Canada scheduled to begin trading using next-day settlement on 27 May and the US doing so one day later, after the Memorial Day public holiday, on the 28th.

In proposing the T+1 project, market authorities have indicated that the shorter T+1 settlement cycle will reduce credit risk, market risk and liquidity risks associated with settlement failure.

By shortening credit exposure over the settlement period, this is expected to lower margin costs, improve mobility of liquidity and collateral, and potentially reduce the capital costs of trading.

Additionally, this may drive further automation of the transaction lifecycle, encouraging infrastructure modernisation and forcing those firms that are still hanging on to manual processing and communication to upgrade their workflow — including wider adoption of electronic trade matching, confirmation and allocation systems.

That appears to have been one lesson from India's experience with T+1 migration — which was managed via a phased migration beginning with less liquid securities in February 2022 and moving progressively to more liquid names, culminating on 27 January 2023.

One primary message from India's experience was that it was sink or swim for those firms still using manual communication and paper-driven processes — to paraphrase French economist Michel Aglietta, T+1 has forced firms to 'adapt or perish'.

And for those firms making it to the other side, it has been necessary to adapt their settlement culture and behaviour, as well as upgrading their technology.

We will examine the transition proposal in the US and Canada in more detail and in comparative context, examining how this will impact different types of market participants and different transaction types.

To open, let's look more closely at the rationale for T+1 and where this will have the greatest impact. How will this most affect your firm and the clients you support?

Rebekah Flohr: You touched in your question on the key priority, which is in helping the clients to prepare for the T+1 transition. We have a big programme running across the organisation to be ready for T+1. This is not just custody but embraces greater securities services, including securities lending, and we are working with our colleagues in Global Markets and other groups across the firm.

We provide securities services to a global customer base and T+1 will raise questions in terms of staffing, technology and changing operational processes and culture, particularly when supporting the needs of cross-border investors trading in the US market. So the key word in your question was 'clients' and, for Citi, the primary focus is on how we can help clients to prepare for accelerated settlement, engaging consultants where necessary to assist this process.

Sudha Datta: Some client groups are really behind in their technology preparations — some asset management firms and asset owners, for example, continue to rely heavily on manual touch points in their settlement activities.

The transition to T+1 settlement will force firms across the industry to undertake a wholesale review of their operational

> By shortening credit exposure over the settlement period, this is expected to lower margin costs, improve mobility of liquidity and collateral, and potentially reduce the capital costs of trading

Bob Currie
Group Editor
Asset Servicing Times

process, compelling them to improve automation rates and to modernise their settlement processes. In practice, the May 2024 transition is only a short distance away and firms need to act. This time will pass very quickly.

Mike Norwood: The securities lending and financing sector brings specific challenges since it is largely an over-the-counter market. EquiLend currently supports clients' lending and borrowing activities 23.5 hours per day across six days of the week, in terms of systems and operational readiness, facilitating global trading around the clock.

For securities financing transactions (SFTs) that are actively traded on EquiLend's NGT platform, the bulk of this volume already settles on a T+0 basis. So in preparing the US and Canadian markets for T+1, we are confident that the tools are available to meet this accelerated settlement timeframe.

We do still hear a range of concerns from across the market. What will T+1 do to our operational processes? Are we accurate enough in terms of matching rates? Will we have enough time to source liquidity to cover short positions?

But the tools are available to manage these challenges. In this environment, firms will come under ever greater pressure to address their manual processes — and T+1 settlement will ramp up the momentum that has already been established through implementation of the Securities Financing Transactions Regulation (SFTR), the Settlement Discipline Regime component of the Central Securities Depositories Regulation (CSDR), along with the proposed SEC Rule 10c-1.

Firms that continue to apply a lot of manual touch points across the settlement lifecycle will need to reconsider how they structure their workflow. In contrast, the firms that are best placed are those that have already addressed many of these operational risks and bottlenecks in response to these earlier regulatory initiatives.

Ron Landry: The challenge is particularly in getting clients 'technology ready' for the transition to T+1. As a custodian, we are prepared and largely ready to go. But some firms across the industry are lagging in their preparations and we will be spending the next few months providing education around what is required.

Many of the larger asset management and asset owner clients are already supporting electronic settlement communication, via the Swift network, via vendor-based order management and workflow solutions, or using our own internal trade capture tools.

But, like other custodians, we still have some clients that prefer to send settlement instructions by email or fax. That needs to go away. These clients genuinely need to embrace effective technology solutions to help them to manage this transition. If they do not, they are likely to face some real challenges.

Is the panel's feeling that there is a sizeable cohort of firms that are still not on track with the T+1 migration schedule?

Flohr: There are clear geographical challenges. The transition demands a full review of technology and any manual touch points — and there are certainly a lot of these still out there.

Migration to next-day settlement demands changes in behaviour. It also raises questions around staffing. For international clients, for example, the DTCC's 21:00 EST affirmation deadline falls after midnight in Europe and the Middle East and it occurs at the start of the next working day in the Asia-Pacific timezone. So for trades that need to be affirmed on a Friday evening in the US market, for example, staff will need to be monitoring the status of these settlement positions on a Saturday morning in Asia. Firms need to be planning carefully for how they adapt their processes and operational behaviour to make this happen, taking into account relevant employment legislation across their global markets.

Although clients are actively thinking about these considerations, many still have a lot to overcome before they are ready. At Citi, we are engaged in a major communication initiative with our clients to ensure they are aware of the key implications and preparing effectively to make this work.

Learning from the past

This is not the first transition to a shorter settlement cycle that we have witnessed in our working careers. The European Union migrated to T+2 equities settlement in 2014 in the first tranche of the Central Securities Depositories Regulation. The US migrated to T+2 in 2017. To what extent did those migration efforts create pressure to strip out manual inefficiency?

Landry: The transition to T+2 did not have a big impact in forcing firms to eliminate manual interventions. In transitioning from T+3 to T+2, firms still had a day to work with to ensure that trades settled on time. For this reason, settlement culture did not substantially change and some firms postponed the need to upgrade processes that should be automated.

In transitioning to T+1, firms will need to change their operational practices as well as upgrading their technology. Offices at many buy-side firms have traditionally closed at 17:00, while settlement issues often tend to arise after hours. If investment companies maintain these same working hours in a T+1 environment, their operations teams may not identify potential settlement breaks until the following morning, leaving one working day and no overnight to take remedial action.

In short, with only 6-8 hours to deal with any settlement issues in a T+1 environment, automation will play a prominent part in ensuring that the transition to T+1 is successful.

Flohr: Looking retrospectively, it is evident that some firms managed the move to T+2 by allocating extra staff to certain processes, rather than by upgrading their technology and improving levels of automation across their settlement workflow. With T+1 migration, that approach — throwing more staff at the problem — becomes close to impossible.

Datta: This requires a change of culture. Sending trade confirmations by email has become a habit in some organisations. So there is likely to be resistance to change from certain parties that have become accustomed to working with these inefficient post-trade practices.

The challenge is not the same for every type of firm. For a large Tier 1 asset servicer, the technology investment may be large but manageable. But for a small investment management company, it is a huge undertaking to install new systems to meet this transition requirement.

Initially this will be an expensive migration — and it will be challenging, particularly for smaller investment firms, to find the resources to upgrade their technology and settlement processes. But, relatively quickly, these firms will experience the benefit of this transition in terms of greater automation and reduced operational overheads.

Norwood: That is the natural order of things. The longer that a firm waits to make these transformative technology changes, the longer that it will need to normalise its data and to establish the data quality required to support process automation.

Typically, the sooner that a firm moves to digital, the cheaper and more efficient its operational processes will become. For those that delay, it will be harder to change established institutional behaviour and to force out ageing and inefficient trade processes.

This is also not the first time that the US has embarked on a transition to next-day securities settlement. In October 2001, the Securities Industry Association pushed back the release date for T+1 implementation because the industry did not feel that it was ready — and it has taken more than two decades to be

May 2024 is not far away. I have been telling clients to start early. If you are only starting now, you are already behind

Sudha Datta
Managing Partner and Co-Founder
Soterium

actioned. Has the industry changed sufficiently to be confident of a successful T+1 migration in 2024?

Flohr: The transition to T+1 scheduled for May 2024 is a little different because this is now being driven by the regulators, by the US Securities and Exchange Commission and the Canadian Securities Administrators. In contrast, in 2001 the transition to T+1 equities settlement was driven principally by the industry. Now firms have no choice but to commit to the transition approaching next May.

Landry: Technology has also advanced a long way since 2001. The industry is better equipped than it was 20 years ago in terms of adoption of technology and electronic messaging standards. If an asset manager does not have suitable technology to manage its portfolio, and the associated investment operations, then regulators will be taking a close look at that firm's operational and risk management practices.

The pandemic also changed things greatly. Trading, operations and risk management teams were forced, at short notice, to move to remote working and to operate without access to fax machines, to printers and to other mechanisms that sustained manual workflow. This helped to displace outdated practices.

However, there are still some stragglers that are holding back and think that they can find manual workarounds to manage their settlement commitments in a T+1 environment.

Transition priorities

Let's look more closely at the steps that firms need to set in place to move to a T+1 settlement regime. We have already mentioned electronic trade matching, confirmation and affirmation. DTCC has an affirmation cutoff of 21:00 on trade date, with allocations to be completed by 19:00 on trade date. What steps are needed to operate efficiently in this environment?

Flohr: We spoke about the need to review any manual processes. Firms need to familiarise themselves with the range of automated tools that are available — automated FX solutions, for example, and solutions available to provide automation across the trade lifecycle for securities lending and financing transactions. In the US market, DTCC, as a market infrastructure company, offers a number of tools that will facilitate accelerated settlement — and Citi and other leading custodians also offer a range of solutions. Firms are likely to draw on a combination of these solutions in their move to readiness.

Norwood: Even if firms are using an automated process, we need to look more closely at whether this is real-time or batch driven. Working with 30-minute batch processing in a T+2 environment may not be a major problem. But on moving to next-day settlement, batch cycles will present a greater challenge in ensuring that settlement instructions are matched and that required securities, funds or collateral are in position to settle.

For securities lending trades, this consideration is attracting a lot of attention for recalls in particular. Firms will be looking carefully at how close to real-time notifications are coming back from the investment manager. At how regularly these are being processed. And at how soon the firm can compare these against its outstanding inventory to identify whether it needs to issue a recall.

For highly-liquid loan securities, the GC names, the industry can be fairly confident that securities will come back on time when they are recalled. But there may be problems with recalling hard-to-borrow securities where there is a high level of short interest. These are largely the same problems that the industry is facing currently, but the temperature around these recalls is likely to rise with the move to next-day settlement.

A recent ISITC Europe report has highlighted that the challenge around recalls may make some asset owners more reluctant to lend their stock. Is that a genuine concern?

Norwood: If lenders find it necessary to hold back inventory and do not feel that they can lend the full position that they wish to lend, this changes the economics of their lending strategy.

This is not the first time we have confronted concerns that a regulatory change may impact loan supply. Some commentators speculated that the settlement discipline regime under CSDR may discourage lending for example. There were also potential concerns around Agency Lender Disclosure (ALD).

On balance, we expect that lenders will stay in the market and will continue to lend. Securities lending provides an attractive source of risk-adjusted return and technology is available to help them to manage any associated risks. As long as their service providers offer a high-level of automation, we believe that many lenders will be confident that these risks are well managed.

Flohr: This is likely to be similar to a number of regulatory changes and industry transitions that we have witnessed historically where there has been an adjustment period, with a temporary rise in settlement fail rates, and then this has normalised. This will cause friction and concern initially, but the market is likely to adapt relatively quickly.

Landry: In response, we are encouraging clients to report their trades earlier and more often. Some fund managers in the current T+2 environment tend to sit on their trades until the end of the day, then to run these trades through their systems and to submit their settlement instructions the following morning.

In the T+1 settlement environment in Canada, counterparties are required to be matched by 03:59 on T+1. To meet this, we are requiring clients to have trades in by 03:00 on T+1. By association, the sooner that the firm gets its trades in, the easier it is to manage recalls.

We have been doing this for exchange-traded funds (ETFs) for some time. With ETF trading, settlement is typically in-kind against a basket of securities and so, from a lending perspective, you will typically need to maintain a buffer. Firms will increasingly start to set natural buffers in place to manage their settlement risk as they move to T+1. As technology solutions improve, moving settlement gradually closer to real-time and enabling more real-time information and analytics, this will further reduce settlement risk.

Datta: Mike has raised the point about batch processing versus real-time processing and this demands a huge change of behaviour. In the batch process, as we have noted, clients may wait until the last minute to send their instructions. In a T+1 environment, firms will be forced to change this mindset and that will be positive for the industry.

For cross-border transactions into the US, there will also be a crucial need to re-examine foreign exchange settlement and for international firms to ensure they can align their FX settlement to meet their funding requirements in a T+1 settlement window.

Product solutions and technology

What solutions are you offering as banks and vendors to help the client to manage these adjustments?

Norwood: At EquiLend, we are not building new solutions specifically for T+1. For the securities lending industry there has been a drive for automation over the past 20 years. The company was formed in 2000, starting with an autoborrow platform to automate general collateral (GC) trading, but we are now offering solutions across equities lending and hard-to-borrow securities, fixed income and GC.

This move to electronic trading has required a significant behavioural shift for our clients. The role of the securities lending trader has moved from trade input and execution to more one of book management. Automated trading solutions are in no way replacing the trader — they are simply making traders better at their job.

> For securities finance, we are in a good position. The solutions are available. Firms are aware of these solutions and increasingly they are adopting them. We have seen automated return processing across our platform grow substantially

Mike Norwood
Director, Global Trading Product Owner
EquiLend

In parallel, EquiLend has launched a distributed ledger technology (DLT)-based solution that eliminates the need for reconciliation across the securities lending industry. This is more of a strategic play than explicitly a T+1 play, but this all ties together. As we have noted with CSDR, SFTR, the proposed SEC Rule 10c-1, these regulatory drivers provide an incentive to support a greater velocity of information, ensuring that trades are matched, that counterparties are reconciled and therefore ensuring that contracts will settle with a high degree of efficiency.

We are currently trading 115,000 to 125,000 contracts per day. On comparing our execution data and reconciliation data, we find that trades executed on platform have a break rate of less than 1 per cent. In contrast, trades that are executed through voice trading or chat typically have a break rate of 25-30 per cent. A large number of data points need to be entered to populate the settlement instruction and associated trade reporting — SFTR requires reporting for close to 160 data elements — and the associated static data needs to be accurate to make this possible. It makes sense to embrace the technology solutions that are available to meet this challenge. Firms that fail to do so in a T+1 environment, do so at their peril.

So is this a tipping point, where firms will no longer be able to sustain manual processes and will be forced to automate settlement workflow?

Norwood: We may be approaching the time when this becomes a tipping point. In Canada, there has been slightly less runway to prepare than in the US, so when I am up here in the Canadian market, the transition to T+1 comes up in almost all of our conversations. But for securities finance in general we are in a good position. The solutions are available. Firms are aware of these solutions and increasingly they are adopting them. We have seen automated return processing across our platform grow substantially — and the same is true for automated recalls. We are running 40,000 returns and 1000 recalls per day on average, so things are trending upwards.

Flohr: At Citi, we also have the technology in place to support clients' T+1 requirements across the asset servicing spectrum. The focus is to make this broad portfolio of services available to clients to assist their T+1 transition.

We do not view this T+1 migration simply as a US project. India has migrated to T+1 during 2022, completing in January 2023. Canada is migrating over the same Memorial Day weekend as the US. So is Mexico. European countries have also started looking closely at the potential for T+1 migration, so we view this as one of the first steps in a global move towards T+1 settlement.

On that note, making better use of timezones is crucial to making this process efficient. It is not a case of employing more staff globally, but moving support functions around our global coverage to make most efficient use of these resources. By providing support for the DTCC's 21:00 affirmation deadline out of our Kuala Lumpur service centre, we will be able to deliver the coverage we require to address any exception management and client queries. For securities lending, we will draw on our Singapore service desk to initiate recalls before the start of the US working day.

We are also making the best use of our own technology to support this client activity. Through our Execution to Custody solution, for example, we are able to address challenges around timing of instructions and management of operational resources, removing the uncertainty for clients in meeting affirmation deadlines. Similarly, clients that face foreign exchange and cash funding challenges can apply Citi's FX execution tools — including FX tools, FX Pulse, Auto FX — which provide both next and same day FX capabilities.

Landry: CIBC Mellon has developed a trade lifecycle analytics tool that enables clients to see where they are in the trade lifecycle and to monitor the risk that a trade may fail. This allows them to proactively address these inaccuracies at the earliest point.

We also offer an instruction capture tool, enabling firms that cannot send instructions via the SWIFT network or other electronic formats to use this tool to upload instructions.

CIBC Mellon is part of a global organisation and is therefore able to take advantage of global centres of excellence. The group is reflecting on how it can change its hours of operation to meet clients' settlement requirements more efficiently. When we need to process trades overnight in the Canadian timezone, for example, we are able to draw on these global resources to manage the bulk of our settlement volume, such that our staff in Toronto only expect to be dealing with the exceptions in the morning.

Datta: Reflecting again on India's migration to T+1, the market experienced a spike in settlement fails immediately after transition. Processes then quickly stabilised and the initial rise in settlement fails has reduced significantly.

There is no shortage of technology, with custodians offering tools to their clients. But, again, this has demanded a change in behaviour. We have observed situations in this T+1 environment where traders execute trades and then pass on the trade tickets to the settlement team when they feel like it. Technology upgrades are key, but the process change — the change in mentality — is crucial.

Norwood: Human behaviour is one of the primary challenges that we face as a technology specialist in trying to get solutions adopted. If the benefits of the solution are not communicated clearly, and the clients are not educated properly in how they can apply this technology, potential users may persist with their inefficient manual processes and fail to recognise the value of adhering to industry standards and best practice.

End-to-end Integration

Is pre-trade analytics becoming increasingly important? The ability to identify risk of settlement failure at an early point and to address this to prevent a trade failing?

Norwood: The end-to-end integration of these elements is massively important. The ability to evaluate millions of lines of data and to pull out relevant insights from this data is key, providing early warning of settlement failure and guidance on why trades are failing. With this information, the counterparty can request to borrow securities to cover the failing trade, or it can take other forms of remedial action.

At EquiLend, we are working with other service providers to deliver this integrated view across the transaction lifecycle. EquiLend offers an integrated trading and post-trade solution, but we also need to support clients that may draw on services of other vendors across their trade lifecycle — and we need access to the required data to provide these trading and post-trade analytics.

Datta: The front-office, middle-office and back-office concepts will eventually change — as these working areas become more integrated. Traditionally, each of these silos has had its own individualised processes and it has been difficult to integrate across these service areas. Eventually this delineation will start to disappear, with front, middle and back-office interlinking more effectively so that matching can be done very quickly and any problems can be identified at an earlier point in the trade lifecycle.

Where are the primary barriers to this advance? Is it cost? Refusal to change existing culture?

Datta: Again, this particularly comes down to behaviour. Firms have become accustomed to processing trade settlement this way, they have done so for years and they question why they should change. This mentality needs to be replaced.

> Looking retrospectively, it is evident that some firms managed the move to T+2 by allocating extra staff to certain processes, rather than by upgrading their technology and improving levels of automation

Rebekah Flohr
North America Head of Custody
Citi

Flohr: It has been slowly changing. But regulatory drivers such as T+1 will serve as a catalyst to accelerate this transition.

Datta: We have now seen examples of successful T+1 transitions, for example in India. Taiwan has operated a T+1 cycle for securities settlement for more than 20 years. This sends an important message to other jurisdictions, encouraging other countries to follow the lead of markets that have become early adopters of T+1.

Landry: This regulatory change will motivate firms, even more than previously, to identify their specialist position in the trade lifecycle and to pinpoint what they are truly good at. They are then likely to be motivated to specialise in these areas of comparative advantage and to outsource functions where they are less effective and add less value.

Aggregate cost of trading

Is this forcing firms to look more closely at the aggregate cost of trading, including capital costs, cost of settlement fails and other post-trade costs? How adept are firms at allocating the post-trade costs and balance sheet costs across the organisation?

Flohr: This is becoming more important. CSDR has imposed penalties for failing a trade and firms are applying their analytics to identify the source of these fails and the associated cost. The tools are in place to monitor penalties and to allocate these costs within the firm. This is a key part of the educational process as firms adapt to T+1 settlement.

Norwood: The entire lifecycle of a securities lending trade is under pressure. We are doing a lot of this on a T+0 basis today. But the transition to T+1 settlement is likely to increase demand to borrow securities, from a fails coverage perspective, and it will potentially increase the number of returns.

Looking across the securities lending industry, not all of this activity is processed real-time. However, the EquiLend Spire platform gives us the capacity to offer real-time inventory management. With NGT, we have exposure management that is linked to the triparty providers for the exchange of required value (RQV) and the settlement of that collateral instrument.

We have tools in place to monitor the settlement of collateral. But, there may still be challenges — for example, for lenders that are reinvesting cash collateral. Settlement fails will delay receipt of cash when redeeming from a fund and may create problems in reinvesting that liquidity at an attractive yield, particularly later in the day.

Given that a client may select tools on a modularised basis from different providers, it is essential that these are interoperable. With our DLT-based solution, this interoperability is key to maintaining a single centralised record, a single source of truth for the contract, when a client is utilising different tools sourced from different service vendors.

Flohr: The technology solution is one element. Then we go back to location optimisation and use of our operational capability worldwide so that we can take advantage of processing centres in different timezones to support clients' investment activities. With this, you do not need to wait for staff in the US to wake up to commence the recall process for example.

Norwood: The recall challenge has received the lion's share of the attention within the securities lending community, but the collateral management element may be more significant. We issue recalls and can get recalls back in a timely fashion for probably about 99 per cent of loans that we process. It is the 1 per cent that will always be the problem.

But it is the cash management challenges that we have discussed that may present a more significant problem.

Flohr: Most certainly. The complexities presented for cash reinvestment in a T+1 environment, and the implications for clients' funding models more generally, have featured prominently in the conversations we are having on this issue.

Landry: In accordance with Rule NI 24-101 in Canada — referring to National Instrument 24-101, which is the securities regulation that governs institutional trade matching and settlement in Canada — counterparties are required to match transactions before 12:00 on T+1. We are currently at a 98 per cent success rate in meeting this requirement. One outcome is that this puts considerable pressure on the latter half of the business day to get things done. When it gets past 14:00, that is when pressure really builds on the CSD to get those settlements processed.

Providing that we receive the settlement instructions early, we are confident in our ability to get the job done.

ETF settlement

Some elements did not appear to be fully worked through when the SEC announced the requirement to migrate to T+1 in May 2024. This may generate some unintendedconsequences for ETF settlement for example?

Landry: The Canadian Capital Markets Association (CCMA) has a taskforce around T+1 that is dealing with a lot of these challenges. In moving from T+2 to T+1, settlement practices for collective investment funds and ETFs are governed under the Rule National Instrument 81-102 — NI 81-102, the securities regulation for investment funds in Canada. The legislation for these instruments will not be changing, enabling ETFs to remain at T+2 for primary market settlement if their underlying assets do not settle predominantly on T+1.

This will have an impact on Associated Participants (APs) that have sold ETF shares to investors in the secondary market, for example, and do not have the inventory on hand to deliver to the issuer in the primary market to create additional shares.

To address this situation, the CCMA Task Force has proposed to the Canadian Securities Administrators (CSA) to introduce an exemption under NI 81-102 to enable collateral to be used to facilitate settlement in the primary market, without causing disruption to secondary market settlement.

Without this exemption, APs may be forced to carry excess inventory, thereby increasing the associated cost of settlement and potentially impacting bid-ask spreads. Alternatively, they may be forced to rely on cash-only fund creation and redemptions, which will again impact overall costs for trading ETFs.

More broadly, the Task Force is also examining potential to introduce central settlement for ETFs, like that offered in the US by the DTCC-owned National Securities Clearing Corporation (NSCC). Here in Canada that will be many years out from now, but these are all steps we are taking to prevent any downstream impact of moving to T+1 in the secondary market.

It might be fair to say that policymakers did not fully work through the implications of this decision for how the primary and secondary markets interact. We are working to obtain broader industry agreement that this is the best step forward. I do not believe any AP firm or issuer would want the implications of remaining with T+2 settlement in the primary market to impact trading with ETF investors in the secondary market.

Flohr: That is an important point. Similarly in the US, ETFs that are domiciled in the US but which invest in underlying securities issued in international markets may experience a settlement misalignment. More generally, there will also be timing implications for investors that are looking to redeem securities settling on T+2 in an international market in order to fund positions in the US.

> The challenge is particularly in getting clients 'technology ready' for the transition to T+1. As a custodian, we are prepared and largely ready to go. But some firms across the industry are lagging in their preparations

Ron Landry
Head of Product and Canadian ETF Services
CIBC Mellon

Towards real-time settlement

Will T+1 settlement be the intermediate step in an advance to T+0 and towards real-time settlement?

Flohr: You highlighted that T+1 was first proposed in the US in 2000-1. It will take until May 2024 to implement this transition from T+2 to T+1 for equities settlement, but I do not anticipate that it will take more than 20 years for the market to transition to same-day settlement.

Landry: However, we will not be transitioning to T+0 with our current technology and settlement processes. Something will need to shift before we can support real-time settlement. In dialogue with my US counterparts, we are discussing what operational structures should look like for Associated Participants to settle ETF shares on T+0. Early indications are that processes will be manual and cumbersome, valuing shares by making intraday adjustments to a prior-day valuation, involving warranted deliveries of collateral and potentially resulting in a rise in buy-ins. If this is an example of how T+0 will operate on a small scale, we are a long way from moving to same-day settlement for ETFs without adopting new technologies and substantially different ways of working.

Norwood: A lot of what we can do now represents building blocks that may enable us to get to T+0. I do not look at T+1 settlement as a massive headache for the securities lending industry. T+0 will be a lot more problematic. Significant steps have been made with technology development, but there will be a need for integrated technology development for analytics, through settlement, cash management, books and records.

There are so many associated touch points and integrated processes that have not yet been thought through in detail. These will need to be substantially modernised before getting to a position where we can really talk about integrated settlement. Tokenisation can potentially help with this, but we are not ready to implement this at scale as a global industry.

Landry: There are still some pressing questions that will still need to be addressed. How will short-selling be managed in a same-day settlement environment for example? How will short-sellers source the borrow before they short the stock — and how will this 'locate' obligation be structured in a T+0 environment?

I envisage that the industry will move in small steps in the first instance — testing T+0 for transactions where we know this is workable and then expanding this to a wider set of instruments.

Datta: In theory this looks good. But in practical terms it is by no means certain this will be good for the US and Canada as large international markets. If we take the situation of an investor from the Middle East for example, they are executing trades when the US is sleeping and it will be challenging to execute these cross-border trades in real-time.

Closing thoughts

What advice do you have for clients to help them to be ready for the May 2024 transition deadline?

Datta: May 2024 is not far away. Seven months will pass very quickly. I have been telling clients to start early. If you are only starting now, you are already behind. If you need to change your technology and your processes, this will take time and you should be acting immediately.

Flohr: Review all your processes globally, looking out for any manual touch points. Look closely at each different part of your business, including funding relationships, FX, treasury, trading, broker relationships, risk management and credit teams, communicating with each of these divisions to ensure they know exactly what is needed to be T+1 ready and compliant.

Norwood: I reinforce those points. It is about reviewing each of these processes and ensuring that you understand the technology solutions available to you. This dialogue needs to involve potential technology partners, counterparties and your peers in the industry, identifying best practices that can benefit each of the relevant stakeholders to the T+1 migration. This forum provides a good example of that.

We also need to understand the implications of making changes in one part of the organisation and how this will play out elsewhere.

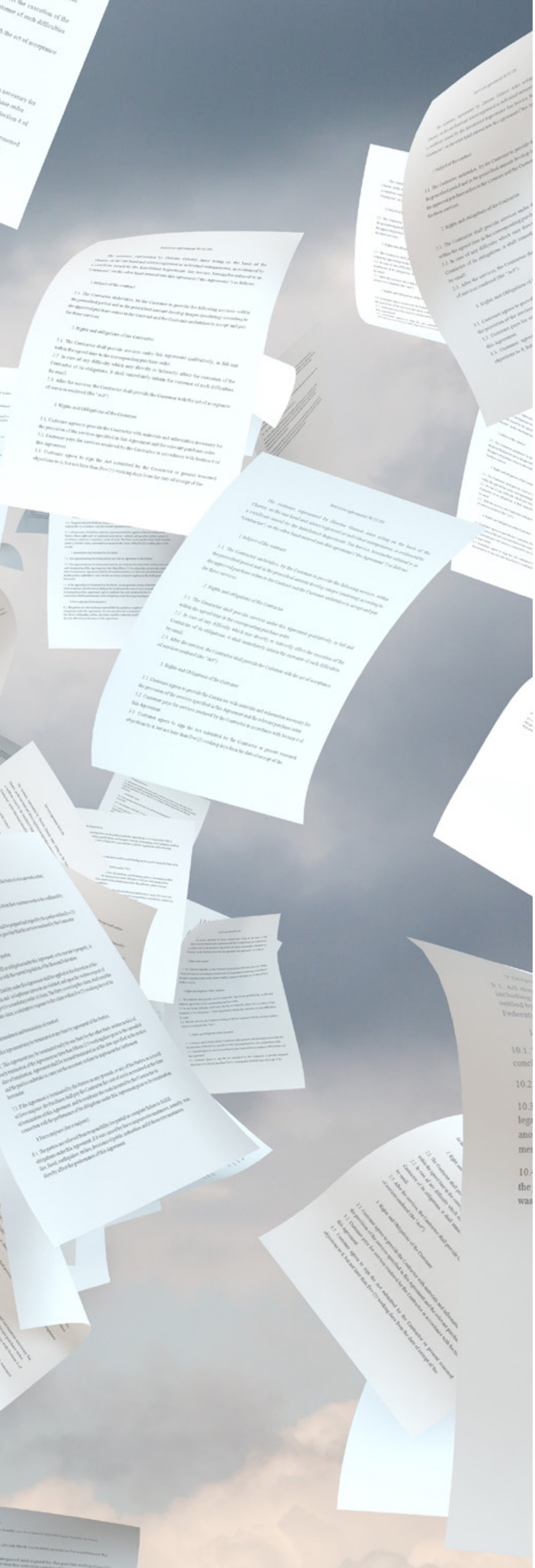
Landry: For our clients, the key message is to keep speaking to us, identifying how we can help them and what additional tools that we can offer that they have not been using until now. Even API connectivity can be important, for example, in enabling systems to talk machine-to-machine and to remove manual intervention when communicating instructions and communicating data. At CIBC Mellon, we know that we are ready to go. Now it is a question of sharing this information and helping our clients to transition as effectively as possible. ■


EQUILEND
T+1
ENSURE T+1 READINESS WITH EQUILEND

States of change

As the US fund administration landscape shifts, market participants share their thoughts on the SEC's actions, the state of the market, and where they think fund administration will go next

Lucy Carter reports



New rules

In August of this year, the U.S. Securities and Exchange Commission (SEC) adopted new rules for the regulation of private fund advisers, alongside amendments to existing rules, with the intention of improving transparency, competition and efficiency across the market.

"Improved transparency will benefit both investors and regulators," says Timothée Raymond, head of innovation at Linedata. With increased access to information on the funds they are invested in, investors are able to make more informed decisions and can better understand a fund's strategies, risks and fees, potentially improving trust in fund advisors.

"From a regulatory perspective, increased transparency allows regulators like the SEC to have better oversight of private funds," he continues. Regulatory compliance is easier to keep track of, and fair treatment of investors can be monitored more effectively. "This, in turn, can contribute to the overall stability and integrity of the financial markets."

Alongside that stability should come increased investor and market confidence, enhanced investor protection, improved market efficiency and capital allocation and greater accountability for fiduciaries, according to Sonia Bhasin, general counsel at MUFG Investor Services. "The increased cost of compliance is on everyone's mind, however one hopes that the benefits to the industry as a whole will outweigh the costs," she says.

Following the announcement, private fund investors registered with the SEC must provide quarterly statements to investors including information on fund fees, expenses and performance, in addition to annual financial statement audits on each of the private funds they advise and a fairness or valuation opinion.

Sean Wilke, senior managing director at IQ-EQ, suggests that this element of the new requirements could prove "burdensome" for fund advisers, administrators and other service providers alike. "Much of the new private fund rules is simply a codification of existing informal requirements, particularly with regard to disclosure obligations," he explains, but these reports could "materially impact fund sponsors' operations".

Rich Clark, managing director of regulatory solutions at SS&C Technologies, affirms that "managers need to be prepared", making decisions now in order to strengthen their compliance operations and minimise disruption later down the line.

> "Until we have greater clarity, the industry will be paralysed on what steps will be necessary to bolster their compliance programmes"
>
> **Sean Wilke, IQ-EQ**

Rules around preferential treatment have tightened, with any such behaviour banned if it could have a negative impact on other investors. Investor protection has also been bolstered with the restriction of private fund adviser activity that acts against the public interest and investor protection. Advisers cannot charge or allocate certain investigation costs to a private fund if a sanction for a violation of the Investment Advisers Act of 1940 and its associated rules is in play. However, these rules are not set in stone. Certain preferential treatment will be permitted on an disclosure-based exception, so long as current and prospective investors are made aware of preferential terms, and certain restricted activities are permissible following specific disclosures and, in some cases, investor consent.

The SEC has adopted legacy status provisions for certain restricted activities and preferential treatment provisions in order to avoid renegotiations around existing funds' governing agreements, covering such agreements entered into in writing before the new rules go live.

"For now, the primary impact of these changes is on the investor-adviser relationship," says Linedata's Raymond. "These initial changes are just the beginning of what appears to be a broader regulatory focus on private funds," however "if this trend continues and begins to resemble the regulatory oversight experienced by retail mutual funds, it could indeed have a more profound impact on our operations and the private fund industry as a whole," he adds.

While there are certainly benefits to be reaped from the changes the SEC has laid out, some, like IQ-EQ's Wilke, are not certain about their "staying power". Due to legal issues around the implementation of the rules — namely a potential breach of the Administrative Procedure Act — a number of private fund industry groups and political organisations have taken action, he explains. A petition has been established to instigate a judicial review of the commission's actions and potentially invalidate the regulation.

As such, "the outcome of the new regulations are in peril," Wilke states. "Until we have greater clarity, the industry will be paralysed on what steps will be necessary to bolster their compliance programmes."

Goodwin Law's Larkin and Peltz state that "we will be watching to see whether the rules are adopted substantially as proposed, tempered in minor ways, or revised in material ways".

They reflect that, during Gary Gensler's tenure as chair, the SEC has released an "incredible number of rule proposals" that are notably "aggressive", and suggest that the approach taken with the adoptions of these rules "could give an indication" of how other proposals will be implemented.

There have already been a number of changes between the private fund adviser rules outlined in the February 2022 proposal and the August 2023 go-live, with the actual changes less harsh than their original counterparts. Wilke agrees: "Anticipate potential revisions. The SEC may consider a more tempered version to address any ambiguities and concerns."

Compliance is crucial

Beyond the SEC's actions in this case, compliance and pressure to keep up with regulatory change are inevitable issues in the financial service world, with a number of firms finding it difficult to keep up with their obligations.

Things are made even more complicated by the fact that "in the US, fund administration is not a regulated activity," Frederick Shaw, US country head at Apex Group, explains. "Financial regulations such as the SEC and the Financial Regulatory Industry Authority (FINRA) do not have direct oversight over our activities."

As a result, fund service providers like Apex are taking an individualised approach, "adapting to accommodate the varying needs of the clients we serve."

Although regulations around transparency and communications may be particularly difficult to keep up with, as Linedata's Raymond suggests, transparency is nevertheless "the hallmark of an efficient market", according to IQ-EQ's Wilke. It also provides "an inherent check and balance on the historically opaque private funds industry," and can help limited partners to both better understand how a fund operates and to ensure their alignment with expectations without the confusion of manipulated fee, expense and performance calculations, he adds.

In the face of new requirements, private fund advisers must ensure that their reporting is timely, accurate and comprehensive; "maintaining a clear and auditable record of compliance is crucial," Raymond states. There could be serious consequences if this isn't achieved, with firms risking increased regulatory scrutiny and potential penalties as a result of their shortcomings. With any rule passage, the true ramifications are realised long after the initial passage," Raymond continues; there will doubtless be headaches and gripes as new regulations are accommodated.

"It takes time for industry practice to coalesce," Bhasin says, adding that "in the current climate, compliance and legal teams are facing regulatory fatigue" exacerbated by increasing volumes of legal and regulatory changes. This latest batch of rules — the adopting release of which consisted of 656 pages, she notes — represent a great deal of work. "Compliance departments will need to prove they are maximising spend."

Technology remains key

"Technology is undoubtedly the route to gain competitive advantage," Raymond asserts, expecting to see reduced labour and increased automation in the space as time goes on. "A simple increase in labour is likely to be unaffordable and more limited in impact" he explains, a reality that much of the industry is preparing to accept.

"Innovation needs to be embedded throughout a business," Apex's Shaw states. Although investing in new technology is a risk, requiring "significant time, resource and capital investment from service providers", not engaging with emerging technology use cases can leave firms lagging behind their peers. These "new and changing" technologies include more sophisticated AI, advanced machine learning and accounting reconciliation systems, Shaw says, all of which contribute to better-supported markets through improved transparency and better price discovery mechanisms.

Kin Lai, CEO of Amicorp, advocates for the use of Microsoft's Copilot in fund administration processes. "It's an amazing tool," he says, and one that can "help us to deal with some of the questions we're facing on a daily basis". Incorporating this technology into operations can remove the need for a real person to be engaging in repetitive, low value-add tasks, freeing employees up to complete higher-level work and potentially increasing efficiency. Copilot is "an exceptional new feature" for the industry, Lai affirms.

Linedata's Raymond highlights advanced workflow automation tools as notable additions to the private fund industry's technology kit. These allow for many compliance-related tasks, including reporting, documentation and audit trail management, to be scaled and the chance of errors reduced.

This also helps firms to achieve the heightened transparency that new regulations demand, producing a digital record of compliance efforts.

In addition to this, Raymond reports that transparency initiatives are being strengthened by investor portals and reporting platforms. "Ultimately, fund managers are looking for real-time, comprehensible, and accurate tools to help them continue delivering for their clients irrespective of regulatory changes," he says — something that these systems can grant.

Wilke believes that "as with everything, technology will lag behind automation" when it comes to the new SEC rule; "but it will eventually catch up".

In agreement with Raymond, IQ-EQ's Wilke anticipates fund administrators and service providers will streamline their processes and optimise efficiencies, but emphasises the need for more detailed, revised rules to be issued before the architecture of software solutions can be envisaged in more detail.

Educating investors

As the new SEC rules will necessitate quarterly and annual statements to be issued to clients, the way in which private fund advisers communicate with their clients may require a few tweaks. An influx of information can be less than useless if individuals are not equipped with the knowledge to understand it.

With the new SEC rules, this could be a particular issue for high-net-worth individuals, Wilke comments.

"Technology is undoubtedly the route to gain competitive advantage"

Timothée Raymond, Linedata

"Institutional and professional investors tend to be well-versed in fund operations," but other clients may not have access to the same knowledge; "investor education will become more important" as their involvement with the funds they are invested in deepens.

"Investors will need to grasp the significance of the reports and disclosures provided to them," Raymond comments, "particularly in cases where advisers seek their consent for specific actions." Fund advisors may therefore need to provide "more comprehensive explanations and clarifications as part of their communication efforts," ensuring that investors fully understand the increased frequency and transparency of information they are receiving.

Consolidate or go it alone?

In the US and beyond, recent years have seen changing ownership, mergers and acquisitions of fund administration companies. Apex Group has acquired a number of fund administrators in the past two years, including MJ Hudson, Mainspring and Sanne, while Waystone Group has continued to expand its reach — most recently with the addition of Link Fund Solutions in April 2023.

Explaining why this trend is so prominent, Shaw explains that "consolidation is a natural by-product of the maturity and evolution of an industry". New market entrants join the industry boasting a differentiated offering and critical mass, and are left to decide whether to "go it alone or join a larger, more established organisation."

The latter option is often appealing, allowing smaller, independent companies to benefit from process orientation, scale and technology, Wilke adds. "At some point, smaller fund administrators reach an inflection point where capital improvements are necessary to grow beyond boutique status," he says.

"In order to penetrate the upper echelon, it is necessary to search for ways to both expand coverage areas and increase efficiency," and these are more easily accessible with the investment, technology integration and experience of larger firms' global management teams.

From the perspective of one of these firms, Apex's Shaw notes that acquisitions must either improve the company's capabilities and solutions offerings or allow them to expand their global footprint. "Whilst flexible enough to accommodate opportunistic situations, our acquisition strategy remains focused on only acquiring quality businesses which add a specific product, technology or geography for our clients," he affirms.

The future of fund administration

"Fund administration, and the role of a fund services provider in general, is constantly evolving," Shaw states. He predicts a continued focus on technology as the industry moves forward, along with an expansion in the range of services that clients expect from their service providers. "ESG reporting and regulatory services are becoming more important to our clients as the requirements of investors and regulators evolve," he adds.

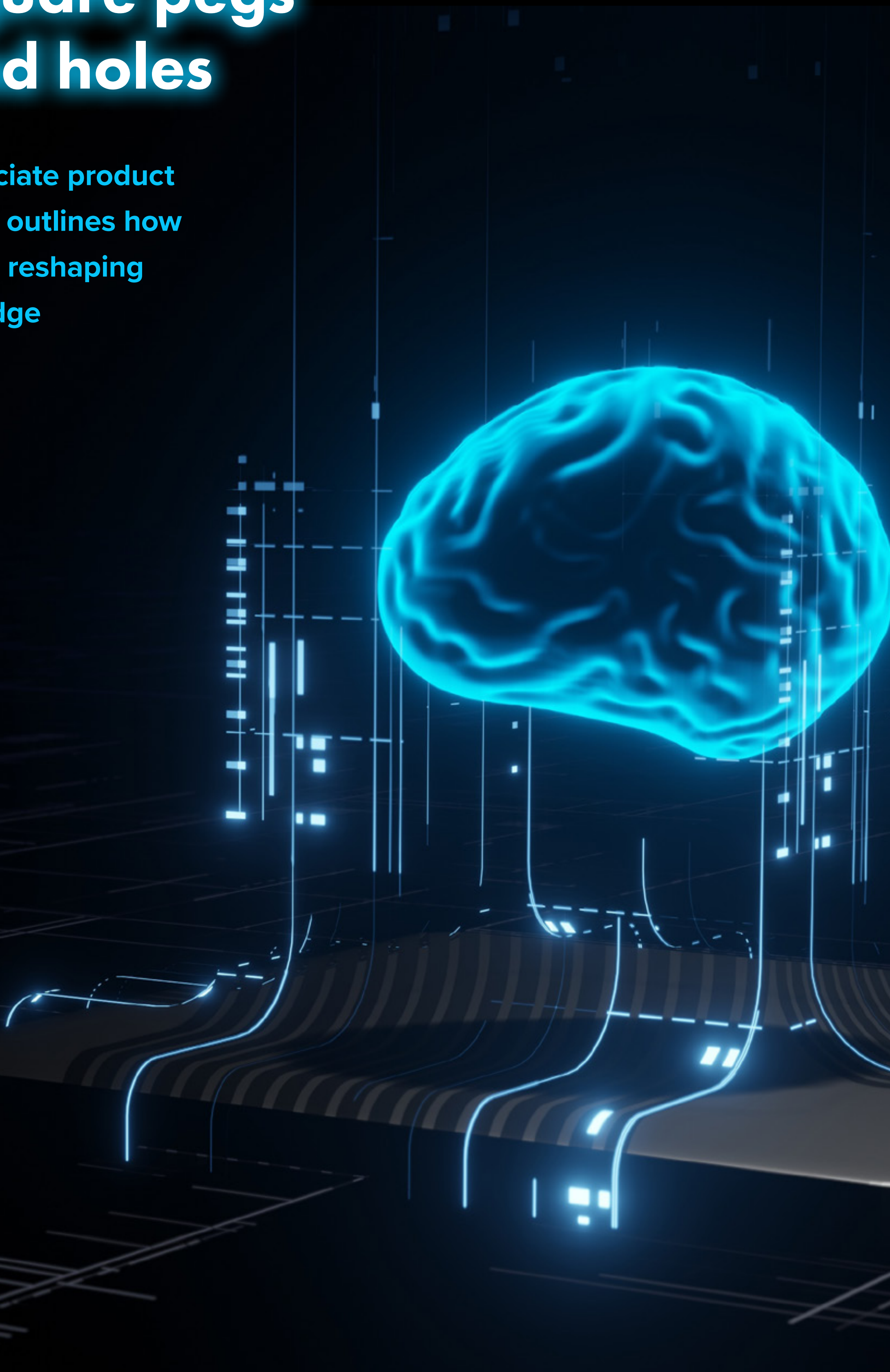
IQ-EQ's Wilke draws attention to the SEC's recently "increased vigour in terms of examinations, enforcement and rulemaking", particularly around fast-moving topics such as AI and crypto.

Shaw adds that changing regulation that encompasses new products and industry growth is "critical" in a constantly evolving market. In order for "compliant and market-forward platforms" to run successfully, industry players must ensure alignment with regulations and have access to effective regulatory support, he says, allowing for the benefits of technology enhancements and developments to be maximised.

The SEC's new rules have been embraced by some and met with scepticism by others, but as the industry evolves and becomes more complex, one thing's for sure: the fund administration sector must prepare itself for change.

Fitting square pegs into round holes

Jacob Ullman, associate product manager at Acadia, outlines how AI and chatbots are reshaping derivatives knowledge



In the world of technological evolution, one force undeniably stands out: AI. This formidable field of innovation has captivated global industries with its transformative potential.

The complex domain of financial derivatives, filled with its intricate terminologies and sophisticated mathematical models, is more than ready to utilise AI as a potent tool for shaping the future.

Imagine a world where it is effortless to ask a chatbot to 'clarify the Bachelier Model,' or 'show the net present value formula for a European swap', eliminating the necessity to consult quantitative researchers.

This paradigm shift in knowledge dissemination is nothing short of exhilarating. Nonetheless, challenges persist. How can we flawlessly integrate such cutting-edge AI solutions into the labyrinthine legacy systems of established banks that cover a broad spectrum of operations?

Like fitting square pegs into round holes, integrating advanced AI into the traditional financial landscape presents its own unique set of challenges and opportunities.

While most financial firms possess the essential data to address such complex inquiries, their infrastructure often lacks connectedness. Over the years, these institutions have experienced myriad acquisitions, cumbersome database migrations and an array of organisational changes.

Amidst this complex backdrop, Acadia has managed to carve a distinctive niche. Our suite of products, which operate within a unified, web-based architecture and data model, facilitates accessibility across all applications.

In doing so, this unique vantage point empowers us to focus on AI knowledge distribution and dispute management, while emphasising a responsible, human-centric approach to AI integration.

AI and finance:
a dynamic duo

With its unparalleled ability to analyse colossal volumes of data, detect patterns and generate actionable insights, AI represents an unmatched opportunity to streamline operations, fortify risk management and enrich customer experiences.

The ceaseless progression in AI technology, evident in the creation of Bloomberg's proprietary model, FinGPT, and numerous open-source models on platforms such as Hugging Face, is both awe-inspiring and invigorating.

From lending platforms like C3.ai aiming to help lenders approve more borrowers while lowering default rates, to investment apps such as Magnifi implementing a ChatGPT-style co-pilot to give personalised investment advice, AI is weaving its way through the fabric of many new companies.

Where AI might be seen as a cure-all for SaaS companies seeking innovation, Acadia has adopted a more balanced perspective. We view AI as an enabler to enhance human capability rather than a substitute. Recognising that responsible AI adoption needs to be human-centric, we should aim to uplift expertise, stimulate collaboration and foster a culture of continuous learning among our employees, instead of nurturing a generation that is already extremely reliant on AI.

Despite the intimidating challenge of integrating AI technologies into the vast legacy systems of banks, Acadia is optimally positioned. Our products cover the entire post-trade derivatives lifecycle and are built for firms subject to the uncleared margin rules (UMR). We provide a suite of services, including sensitivity pricing, exposure calculation, margin call generation, collateral eligibility determination and the orchestration of SWIFT messaging for settlement.

Acknowledging our unique standing, we're exploring the untapped possibilities that AI can offer within our infrastructure.

Amplifying Acadia's expertise with AI:
a new era of knowledge dissemination

The centerpiece of Acadia's AI-driven vision is the Acadia Expert ChatGPT-style application. This tool is set to improve knowledge transfer within our organisation. By training our AI-powered chatbot on a comprehensive suite of documents — spanning products, pricing, data formatting and FAQs — Acadia has created an intelligent repository of expertise. This innovation democratises access to crucial information and facilitates informed decision making.

Consider a scenario where a question is raised by a collateral team to our support line. In such a case, Acadia's support team could leverage an AI-trained bot as the first line of response. This does not merely yield a pre-formatted response; it delivers a profound understanding of pricing models, data formats and exposure calculation methodologies.

In the long run, we aim to extend this democratisation of knowledge to our clients, empowering them to independently navigate through intricate protocols, thereby fostering a culture of continuous learning.

Revolutionising dispute management with AI

Acadia's exploration into AI-driven solutions extends into the pivotal realm of margin call dispute management. This domain requires speed and accuracy — two areas where well-trained AI shines.

When a margin call dispute arises, our AI system will delve into historical data and discern patterns to propose potential resolutions. Equipped with AI-generated insights, human experts can apply their industry knowledge and judgment to validate and implement the optimal resolution, marrying AI efficiency with human wisdom.

When a collateral operations person interacts with a counterparty, using real-time Acadia AI, we see a more unified resolution process. This not only standardises communication in the industry but also shortens time to settlement for a margin call.

Promoting responsible AI adoption

It is essential that Acadia carries out responsible AI adoption. Upholding this commitment requires the following:

- **Robust training and education:** Adhering to comprehensive AI ethics and best practice training to ensure employees understand the potential and limitations of AI and use it responsibly.
- **AI oversight and governance:** Establishing an internal governance framework to monitor AI models continually, promoting transparency, reducing biases and ensuring accountability.
- **Human oversight and judgment:** Emphasising the importance of human judgment in conjunction with AI-generated insights to maintain an active role in decision making. Using reinforcement learning as a feedback loop helps improve the model's accuracy.

Beyond Acadia:
The broader impact of AI solutions

As we navigate through the rapidly evolving technological landscape, Acadia is determined to lead the way in responsibly leveraging AI's transformative potential. While the financial industry grapples with the daunting task of integrating AI into entrenched legacy systems, Acadia is already making strides to apply this technology in a meaningful and beneficial way. Our unique approach extends beyond mere technology integration; we emphasise the crucial role of human insight and expertise at every stage.

Our AI-powered solutions, already reshaping the way we understand and manage client queries, are the result of thoughtful integration. They are designed not just to automate tasks, but to augment human capabilities and improve decision making. This fosters a human-centric approach, continuous learning and collaboration. But our journey does not stop here. As we continue to explore the possibilities of AI, we also understand the imperative of promoting a broader understanding and acceptance of its presence within the financial sector. Therefore, we invite our peers, partners and clients to join us in embracing this AI-led revolution.

"While the financial industry grapples with the daunting task of integrating AI into entrenched legacy systems, Acadia is already making strides to apply this technology in a meaningful and beneficial way"

Let us collectively harness this technology to enhance our services and streamline operations to shape the financial industry's future in a way that is both progressive and sustainable.

Together, we can fit the square peg of AI into the round hole of legacy systems to reshape the world of finance for the better. ■

"Acknowledging our unique standing, we're exploring the untapped possibilities that AI can offer within our infrastructure"

Jacob Ullman
Associate product manager
Acadia

A price to pay?

Jenna Lomax investigates what the future of securities services holds at a time when it is weighing up different costs to meet a vast array of obligations

"Post-trade is going the wrong way. What I mean by that is, it is getting more complex and more expensive," said Citi's global head of custody and clearing, Matthew Bax, at Sibos's 'Future of Securities Services' panel.

"It is becoming more disparate, and, effectively, there are a small number of players that you can actually turn to for assistance," he went on. "From an efficiency, expense and globalisation perspective, that's going to be the challenge."

These days, the securities services' ongoing challenges and costs just come with the territory, but as globalisation continues to develop, and cross-border payments become more commonplace, interest rate hikes may underpin more decisions regarding operational and technology spend.

Another consideration for the future of securities services is cyber security. In some cases, organisations are using the support of third-party specialists to improve their security and know-your-customer processes — both are paramount cogs for operational resilience. Additionally, with T+1 implementation now less than a year away, robust systems will be needed to help firms manage this transition and to prevent any decline in settlement efficiency.

Discussing today's challenges in further detail, Richard Anton, chief operations officer at CIBC Mellon, surmises: "Market dynamics are shifting. While there was a surge in investment during the COVID-19 pandemic to digitise processes rapidly, businesses now face the challenge of resetting their expectations.

"Clients are seeking solutions that optimise operational processes, enhance agility, and drive cost-effectiveness, thereby ensuring their ability to navigate a potentially more challenging economic environment."

Recent statistics from fund services provider Ocorian found that alternative fund managers, for one, are increasingly turning to third-party suppliers to support their fund management business.

The fund services provider found that price is the biggest driver for fund managers looking to change providers. Remarkably, the quality of services and the provider's overall reputation came in as the second and third priority, respectively.

"Outsourcing fund administration is a cost-efficient option," affirmed Paul Spendiff, head of business development, fund services at Ocorian, when commenting on the findings.

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"We are having many conversations with financial institutions who are discovering that partnering with a vendor as opposed to buying a solution is more cost-effective, and this avoids maintaining in-house builds"

Vincent Kilcoyne, SmartStream

A legacy of problems or opportunity?

As the industry looks to welcome in a new year, it will be very much occupied with the transition to T+1, expected in May 2024. A recently released whitepaper from SmartStream, entitled 'The race to T+1 settlement', discusses the impact that the shift to a shortened settlement cycle in North America will have on global financial services organisations and financial products. The move will be enhanced by pre-existing pressures, SmartStream outlines, such as "the imperative to improve margins".

"With the upcoming T+1 requirements, we are having many conversations with financial institutions who are discovering that partnering with a vendor as opposed to buying a solution is more cost-effective, and this avoids maintaining in-house builds," affirms Vincent Kilcoyne, executive vice president of product management at SmartStream.

He adds: "In terms of partnering with Smartstream, this means they are getting a solution quicker and taking on a more cost-efficient way to reap the benefits of a proven solution, from a vendor that has invested in research and development for decades."

However, it is no secret that some areas of the securities services industry are decades behind innovation, particularly in its attempt to keep up with impending T+1 compression times as well as other, imperative changes. Often hindering back-office growth, or its ability to streamline, are in-house builds that are no longer effective or are too costly to run, as SmartStream's Kilcoyne alludes to.

This was a central discussion at Sibos' 'Future of Securities Services' panel. Moderator Barnaby Nelson, CEO of The ValueExchange, asked what area of securities services had received the most investment during 2023, and what other areas had, as a result, suffered from lack of funds. Citi's Bax affirmed that legacy system updates needed the most funding in order to streamline post-trade processes, though he elaborated that "the industry should build a new fabric around [them].

"While we're spending a vast amount on legacy transitions, it is important to remember those systems are incredibly scalable; they are pretty safe and we know exactly what they're doing," Bax added. "We'll all have to transition our legacy systems; they'll become more of an internal problem, because they are an expense issue, as opposed to a client-experience problem."

"Broadly speaking, the industry has come to the uncomfortable realisation that its technology spend is going to continue to increase in the short term, while its operations spending will likely stay fairly flat. The real trick is to invest in your technology as much as you possibly can, and hold your operations spending flat. When you come out of the technology spending curve, look at what you can do for your operational processes."

Additionally, this shift in action and attitude could have the potential to bring greater opportunities for innovation, such as developments around AI and machine learning. In theory, through greater automation, firms should have access to higher-quality reporting, underpinned by real-time data.

Clearstream's CEO Stephanie Eckermann, who was also on the panel, said: "Data and AI have both been in security services for a long time." She added: "We're really progressing with both, to the point where we can give something back to our clients.

"For example, using predictive models on settlement efficiency helps to identify causes for settlement fails, which in turn, helps our clients to optimise settlement efficiency and reduce penalties. Most of these processes are now AI-driven."

A number of back-office companies have already integrated AI into their software stacks to provide efficient services for their clients and to deliver business value. On the other hand, machine learning has, for the most part, been adopted to help users and machines better understand data.

Although some onus is being put on AI or machine learning to help improve settlement times, this practice is still in its infancy; the responsibility still lies with the workforce who are implementing these AI or machine learning initiatives. However, before such initiatives can be successfully integrated, data management needs to be streamlined and effective. Yet, data management software firm Solidatus indicates that US and UK data leaders in banking and financial services are facing ‘data burnout’.

In a recent survey, the company found that 71 per cent of senior data leaders in financial services are on the brink of quitting their jobs due to data distress. Some 74 per cent of data leaders polled say they have experienced workplace stress or have had to take sick days as a result of it.

Additionally, 33 per cent cite “too many disparate and siloed data sources” as the cause of their data distress.

Commenting on the whitepaper, Philip Dutton, CEO and founder of Solidatus, said: “Data distress could be costing the global banking system hundreds of billions of dollars in lost productivity and missed opportunities.”

The industry can simply not afford to lose productivity, nor miss opportunities amid the countdown to T+1, and while facing other regulatory and operational obligations.

Remaining people-centric

“Given that post-trade is people- and expertise-driven, training — and training people with the intention of training them for a long post-trade career — is so important,” affirmed Clearstream’s Eckermann at Sibos. “That’s a big challenge that we all need to manage.”

Citi’s Bax surmised: “Out of all the challenges we face in post trade, talent is one of the most important. The five- to 10-year horizon on post-trade talent is the one to watch out for.”

As well as giving the right training for the future, the industry will need to find the right way to entice the workforce to commit to it. New research by workspace platform, Hubble, reveals that businesses “still haven’t ‘solved’ their workspace, three years after the post-lockdown working shake-up”. Its survey of CEOs and leaders across HR, operations and workspaces, indicates that “businesses are still in ‘test and learn’ mode” — whether they are testing out a remote workspace strategy or a hybrid-working model.

> **"By investing in their education and providing a supportive learning environment, we not only empower the next generation of leaders, but also ensure the resilience and adaptability of our industry in the face of evolving challenges"**
>
> **Richard Anton, CIBC Mellon**

On the other side of the coin, recent KPMG research has suggested that the majority of chief executives think employees will be working in-office five days a week by the end of 2026. Of the 1300 global CEOs surveyed by KPMG, 64 per cent predicted a full return within three years. In addition, nearly 90 per cent also said they are “likely” to link financial rewards like bonuses and promotions to office attendance.

Wherever the next generation of talent is taught, “investing in their development and education — through comprehensive graduate schemes and mentorship programmes — is not only advisable but crucial for the sustained growth and innovation of our sector,” affirms CIBC Mellon’s Anton.

“By investing in their education and providing a supportive learning environment, we not only empower the next generation of leaders, but also ensure the resilience and adaptability of our industry in the face of evolving challenges.”

He concludes: “A well-structured graduate scheme can provide a foundational understanding of the intricacies involved, allowing them to grasp the nuances of settlement, clearing, and related activities. This initial exposure lays the groundwork for future specialisation and leadership within the field.”

Rob Scott leaves Commerzbank AG

Based in London, Scott held a number of roles at the bank, namely managing director and head of custody and collateral, head of market services and, most recently, senior banker for institutionals. Scott has more than 35 years of industry experience, and has worked at Accenture, Deutsche Bank and Citigroup in several senior roles. He began his career with banking firm ING Barings in 1986.

Announcing the news via LinkedIn, Scott says: "After just over 10 years of hard work, business repositioning, growth and advancing digitalisation initiatives at Commerzbank AG, we've now parted ways very amicably.

"The bank is certainly in a better place now from when I started, with a strong and clear purpose enabling it to be well positioned for the future.

"When one chapter closes another one begins and I am very much looking forward to the next adventure." ■

Komainu appoints Robert Johnson

Komainu has appointed Robert Johnson as chief technology officer. In his new role, Johnson will be responsible for driving innovation in the Komainu technology ecosystem. Prior to this role, Johnson was chief technology officer and partner at portfolio management technology company Coremont. His role included strategic planning software engineering, market and reference data procurement, storage and distribution as well as technology architecture.

Johnson also worked at MUFG Securities for five years. He began his tenure at the company as a director and was promoted to executive director - managing director, head of front-office technology. ■

MUFG Investor Services has appointed Michele Martin as managing director and head of sales for North America.

Martin has 25 years of industry experience, most recently serving as head of investor services at venture capital and private equity principals firm HarbourVest Partners. Before this, she was a senior vice president at both Brown Brothers Harriman and State Street.

Commenting on the appointment, MUFG says: "[Martin's] wealth of experience in complex asset classes, fund structures, investment strategies, and instruments will be a valuable asset to our team."

Digital prime brokerage firm GCEX has appointed Jason Nabi as strategic business development consultant.

GCEX Group enables institutional and professional clients to access liquidity in FX and contract for differences on digital assets, as well as digital assets spot trading and conversion. Based in the UK, Nabi will be responsible for driving growth from institutional and professional clients. Nabi will work closely with Lars Holst, founder and CEO, to build on the firm's digital asset growth strategy and develop partnerships.

Nabi brings leadership experience to GCEX from institutional capital markets, digital assets and distributed financial market infrastructures. Most recently he was chief revenue officer at Bosonic. He has also served at Paxos, BNP Paribas, HSBC, Bloomberg and IBM.

Headquartered in London, GCEX is regulated by the UK's Financial Conduct Authority and is registered with the Danish Financial Supervisory Authority as a virtual asset service provider. It also offers Forex brokerage and crypto-native technology solutions, such as XplorDigital.

Etienne Rougier to lead UI in Luxembourg

Universal Investment (UI) has appointed Etienne Rougier as Luxembourg country head. He replaces Sofia Harrschar, who has held the position since 2021.

In addition to his existing role as chief operating officer for UI, Rougier is now responsible for the Luxembourg business' growth. UI currently employs more than 500 workers in the jurisdiction, and holds a combined €294 billion in assets under administration.

Rougier will also oversee UI's continued integration with specialised financial services company efa, which the group acquired in 2022.

Rougier has more than 15 years of industry experience, and joined UI in April of this year. Prior to this he spent almost a decade with AllianceBernstein, initially as chief operating officer for insurance in EMEA before being appointed head of EMEA and Asia insurance in 2022.

Earlier in his career, Rougier was chief operating officer and head of strategy at Architas Multi Manager and held a number of roles at AXA Investment Managers, most latterly as global head of change management.

Commencing on the appointment, David Blumer, executive chairman of the UI Group, says: "Etienne will drive the continuous development of our Luxembourg platform, which is core to UI's growth strategy. We would like to thank Sofia Harrschar for her significant contribution to the Luxembourg platform." ■

Holst comments: "Jason is well known and widely respected in our industry, and it is a significant endorsement that he has chosen to join our team. His insight, network, breadth and depth of experience, within banks and fintechs, will be a huge asset to GCEX. I am looking forward to working with him to drive our ambitious growth plans forward, both in the UK and beyond."

Nabi adds: "GCEX is a well-funded, well-managed, regulated firm which is ready for scaling, and Lars is an outstanding CEO with a tremendous track record in the industry. I am looking forward to playing a major role in GCEX's next growth chapter."

Kevin Buschhold has announced his retirement from Deutsche Bank's corporate bank securities services business.

Buschhold has more than 35 years of industry experience, almost 16 of which have been spent with Deutsche Bank.

He joined the company in 2008 as director of global product development, before being appointed director of corporate bank securities services sales for EMEA. Prior to this, Buschhold was a senior relationship manager at HSBC, and held a network manager position at financial services firm Daiwa Securities.

Commenting on his departure via LinkedIn, Buschhold says: "I am a keen cricket fan, so it seems appropriate to now declare my time at the crease in the first innings (55 not out) is now over and I am looking forward to spending my second innings with my family.

"It genuinely feels sad for me just now but it's the right time to start my retirement and to say farewell." ■