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Lead news story

Argentina's CSD successfully launches new platform

Argentina's Central Securities Depository (CSD), Caja de Valores, has launched a new technology platform using Nasdaq's CSD technology.

The platform has been designed to enhance the resilience, capacity and speed of the CSD, and is able to process more than 1000 settlements per second. This is more than 300 times faster than the previous system, allowing the organisation both to meet current operational requirements and future-proof itself.

The core version of the updated platform went live in September 2023, with additional asset classes and functionality incorporated before its formal January 2024 launch.

Gonzalo Pascual Merlo, owner of Caja de Valores, says: "Like many countries around the world, Argentina's capital market has been subject to periods of substantial increases in transaction volumes, which has put pressure on its own technological infrastructure.

"At the Buenos Aires Stock Exchange we have prepared for this scenario with a new custody system which responds to the needs of our market."

Magnus Haglind, senior vice president and head of marketplace technology at Nasdaq, adds: "CSDs play a vital role at the heart of the capital markets ecosystem and are increasingly demanding agile infrastructure to respond to incoming regulations, adapt to changing market conditions, and capitalise on emerging growth opportunities. The development of global CSD infrastructure is vital to keep pace with the rapidly changing investment landscape." ■

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Bob Currie
Group Editor
bobcurrie@blackknightmedialtd.com
020 3617 1722

Carmella Haswell
Senior Reporter
carmellahaswell@securitiesfinancetimes.com
020 3617 1722

Lucy Carter
Reporter
lucycarter@blackknightmedialtd.com
020 3617 1722

Jack McRae
Junior Reporter
jackmcrae@assetservicingtimes.com

Sophie Downes
Junior Reporter
sophiedownes@securitiesfinancetimes.com

Klea Neza
Junior Reporter
kleaneza@blackknightmedialtd.com

James Hickman
Lead Designer
jameshickman@blackknightmedialtd.com

John Savage
Associate Publisher
johnsavage@assetservicingtimes.com

Simon Holloway
Deputy Publisher
simonholloway@assetservicingtimes.com
020 3372 5997

Justin Lawson
Publisher
justinlawson@blackknightmedialtd.com
020 3667 3244

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ESAs publish DORA technical draft standards

The European Supervisory Authorities (ESAs) have released the first set of technical draft standards under the Digital Operational Resilience Act (DORA) regulation.

The ESAs consist of the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

The first set of regulatory technical standards (RTS) considers ICT risk management frameworks and simplified ICT risk management frameworks, aiming to harmonise related tools, methods, processes and policies.

RTS on criteria for the classification of ICT-related incidents are also included, along with the approach for the classification of major incidents and materiality thresholds for each classification criterion.

The standards outline details on how significant cyber threats can be determined, and explain the process of sharing these incidents with competent authorities in other member states. The ESAs have also specified the policy on ICT third-party service providers (TTPs) supporting critical or important functions, including the governance, risk management and internal control frameworks that financial entities should have in place.

Implementing Technical Standards (ITS) have been released, setting out templates that financial entities must maintain and update in relation to their contractual arrangements with ICT TTPs.

Alongside ensuring that firms have effective risk management frameworks, these registers of information will allow competent authorities and ESAs to supervise DORA compliance and determine which ICT TTPs will be subject to the DORA oversight regime.

These draft technical standards have been submitted to the European Commission, and are expected to be adopted in the coming months pending review. ■

Liminal partners with Telos Network to elevate secure custody and asset management

Liminal has partnered with Telos Network in an effort to enhance the security and efficiency of asset management on the Telos blockchain. The key features of Liminal’s integration with Telos Network include secure and efficient treasury management, policy-driven automation for optimal efficiency, vigilant risk and compliance monitoring.

With the recognition of secure custody of digital assets being directly correlated with the strength of the underlying blockchain infrastructure, the demand for alternative blockchain ecosystems and community participation continues to grow and interoperability has become a core integration parameter for custody platforms, says Liminal.

Manhar Garegrat, country head for India and global partnerships at Liminal, says: “The addition of Telos into Liminal custody’s multi-chain ecosystem is a significant step towards growing the Web3 ecosystem together.

“Telos’ record of zero-downtime since launch, over 15,200 transactions per second with minimal fees, and focus on enabling zero knowledge technology for ultimate scalability and privacy for blockchain global adoption, make it a compelling platform for Web3 adoption.” ■

Broadridge launches GenAI-powered copilot

Broadridge has launched OpsGPT, a GenAI- and large language model (LLM)-powered solution to support clients' post-trade operations.

OpsGPT provides real-time visibility of transactions, settlements and positions data, aiming to help users accelerate the fails resolution process, research next best actions and prioritise key risk items through a single interface.

The solution is integrated with Broadridge's existing post-trade products.

Using data from Broadridge's post-trade systems, the copilot streamlines access, connectivity and understanding of data across multiple asset classes, the company says, increasing operations productivity.

The product has been developed in direct response to industry and regulatory changes, including shortened settlement cycles and increased trading volumes.

Vijay Mayadas, president of capital markets at Broadridge, says: "OpsGPT will simplify and optimise trading operations, generating a step change in productivity for operations teams, creating post-trade trade life cycle event transparency and empowering users to swiftly remediate, reduce and prevent risks. ■

AFME encourages 'ambitious' European Parliament

The Association for Financial Markets in Europe (AFME) has welcomed a vote on the Markets in Financial Instruments Directive/Regulation (MiFID/R) by the European Parliament. Yet, AFME has called for more ambition to successfully deliver the EU's Capital Markets Union (CMU).

The European Parliament voted on 15 January on the latest amendments to the MiFID/R. AFME believes that implementing the equities and fixed income consolidated tapes should be the priority going forward.

Adam Farkas, CEO of AFME, says: "Despite efforts under the EU's CMU action plans, EU capital markets remain underdeveloped in comparison to the size of the EU economy and the EU's global counterparts. Financial integration is lower than before the financial crisis, EU bond and securitisation markets are three times smaller than in the US, EU equity issuance remains heavily subdued, and the overall availability of risk capital is around 10 times lower than in the US."

Farkas continues: "Looking ahead, EU institutions and member states must come up with transformative actions to attract more investors, increase liquidity, improve the functioning of secondary markets, ensuring the seamless and integrated functioning of a single European capital market. Dynamic, deep and liquid capital markets are instrumental in achieving Europe's ambitions in delivering green and digital transitions." ■

Platinum Asset Management taps NeoXam

Australian global equity manager Platinum Asset Management is adopting NeoXam's data management platform.

The platform includes DataHub, NeoXam's integrated investment data solution, and Impress, its client reporting solution.

Using these, Platinum will be able to manage all reference, market and investment data through a centralised enterprise repository, the company says, enabling automation and enrichment of data processes and books of record. In turn, this will ensure greater control and oversight over the middle-office function.

NeoXam's performance measurement and analytics modules are also included in the platform, covering both internal and external reporting. ■

FIS expands solutions to buy side to unlock revenue

FIS has expanded its sell-side solutions to new buy-side clients that face pressures to find new revenue streams, reduce risk and drive operational efficiency.

The technology firm says it is supporting clients' needs via its Cleared Derivatives platform, which reports new adoption by buy-side firms such as hedge funds, asset managers and insurance companies.

Cleared Derivatives enables firms to access trading venues and clearing houses directly, helping to reduce counterparty risk and "freeing up capital", FIS says.

Traditionally featuring sell-side capabilities, FIS' Cross-Asset Trading and Risk Platform aims to support buy-side firms to better achieve diversification and scale up new strategies for revenue growth.

The platform provides real-time controls for trading, order management and general ledger features. ■

Custodiex joins TSSAG

Digital asset storage provider Custodiex has joined The Securities Services Advisory Group (TSSAG) as an affiliate member. Custodiex provides real-time cold storage for digital assets, offering both blockchain and digital key vaults through its platform. The platform is fully scalable, and assets can be stored in multiple geographic regions.

There are an unlimited number of vaults available, the company says, each of which holds fully segregated assets.

Custodiex will work with other TSSAG members to develop the group's knowledge of digital asset management infrastructure.

Mark Kerns, TSSAG chairman, says: "We look forward to benefiting from [Custodiex's] expertise and insights as we support our collective, global clients in this space.

"The affiliate member category brings access to our network of independent firms around the world, distinguished in their areas of practice within specific countries or regions and further enables our ability to support our thought leadership objectives." ■

True Potential picks Northern Trust

Wealth management firm True Potential has selected Northern Trust to provide asset servicing solutions to its open-ended investment company UK-domiciled fund range.

This fund range consists of the company's assets under management and investment products, including True Potential Portfolios, its suite of diversified, discretionary-managed investment solutions, and True Potential Wealth Strategy Funds.

Northern Trust will furnish the fund range with fund accounting, custody, depository and transfer agency services.

True Potential acts as a platform operator, investment manager, pension operator and administrator. It currently serves 1.4 million private clients. ■

BNY Mellon and ING join CLSNet

BNY Mellon and ING have agreed to join CLS's bilateral payment netting calculation service, CLSNet. The service, offered by global FX settlement infrastructure firm CLS Group, provides standardisation and centralisation for post-trade processes across a range of trade types — including same-day trades and non-deliverable forwards (NDF).

CLSNet aims to help reduce risk and achieve greater operational efficiency for a broad range of currency flows. According to CLS, settlement risk in the foreign exchange (FX) market continues to be a focus, especially in emerging market currencies and other growing segments of the market.

Participants are looking for ways to mitigate risk effectively via automated post-trade services such as CLSNet, the firm adds. ■

Zodia Custody releases product marketplace

Digital asset custodian Zodia Custody has launched a marketplace for institutional clients to discover and onboard third-party service providers.

Zodia Custody Gateway acts as a single platform for clients to discover products and services, reducing the time and effort required to select a third-party provider.

The service is available through existing Zodia Custody wallets.

With this expansion, the company aims to increase connectivity in the digital asset space. Initial launch partners include Blockdaemon, Hidden Road and Twinstake.

Julian Sawyer, CEO of Zodia Custody, says: "No one can do it alone in digital assets. To get the most out of the opportunities in the market, financial institutions need the whole ecosystem at their disposal.

"Through curated platforms like Gateway and our recently launched Interchange Connect network, we are connecting the digital asset industry piece by piece and making it more accessible for financial institutions." ■

BME to settle the first NextGenerationEU bond auction

Bolsas y Mercados Españoles (BME) has announced it will settle the first NextGenerationEU (NGEU) bond auction.

The European Commission says the bond auction will have a volume of up to €1.5 billion.

The European Central Bank is acting as the paying agent for the auction and the National Bank of Belgium will be the issuing central securities depository and settlement agent through the EU issuance service.

The NGEU programme was implemented to finance recovery initiatives and facilitate green and digital transition of the EU economy.

Iberclear, BME's subsidiary, is responsible for launching its NextGenerationEU cross-border securities settlement and custody services. ■

Gen II partners with Canoe

Gen II Fund Services has partnered with Canoe Intelligence to enhance the digitisation of private equity data.

Gen II, a private capital fund administrator, will leverage Canoe's technology to automate the receipt, retrieval, and document management of communications from underlying funds.

The partnership enables Gen II to extract and digitise data points from underlying investment notices to streamline the contribution, distribution and valuation processes for fund-to-fund investments. ■

Slow and steady

Charlie Geffen, head of the UK's Accelerated Settlement Taskforce, updates AST on the group's progress so far

At the end of last year, participants in the UK's Accelerated Settlement Taskforce received a letter informing them of a delay to the group's initial report. Rather than being published in December 2023, as had been planned from the taskforce's inception, the letter announced that initial findings and recommendations for a move to T+1 would instead be released in Q1 2024.

With North America hurtling towards go-live in May, why the UK's delay?

"The deadlines on these things are there for a purpose — they're there to make things happen," explains Charlie Geffen, who leads the taskforce. "But there's no point in being rigid about them if they don't make sense." While he believes that the taskforce has made good progress so far, discussions around the topic are constantly evolving. There's more to be learned, and rushing to take action on such a momentous project for the sake of a perfunctory deadline could be detrimental.

Catching up

Over the past 18 months or so, industry engagement with T+1 has only increased. Not only have events, such as DTCC's 'Accelerating to T+1' series, provided crucial educational tools for market participants, but conference panels across the world have been unable to avoid the topic. "This is a good thing," Geffen states, "because it gets people to really think about the issues around T+1. It has created momentum."

While the primary focus tends to be the North American move to T+1 and the impact that this will have on global markets and operations, questions of when the UK and EU will follow have also been prominent talking points. "There can't be anybody in the post-trade world who's not aware of what the Americans are doing, or of the UK taskforce, or of the ESMA consultation," Geffen affirms. Canada is scheduled to make the change to T+1 settlement on 27 May, followed by the US the day after.

Currently, a phased approach is the favoured method for T+1 implementation in the UK — yet no one approach has received unanimous approval. Geffen supports an incremental strategy, suggesting that this allows market participants to begin investing in the back office and automation before the shortened cycle comes into play. "Investing in automation is a precondition to move to T+1 anyway," Geffen explains, "so the market should get on with that before the actual transition begins".

"[It will also] enable people to learn lessons from the US this May," he says, and — if all goes to plan — ESMA's consultation findings and the UK taskforce's report, which are expected to be released over the summer and in Q1 respectively. Geffen hopes that once the taskforce's technical group, announced December 2023, has been formalised and is up and running, it can "spend the first eight or nine months of this year working through the issues that have been raised so far, and then confirm the timetable in September".

Issues arise

Considering the issues that have been raised thus far, "the past year has revealed a pretty strong consensus on what needs to be dealt with," Geffen says.

Research from organisations including UK Finance and AFME has outlined a number of key challenges around T+1 implementation, one of which is scope. "The UK is a more global market than New York," Geffen explains. "Something like 60 per cent of equities held on the stock exchange are held by non-domestic investors."

The original EU settlement cycle is determined by the place of trade rather than the place of settlement, which raises issues when non-UK government bonds are traded in London but settle in the EU.

"It doesn't make sense for the UK to determine settlement cycles for those non-UK government bonds just because they trade here," Geffen continues. "There's complexity around scope."

Another challenge facing the industry is "a misalignment between the settlement cycle at the top of an ETF and the underlying basket of securities" as well as foreign exchange.

"A particular issue is for APAC investors trading at the end of the day who need to execute an FX trade to convert their local currency into US dollars," he explains. "In a T+2 environment the middle day is available for the FX trade. In a T+1 world the FX trade has to be transacted at the end of trade date when the market is likely to be thinner. There are plenty of institutions reviewing how they can do their FX trades on trade date more effectively," Geffen says. With the US transition, some are bringing in FX desks in New York, if they don't have them in place already. This tactic provides another opportunity for other jurisdictions to learn from the US before putting their own arrangements in place; we'll see how it goes".

Along with these cash liquidity difficulties, "one of the bigger challenges that people are identifying in connection with securities delivery is in managing stock lending and recalls", Geffen says.

If people trade at the end of the day, there's a very short window to get their recall back in order to settle the next day. Without that middle day, "it will be quite a tight squeeze. I think this is where people are most anxious," he shares, adding that market participants will be carefully monitoring the North American shift to see how such issues are resolved; "clearly, there will be lessons to be learned."

Behind the scenes

In order for a shortened settlement cycle to go live, mechanics need to be put in place for the industry to function efficiently. Geffen identifies a need for the industry to dial in on back-office processes, an area that has historically "struggled to attract investment". This need for resources has become clear as the groundworks are laid for T+1, he reports.

"Nobody's going to invest in T+1 processes unless everyone does," Geffen says. "That's why a regulatory mandate is needed as well as a clear timeline."

Expensive and burdensome implementation is another deterrent for market participants, with — to some observers — the high cost appearing inconsistent with the benefits. "Often, the people who have to spend the money to get ready for T+1 are not the people who benefit in the short term," he explains. "A general improvement in the ecosystem benefits everyone, of course, but that's a little less tangible when you've got to write the cheques and spend the time."

Alignment

Discussions around the UK's move to T+1 have sparked intense debate. Some believe that the country should have aligned with the US, while others endorse waiting to make the move alongside the EU. A third constituency of participants believes that the UK should take this chance to go live with T+1 before the EU and gain a competitive advantage. On this last point, Geffen is clear: "I think it's important that people understand that this is not a political issue."

He recalls no mention of the Brexit dividend or suggestions that this could get the UK ahead of the EU in his talks with the government. "What matters is making sure that the UK remains competitive with the global trend for faster settlement cycles."

Making the move

"You can't get the UK to move to T+1 until it's ready," Geffen concludes, "and it's plainly not ready today." He goes on to predict that if the ESMA consultation promotes the EU's transition to T+1, market participants will start getting prepared for a formal mandate. "T+2 is currently a maximum, not a minimum," he says, expecting more people to trade on T+1 when there's more certainty around the move. This would help to facilitate a smoother transition once the time comes, with firms already prepared to operate on a shortened cycle.

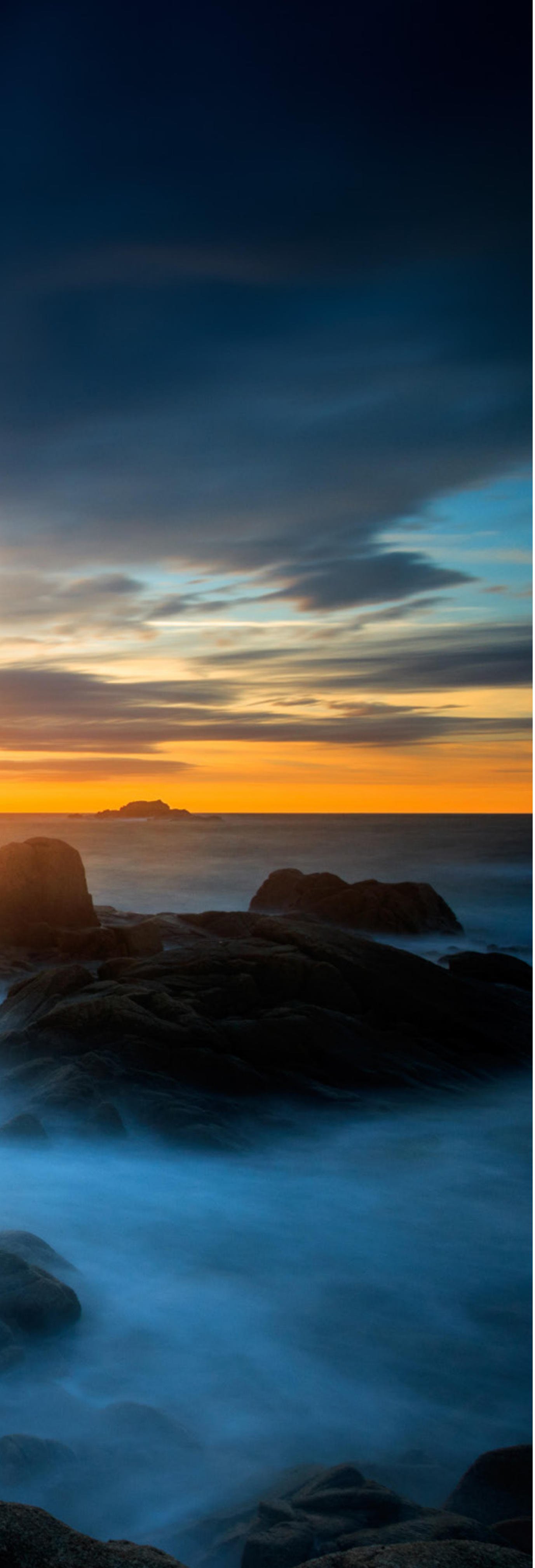
"Early on, the question I was asked was, 'should the UK move to T+1?' If you change that question to 'should the UK remain on T+2 indefinitely?', the answer is pretty obvious," Geffen says. It's inevitable that the world is moving to faster settlement cycles — "that's not in contention". Now, "it's a question of how it's done, and how it's done safely." ■

"You can't get the UK to move to T+1 until it's ready and it's plainly not ready today"

Charlie Geffen
Chair
Accelerated Settlement Taskforce

Island life

Lucy Carter takes a look at how the Channel Islands have fared after a globally challenging year, and what the jurisdictions are doing to prepare for the future of financial services



The Channel Islands' relevance in the financial services industry is without dispute.

For decades it has been the jurisdiction of choice for firms seeking an accessible and flexible location to domicile their funds. While there are some intrinsic problems associated with the region — scale being one, talent availability another — the islands remain popular.

As we move into a new year, how are the islands placed to deal with new challenges, adapt to changing investor demands and maintain their eminent status?

Guernsey update

"At a macro level, the continued climb of inflation rates in 2023, after nearly 15 years of net zero inflation, has had an impact on Guernsey," says Dave Sauvarin, head of Northern Trust's Channel Islands business. He highlights the return of cash as an asset class, and subsequent difficulties in the fundraising environment, as a particular challenge. That being said, reports over the past year have seen the island weather the storm far better than other jurisdictions.

In a March 2023 update to its Global Financial Centres Index (GFCI), London-based think tank Z/Yen ranked Guernsey as 59th, one of only two jurisdictions to rise more than 10 places since the previous report. In the September 2023 update, it rose again to 58th.

Similarly indicative of the jurisdictions's success, Monterey Insight's December 2023 Guernsey Fund Report found that a total of 80 new groups and sub-funds were launched in Guernsey that year, with Sauvarin suggesting that "the island's differentiated product set has meant it's been relatively well-insulated."

Further affirming the continued success of the island, the report notes an increased number of serviced schemes and sub-funds since 2022; 1280 to 1343 and 1520 to 1564, respectively. A minimal year-on-year drop in fund assets serviced was also highlighted, with Guernsey down just 0.05 per cent in USD between June 2022 and 2023.

Recent years have seen a considerable drop in global assets under management (AUM), with PwC reporting a 10 per cent fall between 2021 and 2022, down to US$115.1 trillion. With this in mind, Guernsey has fared especially well.

Jersey update

The headline news of Monterey Insights' January 2023 Jersey Fund Report was a 58 per cent increase in new business inflow for the island; the island saw similar success in Z/Yen's GFCI, moving up from 59th to 52nd place between March and September 2023.

Last year witnessed a number of changes in Jersey's financial services sector. Financial services law was altered to cover two new forms of investment business (retail investors arranging for another person to deal in investments, and operating an investment exchange), and the definition of 'investments' was altered to better align with that outlined in MiFID II.

A revised outsourcing policy was also introduced, requiring businesses regulated or supervised by the Jersey Financial Services Commission (JFSC) to assess their service providers and comply with the updated rules before the start of 2024.

Considering the island's global position, "Jersey has always taken a very joined-up approach to new international regulatory standards and innovation," says Elliot Refson, head of funds at Jersey Finance, with the jurisdiction ensuring that it is best placed to be an innovator and early adopter.

This attitude was formalised in 2023 with the creation of an Innovation Committee, Refson continues, with representatives from the Jersey Funds Association, the Government of Jersey and the Jersey Financial Services Commission working together to remain at the cutting edge of the industry.

"One product of this was Jersey's limited liability legislation," Refson shares, "which came into effect in early 2023 and is aimed squarely at supporting US alternative managers". As the island continues to seek growth opportunities, initiatives such as these can be instrumental in ensuring that the jurisdiction remains attractive to international market participants.

Keeping up

It seems clear that the Channel Islands are not losing their relevance — but that doesn't mean that the path ahead is clear. The industry is constantly evolving, with regulatory, technological, political and social change all contributing to the domicile selection process. It's vital that the jurisdictions remain responsive to industry interests and demands to remain competitive.

According to Refson, "the overriding trend lies in digital assets". While some in the industry may be moving away from the boom, he notes that Jersey has seen "significant growth" in this area, and in the infrastructure that supports it, over recent years.

"The mainstay of Jersey's funds industry lies in real assets," he says, "so the trend in this space is towards the digitalisation of real assets". Law firms are setting up specialised Digital Funds Groups, while administrators are establishing digital leads or innovation committees and managers are establishing digitalised funds to get ahead of demand. Refson states that this is a priority for the island's Innovation Committee and that plans are in place to support this new era of finance.

A step across the Channel in Guernsey, Northern Trust's Sauvarin observes greater innovation from global fund managers. "They're increasingly offering a broader set of products to attract capital and deliver returns to their investors," he says. "This is resulting in more complex and diverse funds, which Guernsey's long-established funds industry has the experience and flexibility to support."

Responding to emerging trends in the market is essential if jurisdictions want to differentiate themselves from competitors and remain enticing for market participants. Guernsey Finance CEO Rupert Pleasant considers Guernsey's USP to be linked to the Guernsey Financial Services Commission's accessibility and flexibility. For many companies, island has built up a reputation over the years as a safe, forward-thinking location in which to base themselves.

In Jersey, differentiation is achieved by maintaining focus on specialist support at the service provider and jurisdictional level, Jersey Finance's Refson asserts. He adds that the island's political and fiscal stability, "critical to Jersey's competitive edge", are supported by its robust infrastructure.

Like Guernsey, Jersey is an accessible jurisdiction that offers global distribution capabilities and a flexible regulatory environment. However, Refson goes on to commend a more unexpected perk of the island: its broadband speed, which he claims is the "fastest in the world". This inevitably benefits those working in the jurisdictions, both on an individual and company-wide basis.

Thanks to their strong reputations in the industry, specialised workforces have emerged on both islands. While a high concentration of industry experts has its benefits for employers, Guernsey and Jersey housing markets have become excessively competitive and the risk of resource strain across both islands has increased.

Speaking to AST in 2023, Apex Group's Chris Hickling drew attention to what may seem a converse issue of talent acquisition in Guernsey. As in other small, economically vibrant jurisdictions such as Luxembourg, the highly-skilled workforce is limited in size and is in high demand. In many cases, this leads to a competitive, potentially 'illiquid' hiring market.

Jersey is taking measures to rectify this issue. According to Refson, companies are focusing on recruiting recent graduates and school leavers for industry roles on the island, bringing new talent into the pool. "We're also engaged in bringing professionals back who, for one reason or another, have left the industry," he says.

Scaling up

Speaking off the record, some market participants have questioned whether Guernsey's diminutive size is negatively affecting its image. With a population of just over 67,500, and a mere 23.94 square miles to its name, it has been suggested that the island may lose some of its business to Jersey.

However, it seems that for now, at least, this is just speculation. "Guernsey is well-equipped to support change in the industry," assures Northern Trust's Sauvarin. He draws attention to the jurisdiction's "strong record" in near-shoring and outsourcing certain models to enable greater growth, stating that the island is "a great incubator of new ideas, with the ability to implement changes quickly."

Jersey Finance's Refson adds that although the Channel Islands may be more acutely aware of scalability issues, "it's an issue for all international finance centres". Jersey is approaching the issue from a number of angles, including prioritising new financial and regulatory technology.

Guernsey, too, is focused on developments in this area.

"From a service provider's perspective, we believe that digital technologies can facilitate asset managers' access to services, solutions and new technology across the investment lifecycle," Sauverin says, asserting that "digital transformation is key to supporting scalability as we enter 2024".

"From a service provider's perspective, we believe that digital technologies can facilitate asset managers' access to services, solutions and new technology across the investment lifecycle"

Dave Sauvarin, Northern Trust

ESG

As ESG continues to be a key factor in many investors' considerations, asset servicing providers are working to support their demands. In 2023, Guernsey renamed its Guernsey Green Finance initiative to Sustainable Finance Guernsey in an attempt to reflect the jurisdiction's sustainability efforts beyond just environmental projects.

Commenting on the rebrand, Guernsey Finance's Stephanie Glover, head of strategy and sustainable finance, emphasised the broader impact that the change implies. "We are now aligned with other local initiatives such as Sustainable Finance Week, TISE Sustainable and the Guernsey Financial Services Commission's suite of sustainable funds," she explained. Beyond that, the moniker allows for consistency with global initiatives such as the United Nations Sustainable Development Goals and the United Nations Financial Centres for Sustainability."

Although a rebrand may not seem to be a particularly impactful change at first glance, use of the word 'sustainable' has been contentious worldwide over the past year as the industry tries to reach an agreement on its definition. Guernsey's decision once again demonstrates its commitment to all three ESG focus points.

> **"To date, we've accessed investors through our network and those of others, but in 2024 we're taking a more 'top down' approach to engage with the largest investors, get our message across, and nurture mutually beneficial relationships"**
>
> **Elliot Refson, Jersey Finance**

The island has been making waves in the ESG space for some time now, having launched the Guernsey Green Fund in 2018 and the Natural Capital Fund in 2022. We Are Guernsey, a joint government and industry initiative to promote the island's financial services sector, runs an annual sustainability week to encourage discussion and learning in the space, and the keynote speaker at its 2023 Funds Forum in London was naturalist Steve Backshall. The jurisdiction appears to take every opportunity it can to drive sustainability, remaining on the frontlines of the ESG battleground.

Like Guernsey, Jersey is a member of the UN Financial Centres for Sustainability network. It has also committed to achieving net zero by 2050. Jersey Finance published its long-term sustainability vision and strategy in 2020, along with a two-year 'Pathway to Success' plan designed to accelerate the island's sustainable finance journey and "build its reputation as a jurisdiction of choice for sustainable finance".

To date, "the approach has been around building in flexibility across the regulatory framework rather than having a distinct ESG brand," explains Refson, allowing the island to maintain its "robust structuring and governance" while granting investors and managers greater freedom "in a space that is evolving rapidly".

Responding to investor interest, "Jersey has worked hard to put an ecosystem in place that meets their demands". So far, this includes increasing the proportion of ESG specialists in the workforce and a focus on the development of fintech solutions that are "turbo-charging sustainable finance innovation", he adds.

Moving on up

Looking at the year ahead, "we are starting to see signs of central bank monetary policy having an effect on inflation," says Northern Trust's Sauvaurin. This could indicate the end of peak interest rate cycles, potentially signalling an economic growth cycle over the next two years. If that's the case, "asset managers need to position themselves to capture that growth as it comes through".

Sauvaurin affirms that Guernsey "continues to be well-positioned to harness that demand", thanks to its broad product set and speed-to-market infrastructure. The year is already off to a good start for the island, with January seeing a collaboration with Dubai International Finance Centre and Bailiwick receiving the 'EU data adequacy status'. We Are Guernsey's Finance Industry Update event, held 24 January, will relay progress made during 2023 and is set to offer a more detailed outlook on 2024.

For Jersey Finance's Refson, one item on the 2024 agenda is more direct engagement with investors. "They're the group that shapes the industry the most since they, above any other group, determine fund domiciliation," he explains. "To date, we've accessed investors through our network and those of others, but in 2024 we're taking a more 'top down' approach to engage with the largest investors, get our message across, and nurture mutually beneficial relationships."

Jersey Finance will also be reinforcing its global presence through business development teams, operating in Africa, the Middle East, Asia and the US. International outreach is key as the jurisdiction looks to increase its investor base — for example, Jersey Finance's New York office, opened five years ago this year, prompted US-originated assets under administration to increase more than twofold, Refson reports.

"Our product base will grow to reflect the underlying trends and demands of the market", he says, concluding with a statement that applies to international fund centres worldwide: "It's critical for our jurisdiction to evolve to support the managers and their industry — this remains our number one priority." ■

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A smooth landing

The Indian custody market embraced last year's switch to T+1 and, according to three of the nation's leading custodians, there is cause for more optimism

Jack McRae reports

On 27 January 2023, India's equities market made the move to a T+1 trade settlement cycle. A year on, the markets are set to celebrate its one-year anniversary after an impressive year of growth and buoyancy in the face of global market turmoil.

With North America and potentially Europe to follow, the Indian custody markets have set the standard for the transition to shorter settlement cycles. Anuj Rathi, HSBC's head of securities services for India, is keen to underline this fact.

"The Indian market moved ahead of others going into T+1. Now, the Indian markets are talking of T+0 settlements for retail in 2024 and instantaneous settlement coming into 2025," Rathi says.

"Market participants have worked very well aligning the requirements of the regulators with the investors. It's been more than 12 months that the markets have been on T+1 and been quite a smooth transition."

The T+1 cycle means that all equities trades, be it exchange traded funds (ETFs) or shares, must be completed within one day. The move from the previous T+2 cycle aimed to increase efficiency in the market and settle trades faster.

Preparing for the major shift posed a challenge for the Indian custody market. Chaitanya Joshi, Standard Chartered's head of securities services for India, explains his bank's preparations: "We made necessary changes in our local settlement system well before the market went live, and also introduced a night desk to process client instructions that are received overnight."

A growing market

Vivek Gupta, Axis Bank's president and head of wholesale banking products for India, credits the strength of the Indian market for the seamless transition to T+1. He suggests that the markets have capitalised and successfully seized the advantage of China Plus One (C+1) policies, which discouraged investment in Chinese production in order to diversify markets and prevent an over-reliance on one nation — a chasm India has more than filled.

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> "Positively, there has been a shift on a C+1 basis towards India. We are seeing [in action] what customers are telling us: that India is a leading investment destination"
>
> Vivek Gupta, Axis Bank

Gupta explains with gusto, "Positively, there has been a shift on a C+1 basis towards India. We are seeing [in action] what customers are telling us: that India is a leading investment destination. This is also the case in the capital markets. Whether it's liberalisation on the bond front or interests from overseas investors into India, we see strength across the board."

HSBC's Rathi shares Gupta's enthusiasm, explaining that the strength of the market will enable further growth. "A lot of positive developments have taken place. India has been included in the J.P. Morgan Global Bond Emerging Markets Index (GBI-EM), so that will be a big focus area for 2024."

The induction into the GBI-EM will begin in June 2024 and is set to allow for several billion dollars of foreign investment into Indian government bonds. The admission has been long sought by both the Indian government and regulators as the Indian bond market expands to allow vast investment and boost an already buoyant market.

Strong and stable makes a trickle

The Indian government, headed by Prime Minister Narendra Modi, has been in power since 2014 and has vowed to make India the world's third-largest economic power. It is widely expected that in this year's general election, Modi will win a third term as Prime Minister.

Axis' Gupta explains that the strength of the Indian markets can be attributed to the stability in the nation's parliament. He says, "There's a lot of promise. We've recently had domestic political elections that have gone favourably with the ruling party, so stability issues have been addressed. We have one of the few economies that is chugging along quite well.

"There is a genuinely strong belief that [India is a promising market], led by and centred around a strong, stable government with strong, stable policies. With many foreign direct investments coming in as the C+1 strategy plays out, clients I speak to have a strategic plan with an India aspect to it."

Yet, while the Indian markets are growing, it has to be acknowledged that wealth inequality is also increasing across the country. A 2023 Oxfam report on inequality in India revealed that the richest one per cent in India own over 40 per cent of the entire nation's wealth. The country also remains the nation with the highest number (228.9 million) of people living in poverty in the world — over double the next highest, Nigeria's, 96.7 million. Oxfam says this inequality is only set to increase.

The previous year's report on inequality in India from the charity was critical of the government's economic policies, stating: "the stark wealth inequality in India is a result of an economic system rigged in favour of the super-rich over the poor and marginalised."

Questioned whether such inequalities will affect the custodian market, Gupta rebutted the suggestion. He claims, with real emphasis, that "the country is in a good space and a lot of good work is being done. I think progressively. I'm very confident that that will lead to trickle-down benefits that will help the masses in multiple ways. I'm very confident [about India's future]."

Questioned again on if there really are any merits of a trickle-down economic system, Gupta insists: "The amount of [infrastructural] work happening is heartening to see. All that work means there is a trickle-down effect to the supply chain, employment, et cetera. The leading indicators, from what I observe around the country and from clients, are full of optimism."

Looking to the future: The mask is off

The Indian markets have had to shift to adjust to the implementation of T+1 and, with the market growing further and wider, custodians have to remain on top of all developments.

HSBC's Rathi reflects on the growth of custodial assets. He says: "We have seen significant growth in assets under custody, due to the market increasing in size and the market cap crossing US$4 trillion."

"We have seen significant growth in assets under custody, due to the market increasing in size and the market cap crossing US$4 trillion"

Anuj Rathi, HSBC

images by roop_dey/stock.adobe.com

The growth of the Indian markets is epitomised by the expansion of retail investment in the country, with an unprecedented 10 million depository accounts reportedly opened with the Indian Central Depository Services since April 2023.

"Retail investors have grown significantly," Rathi says, "which helps indirectly as they will potentially be investing in domestic mutual funds and insurance. Retail investor growth contributes to the widening growth of the mutual fund and insurance industry. Foreign portfolio investors bought Indian equities, which includes both primary and secondary markets, worth US$21.23 billion in 2023 — a target segment for us."

But, with markets expanding, how will HSBC adapt?

"Technology investment becomes the key for all custodian banks." Ruthi explains plainly. "There is a big focus on application programming interfaces (APIs), flexible micro services-based tech architecture and a progressive move to batch-less systems to ensure that the connectivity between the offshore clients and the custodians in India improves significantly."

Similarly, Standard Chartered are also looking to invest in technological advancements. Joshi explains: "We will explore use cases for robotics and automation to reduce manual processes, increase efficiency and assurance, and provide more efficient solutions to our clients in both custody and fund accounting."

For all three custodians, the shift to T+1 dominated our discussions on regulation in the industry. All three participants agreed that the transition had been successful, and credited the regulator for the achievement.

Joshi suggests that there will be further regulatory pressure as regulators look to protect investors and the market. "This will result in additional requirements in line with those recently seen, including greater disclosure requirements and ownership verification. The regulators and the infrastructure will continue to push India to be a ground-breaking jurisdiction," he says.

Axis's Gupta echoes the sentiment and heaps praise on the regulator's drive.

He says: "One thing I'd like to point out is the intent of the regulator to make sure that India is in-line with best-in-class practices globally. T+1, and potentially T+0, are very visible manifestations of a very strong intent from the regulator."

Closing in on T+0?

The successful transition to T+1 across the Indian markets has given hope that the same feat can be repeated with T+0. However, making yet another transition to settle trade cycles on the same day will be difficult.

Joshi reveals the way in which Standard Chartered would deal with another shortening trade cycle.

He says: "To meet T+0 settlement timelines, we would need to make further changes to our operating model and local settlement system.

"While we enhanced the equity trade matching process through internal automation to make it near real-time, we would look to further enhance internal automations and explore API use cases for a T+0 settlement scenario."

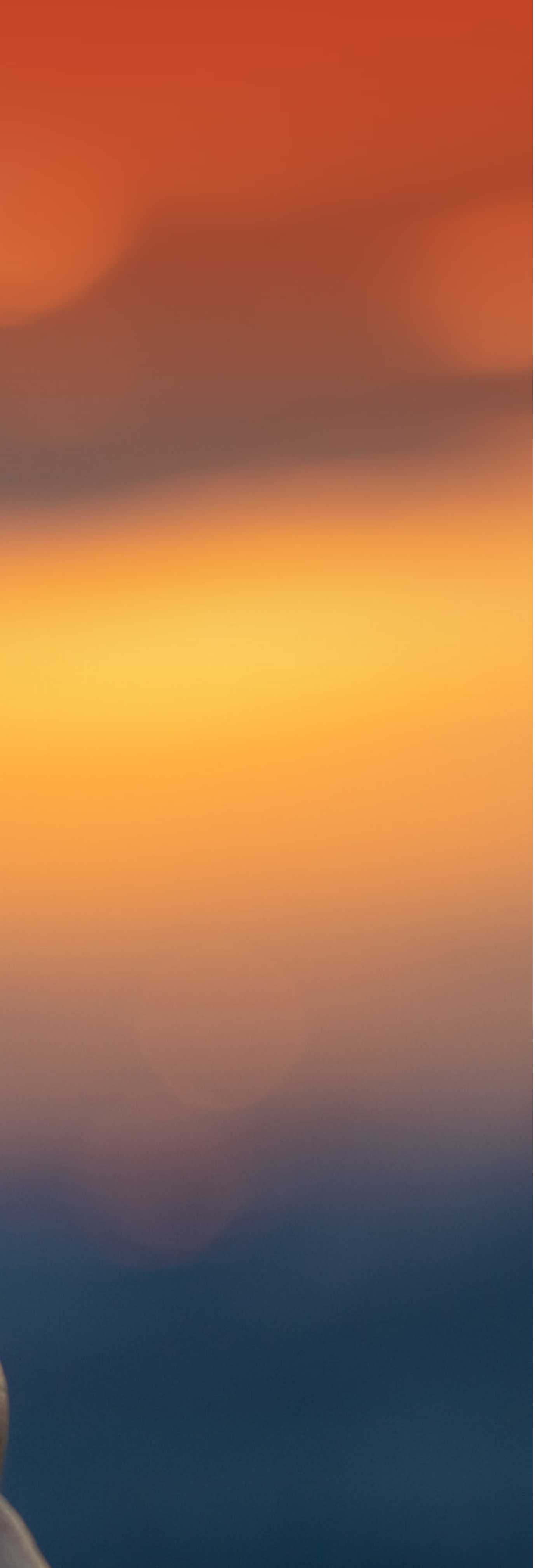
HSBC's Rathi dismisses the notion that adapting to a shortened cycle would pose any difficulty. He retorts: "There are regulatory aspects which one has to keep abreast of, and we must work closely with policymakers and investors to ensure that the transition is in the best interest for both parties."

Rathi argues that his bank would be more than capable of adapting and rules out any uncertainties that it would pose too much of a change, too quickly.

"The regulators in India will allow for a consultative process and adequate time to ensure all views are well understood before rolling out any changes." Rathi ends with a final flourish. "Infrastructure changes are not really a challenge." ■

Navigating MiFID II:
Transaction reporting, reconciliation and subsequent remediation

Qomply's Sophia Fulugunya, director of transaction reporting, discusses reporting requirements around MiFID II and what firms need to do to achieve successful reconciliation



Data published by the Financial Conduct Authority (FCA) suggests that 50 per cent of MiFID II investment firms are not fully compliant with the regulations. The transaction reporting regulatory regime places a significant emphasis on accurate and timely transaction reporting. Submitting inaccurate, late or incomplete reports exposes firms to enforcement action and, in some cases, punitive fines. To date, in the UK alone, over £100 million worth of fines were handed down to firms for MiFID transaction reporting failures.

"Inadequate quality assurance, reconciliation and remediation procedures play a crucial role in the regulator's decision to issue these penalties. Although, there have been no enforcement actions, in terms of fines related to MiFID II , we have seen an increase in regulator contact related to poor data quality," observes Sophia Fulugunya, director of transaction reporting for regulatory technology firm Qomply.

MiFID II requires firms to perform a meticulous reconciliation process. This process, outlined in detail in the relevant technical standards, necessitates a three-way reconciliation between a firm's internal trading records, data from approved reporting mechanisms (ARMs) and data extracts from the national competent authority — for UK entities, this would be the FCA's market data processor. This multifaceted approach is designed to verify the accuracy, completeness and timeliness of the reported data. In straight-forward terms, the regulators want affirmation that the trading data in a firm's front-office system matches the data received and accepted by the regulator.

Fulugunya shares her insight on the reconciliation requirements: "The requirement to conduct regular reconciliation, remediate issues and complete back reporting is one of the most burdensome areas of transaction reporting requirements. Not only are ARMs charging punitive fees for resubmissions, but there are many firms that do not have the in-house expertise nor the technology to meet their requirements."

Fulugunya's professional background includes a six-year tenure at the UK FCA, where she specialised in MiFID II transaction reporting and instrument reference data regimes. During her time at the FCA, Fulugunya played a pivotal role within the markets reporting team (MRT). She now assists firms with their regulatory obligations.

From her experience as a regulator and a capital markets consultant, Fulugunya shares some key components to successful reconciliation:

"Determining the frequency of reconciliations depends on various factors, including the complexity of trading scenarios and the volume of transaction reports"

Completeness

Firms are required to ensure the submission of all reportable transactions, avoiding both under-reporting and over-reporting. A proactive approach involves assessing the reportability of new products before execution and periodic reviews. For over-the-counter transactions, this may need to be undertaken on each trade date.

"This is an area I have seen firms struggle with, especially where they are manually checking through financial instruments reference data systems to confirm reportability. There are tools available, and Qomply offers a free checker that allows firms to search hundreds of ISINs against FIRDS, providing an efficient starting point," states Fulugunya.

Accuracy

Beyond simple data matching, firms should verify the accuracy of their reports. This involves a thorough examination of whether the content aligns with the firm's trading activities and adheres to regulatory guidelines. Concepts within the regulation, such as reporting aggregated orders, accurate representation in a chain and proper reporting of decision makers, require meticulous scrutiny at a line-by-line and field-by-field level.

Timeliness

Timely submission of reports within a one-business-day deadline is a critical aspect of the reconciliation process. Firms must not only focus on meeting this deadline consistently but also identify and remedy instances where this is not the case; for example, where details from brokers may not be received promptly.

Reconciliation frequency and representative samples

"Determining the frequency of reconciliations depends on various factors, including the complexity of trading scenarios and the volume of transaction reports. While monthly reconciliations are generally acceptable, more frequent reconciliations reduce the duration of potential issues, resulting in lower back reporting volumes," outlines Fulugunya.

She adds: "The regulation requires firms to reconcile a representative sample of their data. Regulatory guidance suggests that this sample should include all trading scenarios, covering instruments, client types, trading capacity and order types. For some firms, such as managers with a few funds trading in the same instruments, this can be 10 per cent of their total volumes. However, for others — such as retail trading platforms with hundreds of thousands of clients trading in hundreds of instruments — this could be 90 per cent. So, it's important to understand your universe of reportable trades and ensure that your sample is aligned with the guidance."

Remediation and back reporting

Identifying discrepancies during the reconciliation process is only the first step. Firms must promptly address errors and omissions to maintain compliance. Remediation efforts involve understanding the root cause of discrepancies, implementing corrective measures, ensuring that the reporting process is adjusted to prevent reoccurrence and notifying the regulator promptly where issues are identified. For those firms reporting to the FCA, this involves submitting an errors and omissions (E&O) notification.

During her tenure at the regulator, Fulugunya reviewed more than 400 E&O notifications from a diverse range of firms.

With this extensive experience, she states: "I often get asked when these forms should be submitted, and the answer is, when you have collated the adequate information to allow the regulator to understand the issue, your remediation plans and approximate back reporting timelines (where necessary).

"The FCA shared data in Market Watch 74 revealing a decline in the number of firms reporting E&Os over the last three years, with a 17 per cent decrease in firms submitting notifications in 2022 (346) compared to 2020.

"While this may suggest that most firms have good data quality, the FCA cautions that this might not always be the case as its supervisory activities have uncovered issues the industry has previously been warned about."

A large part of remediation is back reporting. It has been six years since the implementation of MiFID II , and the significance of validation rule 269 cannot be overstated. Firms are still uncovering issues dating back to 2018, and this validation rule means that reports submitted for the first time or as an amendment with a trade date exceeding five years will receive a CON-281 rejection.

However, despite the inability to submit, firms are still expected to provide details of the impacted reports, including the total number, within the E&O notification. The FCA has also advised against cancellation of reports that are impacted by this rule.

Looking forward

Firms are struggling with the rules without the internal knowledge or resources to confidently meet the requirements. This has resulted in a shift within the industry to more delegated models.

Speaking on this, Fulugunya states: "At Qomply, we offer a service that enables firms to focus on their core business whilst we operate aspects of their transaction reporting. The highest level of interest has been from firms that submit between 10,000 and 500,000 transaction reports a year. We've seen that, through the managed service, these firms save up to 50 per cent of their reporting costs.

"This accounts for internal resources, ARM costs, additional quality assurance tools and external regulatory advice. This approach allows for risk mitigation and confidence that their reporting requirements are aligned with the regulator's expectations. Firms can be as hands-off or hands-on as necessary, as we take on the entire process. This encompasses report creation, daily exception management, submission to the ARM/FCA, monthly completeness and accuracy checks, two/three-way reconciliations and support with completing E&O notifications."

The landscape of MiFID II transaction reporting reconciliation and remediation is complex, demanding resources, expertise and proactivity. Firms should ensure that they are doing everything to meet their obligation in this area. There is an industry expectation that it is only a matter of time before enforcement action on MiFID II becomes a headline. ■

"We've seen that, through [Qomply's] managed service, these firms save up to 50 per cent of their reporting costs"

Sophia Fulugunya
Director of transaction reporting
Qomply

Paul Stillabower exits industry

Paul Stillabower has departed the securities services industry.

Stillabower has more than 30 years of industry experience, most recently serving as managing director and global head of product management at RBC I&TS.

Prior to this, he was global head of strategy at RBC Investor Services.

Earlier in his career, Stillabower was director of risk control and later managing director and head of Europe at RBC Global Securities Services, before moving to HSBC to serve as global head of business development.

Announcing his departure via LinkedIn, Stillabower says: “After 33 years working in two global banks, it is time for me to do something else.

“The journey has been incredible, and I am grateful to all my colleagues, bosses and industry professionals that made my experience so amazing. I am especially privileged to have been entrusted with such a broad range of responsibilities.” ■

Chan named as BlackRock’s new head

BlackRock has named Susan Chan as head of Asia Pacific, with Andrew Landman and Hiroyuki Shimizu becoming deputies.

Chan’s predecessor, Rachel Lord, has relocated to London to become BlackRock’s head of international.

Chan will lead the Asia Pacific region and be responsible for business, client, investment and operational platforms serving wealth and institutional investors via BlackRock’s active, index, ETFs, alternatives and technology offerings.

Chan has more than three decades of experience in financial services and asset management, serving as deputy head of Asia Pacific and head of greater China at BlackRock since 2021. She currently sits on BlackRock’s Global Executive Committee.

Chan has been at the company for more than 10 years, helping to develop BlackRock’s onshore business in mainland China and leading both the trading, liquidity and lending and ETFs and index investment businesses in the APAC region. ■

Xceptor

Industry sentiment survey:
Digitisation of unstructured data

This six minute survey focuses on crucial themes: challenges in implementing automation technology, hurdles in adopting AI/machine learning tech, and difficulties in managing unstructured data.

We would really appreciate your time in answering this short survey.

TMF Group appoints de Vreeze

TMF group has appointed Menno de Vreeze as head of fund sales for the Americas, enhancing and expanding its presence in the fund services sector.

In the Miami-based role, de Vreeze will be responsible for building and maintaining client relationships as well as identifying potential upsell and cross-sell opportunities within TMF Group's existing client base.

De Vreeze has more than two decades of experience in the financial services industry and, before TMF, worked at Abrdn as the head of financial institutions for Benelux.

He also worked as Director of Aberdeen Global Services before being promoted to head of distribution for US offshore and LatAm. ■

Atkinson named new CEO of Governance.com

Governance.com has announced that Ian Atkinson is their new CEO, taking over from founder Bert Boerman. Boerman will take over the role of chairman and director of strategic growth. Atkinson was previously chief operating officer and chief commercial officer of the automation platform.

Governance.com states the decision to change the leadership structure was in order to respond to the demand for its solutions and the growth of the process automation business.

Boerman adds: "This transition is a natural step in our company's journey. Ian's experience and expertise make him the logical choice to lead Governance.com into the future. As chairman and director of strategic growth, I am excited to collaborate more closely with our valued clients, ensuring that our solutions align with their evolving needs and expectations." ■

Richards to step down at ICMA

Paul Richards is stepping down as head of market practice and regulatory policy (MPRP) at the International Capital Market Association. Following 50 years in the international capital markets, Richard will leave his role at the end of June 2024. He will then assume the position of senior advisor to ICMA until the end of the year.

During his 18 year tenure at ICMA, 16 of which he spent as head of MPRP, Richard worked with members on the implications of the global financial crisis and Brexit.

He also contributed to the London Interbank Offered Rate (LIBOR) transition in the bond market, where he chairs the RFR Bond Market Sub-Group. ■