AST ASSETSERVICINGTIMES

ISSUE040
WEDNESDAY 30.05.2012
assetservicingtimes.com

Malta Stock Exchange to implement Xetra system on 11 June

VALLETTA 25.05.2012

Deutsche Börse will organise trading in equities that are listed on the Malta Stock Exchange from 11 June, opening up the exchange to overseas users. Both parties signed a minimum 5-year contract on 24 October 2011.

“Trading participants in Malta are now connected to a fully electronic network of 4,500 traders in 18 countries,” said Frank Gerstenschläger, a member of the Deutsche Börse executive board and who is responsible for Xetra, Deutsche Börse’s fully electronic trading system, when the parties announced that the Malta Stock Exchange would begin using Xetra in October 2011.

“We are in countdown mode,” said Eileen Muscat, CEO of the Mata Stock Exchange, in a recent interview. “A lot of people have asked us why we have opted for Xetra over another platform. We were looking for a hosted system that is used in many other markets. We also wanted a system that is familiar to many users and has a global reach. A global reach from the point of view of issuers, from the point of view of connectivity to its users, and of course, we already have the link with Clearstream.”

“A trading system is a sophisticated matching engine and nothing else. You have to look at what suits you best from every angle—technical, functional, commercial, contractual and opportunities—we certainly didn’t want a system that would keep us isolated.”

“Connectivity was the big issue when we were looking at trading systems. International growth is the name of

readmore p3

CONTENTS

Northern Trust wins £700 million custody mandate

Northern Trust has been appointed to provide custody and performance measurement services to £700 million ($1.1 billion) in assets for The Alcatel Pension Scheme, a global telecommunications corporation.

readmore p3

ICAP buys PLUS Stock Exchange for £1

Interdealer broker ICAP has agreed to acquire PLUS Stock Exchange, the smaller company equity exchange, for £1, subject to PLUS Markets Group shareholder consent and FSA approvals.

readmore p3

Malta Stock Exchange to implement Xetra system on 11 June

Continued from page 1

the game at the moment, so having the Clearstream link and the Xetra link will give us the passport to being able to go out there, beyond our shores, and attract business to Malta."

Cash market trading on the Vienna Stock Exchange has been based on Xetra technology since November 1999. The Irish Stock Exchange has been operated with Xetra since 2000, the Bulgarian since 2008 and the Ljubljana Stock Exchange in Slovenia since 2010. The Eurex subsidiary Eurex Bonds and the European Energy Exchange also use the Xetra trading system. The Shanghai Stock Exchange uses Xetra as the basis for its new generation trading system, introduced at the start of 2010.

Deutsche Börse Group's global liquidity provider Clearstream integrated Malta into its settlement network in April as the last country in the eurozone. The settlement link provides international investors with access to Maltese securities.

The Malta Stock Exchange is based in the country's capital Valletta, was founded in 1990, and is wholly state-owned.

To read an extended interview with Malta Stock Exchange CEO Eileen Muscat, turn to page 28 of Asset Servicing Times.

Northern Trust wins £700 million custody mandate

Continued from page 1

"We appointed Northern Trust based on its conservative business model, financial strength, focus on the pensions sector and integrated reporting capability," said Bill Kear, the pensions manager at The Alcatel Pension Scheme. "They understand our unique requirements and challenges and can offer us a range of cost-effective asset servicing solutions to help us manage our business."

"We understand our pension fund clients face increasing regulatory challenges and a requirement for access to granular data on all their investments daily," said Douglas Gee, head of sales for Northern Trust's Institutional Investor Group.

"Through Northern Trust's web-based client portal Passport we provide clients with access to investment valuations, general ledger accounting, specialist financial reporting, performance measurement, compliance monitoring, risk analytics and many other services that are critical to running a complex institutional pension fund."

NAB nabs another custody mandate

Fiducian Portfolio Services will use NAB Asset Servicing as its custodian for its wrap and investment fund offerings.

It is reported that the mandate will cover the Fiducian Superannuation Service (FSS), the Fiducian Investment Service (FIS), and the 16 Fiducian Funds included in the FSS and FIS investment offerings.

ICAP buys PLUS Stock Exchange for £1

Continued from page 1

PLUS is one of only five RIEs (Recognised Investment Exchanges) in the UK. It provides listing and quoting services to more than 100 companies and generates revenue of approximately £3 million a year. However, the business is incurring a loss.

ICAP is an operator of regulated platforms running the world's largest electronic trading platforms for both FX (EBS) and fixed income (BrokerTec).

It also operates 10 multilateral trading facilities (MTFs). In addition, ICAP acts as a broker in exchange products and is a full member of the world's largest exchanges.

"ICAP is well positioned to leverage PLUS' exchange status to offer new products and solutions for its customers including, in time, listed derivatives," ICAP said in a statement.

Linedata hooks onto Jersey

Jersey-based finance house JTC Group has signed up for Linedata Icon, a fund accounting platform.

Headquartered in Jersey, with operations in Guernsey, Luxembourg, Switzerland, the British Virgin Islands and the UK, JTC Group is a provider of fund administration services.

JTC is growing its third-party administration services and selected Linedata Icon as its fund accounting solution to support its growth plans. Linedata has a growing number of clients in Jersey, using its fund accounting and transfer agency solutions to manage their own funds and to provide third-party administration services.

Miranda Lansdowne, director of corporate services at JTC, said: "We were aware that there are several large institutions and TPAs using Linedata Icon already, so we were reassured of its suitability, reliability and depth of functionality."

"It also made sense to go with Linedata Icon as some of the funds we have taken on recently had been operating on the platform. We have specialist knowledge and experience of administering offshore funds and consider Linedata Icon to be a good platform to take our business forward."

It's nice of NICE Actimize to help out with FATCA

NICE Actimize has introduced a new FATCA compliance solution, broadening the capabilities of the integrated Actimize Anti-Money Laundering solution suite.

The solution is designed to help firms establish a structured FATCA compliance programme. It aims to simplify investigation tasks and reduce operational spend.

Additional features include time-to-completion dashboards that simplify operational management, customer data capture, screening of pre-existing and new individual and entity accounts, document management and IRS reporting. FATCA comes into effect in January 2013.

Julie Conroy McNelley, the research director at Aite Group, said: "FATCA places an onerous compliance obligation on foreign financial institutions, who need to be looking for proven solutions that can help them handle this new customer screening requirement."

"Solutions need to have the ability to efficiently screen customer data, identify complex data relationships, and facilitate reporting to the IRS, without place undue burden on compliance staff."

BNY Mellon expands platform to German-speakers

BNY Mellon has launched a German-language version of its Workbench online reporting platform.

In addition to adding local language functionality for German clients, the new offering provides additional reporting capabilities in respect of derivatives transactions and invoice information.

Over the coming weeks, more than 200 client institutions will go live with the new German-language platform.

They will be able to choose to translate all aspects of their online experience, including receiving custody, KAG and depotbank reports, viewing news, responding to corporate actions, entering instructions, and confirming market and account information in either German or English.

Michelle Grundmann, the managing director at BNY Mellon Asset Servicing in Germany, said: "Rolling out a German language version of Workbench has been a key priority during the integration programme following our acquisition of BHF Asset Servicing. In addition to the functionality we are making available to them today, we are already working on developing additional capabilities to further expand the German platform."

Another win for NAB Asset Servicing

National Australia Bank's Asset Servicing division has been appointed to provide custodial and administration services to Maple-Brown Abbott's retail funds, one of nine new clients the business has won in the past nine months.

With approximately $10 billion in funds under management, Maple-Brown Abbott (MBA) is a privately-owned investment firm specialising in the management of Australian and Asia Pacific ex-Japan equity portfolios for corporations, institutions, industry and corporate superannuation funds.

The win for NAB Asset Servicing comes after a comprehensive selection process of MBA's custodial and administration arrangements for the new funds.

Richard Grundy, the chief operating officer at MBA, said NAB Asset Servicing's local strength was a key factor influencing their choice.

"NAB's service model, registry, systems capabilities and ability to meet current and future demands were key factors in our decision making process," said Grundy.

"Our business offers a one stop shop with a single contract backed by one of the world's strongest banks, and we are delighted to formalise our relationship with MBA," said Brian Keogh, the general manager of sales, relationships and financial market services in asset servicing.

Italian fund manager gives mandate to SocGen SS

Societe Generale Securities Services in Italy (SGSS) has been appointed by Alceda Fund Management (Alceda) to act as its local transfer agent in Italy, providing it with paying agent and investor relations management services for its fund AC and its Sicav AC Quant.

SGSS offers securities services, including clearing, custody and trustee services, fund administration, liquidity management and transfer agent services.

Based in Luxembourg, Alceda is a wholly independent subsidiary of the Aquila Group, with more than €5.3 billion in assets under administration, providing structured investment solutions to institutional investors, asset/fund managers, banks and family offices.

Söderberg & Partners mandates J.P. Morgan

J.P. Morgan's Worldwide Securities Services has been selected by Söderberg & Partners, a Swedish asset manager with funds domiciled in Luxembourg, to provide a range of securities services, including custody, fund accounting and transfer agency, for Söderberg's recently launched SICAV fund. The SICAV consists of three sub-funds.

Söderberg & Partners is an advisor and distributor of insurance and financial products in Sweden. It was founded in 2004 and now has more than 900 employees in 50 offices in Sweden.

Forward redemption requests stay low at GlobeOp

The GlobeOp Forward Redemption Indicator for May 2012 measured 3.3 percent, up from 2 percent in April.

"As we near the half-way mark, forward redemption requests remain lower on a month-to-month basis," said Tony Glickman, the global head of client solutions at GlobeOp Financial Services.

The indicator represents the sum of forward redemption notices received from investors in hedge funds administered by GlobeOp, divided by the assets under administration at the beginning of the month for GlobeOp fund administration clients.

Forward redemptions as a percentage of GlobeOp assets under administration have trended significantly lower since reaching a high of 19.27 percent in November 2008. The next publication date is 25 June 2012.

Published on the 15th business day of the month, movements in the indicator reflect investor confidence in their allocations to hedge


YOUR TOP-RATED PARTNER
IN EASTERN EUROPE
www.kbcsecurities.com
KBC Securities is the **no. 1 provider of fully integrated securities service solutions in Eastern Europe.** Our comprehensive service package covers the **entire value chain** from brokerage to clearing, settlement and custody. Building on **more than 10 years' experience** in Central and Eastern Europe, KBC Securities combines **global strength with proven local expertise**, giving you all the advantages of a single legal master agreement covering all markets. Little wonder KBC Securities has been consistently **rated amongst the best service providers** in Eastern Europe by Global Custodian.
KBC
Securities
Member of the KBC Group

funds. Indicator data is based on actual investor redemption notifications received.

Unlike subscriptions, redemption notifications are typically received 30 to 90 days in advance of the redemption date. Investors may, and sometimes do, cancel redemption notices. In addition, the establishment and enforcement of redemption notices may vary from fund to fund.

Augentius fund administration establishes in Belfast

Augentius Fund Administration is to establish a centre in Belfast, which will employ up to 164 professional staff.

Augentius provides outsourced fund administration services to the private equity and real estate sectors. Formed 10 years ago with offices in London and Guernsey, Augentius has subsequently expanded, opening offices in New York, Luxembourg, Mauritius, Singapore, and more recently, The Netherlands.

Seventeen new jobs have been created by Augentius in the new Belfast office in recent months and this is expected to grow to 30 by the end of the year, supporting clients in both onshore and offshore locations.

Enterprise minister Arlene Foster said: "This investment, the first ever from a London based fund administration company, is a significant milestone in the development of the financial services sector in Northern Ireland."

"Augentius considered several other locations for the centre including Canada, China, India, Dublin, and other UK cities. Its decision to locate here reflects its desire to maintain its core service centres within the UK and the very strong reputation that Northern Ireland has built up as a cost-effective working environment with access to a skilled and educated workforce."

David Bailey, a managing partner and one of the founders of Augentius, commented: "Augentius has a strong reputation for the development of its staff. We take junior and part qualified accountants, train them in our sector and support them to obtain their professional qualifications. We have people who joined us as trainees and are now fully qualified accountants responsible for their own teams and clients."

"As a consequence, the availability of high quality people along with a strong educational sector was one of the important factors to us when considering the locations for our investment and we are looking forward to working with Queen's University and the University of Ulster going forward."

AdvisorShares mandates BNY Mellon

AdvisorShares has selected BNY Mellon to provide exchange-traded fund services, custody, fund accounting and fund administration for the AdvisorShares Global Echo ETF.

This mandate expands BNY Mellon's relationship with AdvisorShares, which began in 2009, to include 14 ETFs with assets totaling more than $500 million.

"We are pleased to support the Global Echo ETF," said Joseph Keenan, the managing director and global head of ETF services at BNY Mellon Asset Servicing.

Keenan noted the ETF will contribute 0.40 percent of the ETF management's fee to the Global Echo Foundation, a charitable entity co-founded by Philippe Cousteau Jr, which funds social programmes benefiting women and children, environmental conservation and social entrepreneurship.

Chinese CITC Securities chooses SunGard

CITIC Securities has chosen SunGard's Asset Arena Investment Accounting solution as the accounting solution for its asset management business.

CITIC Securities is relying on Asset Arena to help it meet multi-currency, multi-GAAP, multi-market and multi-product valuation accounting requirements.

Wang Yanqing, a vice president and the head of China operations in SunGard's asset management business, said: "CITIC Securities selected SunGard because of our product management strategy, our deep understanding of Chinese and international business and our proven reliability in delivering on-time, on-budget implementations in China."

Lone Pine Capital selects SS&C's for Form PF Reporting services

SS&C Technologies, a provider of financial services software and software-enabled services, has been selected by Lone Pine Capital LLC for its Form PF reporting solution.

Lone Pine Capital LLC is using SS&C's web-enabled Form PF application and expertise to help comply with Form PF, a new reporting requirement applicable to investment advisers to hedge funds, private equity

Bottom line:

[Your securities services expert in Central and Eastern Europe]

Our network is available for you in Central and Eastern Europe for your securities services business. We bring you in-depth local experience and award winning international expertise. ING is your partner in Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia, Slovak Republic and Ukraine. For more information call Lilla Juranyi, Global Head of Investor Services on +31 20 563 6435 or e-mail: Lilla.Juranyi@mail.ing.nl.

www.ingcommercialbanking.com

ING

funds and other private funds that meet certain asset thresholds.

Investment advisers subject to these rules will be required to report information on a quarterly or annual basis for use by the Financial Stability Oversight Council (FSOC) in monitoring systemic risk to the US economy.

"We are honored that Lone Pine, a long-time customer, has selected us for this critical regulatory requirement," said Rahul Kanwar, the senior vice president at SS&C Alternative Assets. "We are uniquely positioned as the only software company and top ten fund administrator offering Form PF services in a controlled, scalable and efficient way. We have developed and deployed a cloud solution providing funds full access and visibility into the filing, and support with fund operations, valuation, risk and compliance experts."

SS&C's solution is cloud-based, and offers clients access to every aspect of data collection, workflow management and submission of Form PF online. The web-based solution supports complex fund structures, and multiple asset types and data sources.

SS&C's Form PF solution can be used by current fund administration clients or on a stand-alone basis by funds that use third-party administrators or an in-house process.

Bombardier goes live with SS&C's SaaS platform

Airplane and train manufacturer Bombardier has implemented SS&C Technologies's asset management software-as-a-service (SaaS) platform for the investment activities of its US, UK and Canadian pension plans.

Bombardier selected SS&C because of its fixed income and derivatives expertise, rebalancing capabilities and custodial data integration, according to SS&C.

The software provider worked with Bombardier's pension asset management service to implement an integrated front-, middle- and back-office solution, providing a consolidated book of record and reports.

"We are very pleased with how SS&C's asset management platform has transformed our operational processes," said Dominique Paquay, the director of administration and accounting at Bombardier's pension asset management service. "The benefits of having a robust integrated platform from an established partner made it an easy decision to go with SS&C."

Bill Stone, the chairman and CEO of SS&C, added: "With our cloud-based platform we introduced a best-in-class workflow between Bombardier's trading and operations teams."

Equity clearing fees to fall on Xetra and Xetra Frankfurt Specialist

Eurex Clearing of the Deutsche Börse Group will lower clearing fees for equity transactions on Xetra and Xetra Frankfurt Specialist from 1 July.

In clearing, receivables and liabilities from securities business are aggregated or offset against each other.

At the end of a trading day, a clearinghouse informs its members of their transactions as well as the remaining receivables and liabilities generated.

Eurex Clearing's new pricing model for equity transactions will see the volume-dependent clearing fee fall by 0.02 basis points for all participants.

The volume-dependent fee will be 0.0008 percent for Xetra Frankfurt Specialist trading and between 0.0008 and 0.0003 percent in fully

electronic Xetra trading, depending on monthly turnover volume.

The new pricing model will save clearing customers up to 20 percent of total clearing fees.

“The reduced pricing model in equities clearing makes trading on the Xetra and Xetra Frankfurt Specialist even more attractive and puts us in an excellent position in the European clearing business,” said Frank Gerstenschläger, the Deutsche Börse AG executive board member who is responsible for the Xetra cash market segment.

Due to the stimulation in trading and clearing activity as a result of the new pricing model, Deutsche Börse expects a largely neutral effect on total turnover.

RBC Dexia Investor Services deal gets green light in Europe

The Royal Bank of Canada’s (RBC’s) move to take full control of global custody, fund and pension administration services provider RBC Dexia Investor Services has been approved in Europe.

The European Commission said it cleared the acquisition under the EU Merger Regulation.

RBC Dexia Investor Services is a joint venture between RBC and Banque Internationale à Luxembourg, which was previously called Dexia Banque Internationale à Luxembourg.

RBC and Banque Internationale each own 50 percent of the business, but the French-Belgium bank was reportedly forced to sell its stake after it fell victim to the European debit crisis and the 2008 credit crisis.

RBC announced its intention to buy Banque Internationale’s 50 percent stake in RBC Dexia in October 2011 and signed a definitive agreement to do so in April 2012. RBC paid €837.5 million (C$1.1 billion) to take full control of RBC Dexia.

Speaking at the time that the deal was announced, Gordon M Nixon, who is president and CEO of RBC, said: “We have developed an in-depth understanding of the global custody business’ strong fundamentals and opportunities for growth through our longstanding Canadian custody operations and more recently, through the RBC Dexia joint venture.”

“The transaction … has significant strategic value to us, not only as a standalone business but also in its complementary capabilities to RBC.”

“Full ownership of RBC Dexia will allow us to leverage RBC’s excellent reputation and financial strength to win additional business and drive growth,” added Jim Westlake, the group head of international banking and insurance at RBC.

The European Commission said the operation was examined under the simplified merger review procedure.

Butterfield Fulcrum upgrades fund accounting

Fund services provider Butterfield Fulcrum has upgraded to Advent’s Geneva 8.5, a new release of Geneva, Advent’s global portfolio management and fund accounting solution.

Butterfield Fulcrum has also significantly enhanced its operations and technology infrastructure to deliver front-, middle- and back-office services supported by a fully implemented technology solution.

“This upgrade enhances our leading edge technology platform and allows us to simplify the processing and management of complex assets and provide complete bespoke solutions to meet the ever increasing demands of our existing and new clients,” said Chris Mulhern, the COO and president of Butterfield Fulcrum.

“Advent’s Geneva 8.5 delivers direct immediate benefits to our clients with a host of new features and functionality, including real time P&L, position, and exposure reporting, support for private equity structures, bank debt, and a fully integrated shareholder servicing platform.”

Northern Trust gets £345 million charity mandate

Northern Trust will provide custody and related services for £345 million in charity assets for The Nesta Trust, adding to previously announced mandates of charities, including the £710 million Health Foundation, and the £881 million National Trust.

“As a newly created charity we were looking for a custodian that could demonstrate a strong track record in providing solutions for charities, foundations and endowments and understood our distinct challenges,” said Matt Mead, the chief investment and financial officer at Nesta.

“In particular we were looking for an asset servicing provider that could support our investments in a broad mixture of asset classes and provide leading broker dealer and transition management services.”

“We are acutely aware of the unique challenges faced by charities—particularly as they look to adapt to changing regulatory requirements and meet their funding objectives,” said Douglas Gee, the head of sales for Northern Trust’s Institutional Investor Group.

“Through our experience servicing charities, foundations and endowments we have aligned our asset servicing and asset management expertise to best effect to support their requirements and navigate these complexities.”

Singapore and custody: HSBC's POV

AST speaks to Tony Lewis of HSBC Securities Services in Singapore to discover what's on the agenda for the bank's asset servicing business in that domicile

MARK DUGDALE REPORTS

What do you do in your current role?

In my role as head of HSBC Securities Services (HSS) in Singapore, I spend my time meeting our customers and prospective customers, working closely with my team and HSBC Group colleagues to develop deeper partnerships with our customers and create new business opportunities. Externally, it is important that I am visible in the market, championing change as our client's advocate, contributing to the development of local regulations and market infrastructure.

Change is a constant, so I am here to ensure that we bring to our customers the right products and deliver them in the most efficient manner, leveraging HSS's global operating models and product solutions.

I spend a significant amount of my time with my team, developing our talent, ensuring that we have the right people in the right roles across the business and creating new and different development opportunities for all staff, whether in Singapore or elsewhere within the HSBC Group.

As a custodian, what kinds of products does your business look after in Singapore?

HSS in Singapore provides a full range of product solutions for a broad range of strategically important client groups. We provide custody, fund administration, trustee, securities lending, foreign exchange, collateral management, middle-office outsourcing, corporate trust and loan agency facilities solutions for alternative (including private equity) and traditional asset managers, sovereign wealth funds, insurance companies, banks and broker dealers.

We are trustee, administrator and custodian for locally listed ETFs (exchange-traded funds), including fixed income ETFs, requiring us to leverage the multi-location and multi-time zone operating model that we have to ensure prices are available to the locally-based asset managers at start of day, T+1.

Additionally, for many years, we have maintained significant market share as trustee and service provider for both the onshore regulated fund market and the SGX-listed (Singapore Exchange-) real estate investment trusts. Both trust products are regarded as collective investment schemes (CIS) and are governed by the Code on Collective Investment Schemes. The assets under custody extend to properties, cash deposits, listed securities, bonds, derivatives and units in other collective investment schemes.

How have the types of available products changed during your time in Singapore, and how has this affected the custody business?

During the last two years, we have seen evolving product needs from clients. For example, we have seen hedge funds looking for more sophisticated and comprehensive outsourcing services and performance fee calculations. We have been working with asset managers in the area of extending reach and automation of distribution. Interest in generating new revenues through entering into securities lending programmes has also become an area of focus for many asset managers.

Regulations around retail collective investment schemes continue to be developed and are increasingly aligned to the UCITs framework, driving transparency, liquidity and lower risk profiles in this area.

What does your client base look like?

In the asset management space, 70 percent of the fund managers are international companies and 30 percent are local Singapore companies. For REITs specifically, REIT managers have to be a Singapore company, although the sponsors behind them are 60 percent local and 40 percent foreign. On top of this, our clients will often have funds domiciled in locations outside of Singapore, but operating onshore. The vast majority of banks and broker dealers that we service are overseas. These clients generally use HSBC in multiple markets, with Singapore being just one of them.

On the settlement side of the custody business, what is concerning you the most in Singapore at the moment?

Today, we have a local market settlement model not dissimilar to Australia in respect of matching and settlement. Once matching is complete, settlement is irrevocable creating credit risk for service providers such as HSBC. Additionally, settlement proceeds or costs are netted and credited or debited ahead of the related securities transfers. The timing difference can be as much as six hours. We are therefore looking to work with market participants to reduce the time lag between securities and cash settlement legs. Better still, in our view, would be to move to a gross cash settlement (BIS Model 1) model and eventually a real-time settlement model with intra-day matching.

How fast and efficient is the financial transaction process in Singapore?

The trading environment in Singapore is world class in terms of speed and efficiency. Post-trade is a different story. To tackle the current challenges, SGX started its Mainframe Migration Project earlier this year. The project aims to create open access connectivity, moving us to a true settlement STP environment via an Application Programming Interface. This migration plan aims to also provide a direct link to the Pre Settlement Matching System, which will eliminate the manual up-loading and down-loading of trades. HSBC is very supportive of this initiative as it will create an environment that supports increased institutional activity, reduces operational risks, and eventually, lowers costs to investors.

What about reporting services?

Reporting requirements are generally in line with what we see in other locations across the different client sectors. Larger institutional banks, broker dealers and asset managers are looking for SWIFT-based messaging for settlements, corporate actions, reconciliations, banking and payments services. Clients also often wish to see real time information via online solutions such as our HSBCnet portal, and have the flexibility to extract data and create their own reports.

Reporting requirements for our trustee and fund administration services are a variation on what we see in other jurisdictions. Authorised unit trusts in Singapore are required to prepare their financial statements in the manner that is prescribed under Recommended Accounting Practice 7 (RAP 7). RAP 7 is only applicable to Singapore-authorised unit trusts and it sets out recommendations as to how the managers of a unit trust who are authorised by the MAS (Monetary Authority of Singapore) should prepare the unit trust's financial statements.

The Code on Collective Investment Schemes additionally requires the semi-annual accounts and annual accounts to be sent to participants within two months and three months respectively. These requirements are more stringent to a degree when compared to many other jurisdictions, where we usually see publication periods of four-to-six months for annual accounts. The shorter time frames require us, as a service provider, to partner very closely with our clients during these reporting periods.

How do you identify, attract and select sub-custodians in Singapore and the Asia Pacific region?

Our sub-custodian selection process is institutionalised and globally centralised. In addition to the 41 markets where we use HSBC's own sub-custody services, we appoint third-party sub-custodians applying the same criteria to all selections, whether HSBC Group or external appointments. These key criteria are based on reputation, credit rating and a due diligence process.

What is the regulatory environment like in Singapore at the moment?

Specifically in Singapore, we are seeing the regulator requiring greater transparency and this includes areas not previously subject to detailed regulation, such as OTC derivatives. Regulations that are applied to market participants continue to be reviewed and those entities previously exempted from certain aspects are increasingly likely to be subject to regulation.

Asset safety is still very high on the agenda. Generally, regulators have taken a lead in terms of looking more closely at custodians for asset safety. We have seen much more regulation focusing on knowing your customers' clients, currently translating into the need to have more detailed information in respect of beneficial ownership. We are also seeing more attention on how a custodian is managing and monitoring the activities of sub-custodians and market participants.

What securities lending services do you offer as a custodian?

HSBC offers a full range of agency securities lending services to our clients. We have a securities lending proposition for clients with a number of possible options in order to maximise revenues within clear risk parameters.

We provide agency lending to a diverse group of borrowers backed by a HSBC indemnification. HSS offers multiple routes to market, including custody and third-party lending, discretionary lending and the exclusive auctioning of lending portfolios.

A defining feature of our agency lending programme is that it is backed by an indemnity provided by The Hong Kong and Shanghai Banking Corporation, which is rated AA-/Aa1 by Standard & Poor's and Moody's respectively. It also has shareholder equity of US $44 billion (as of 31 December 2011).

What is the demand for securities lending services in Singapore?

In the past six months, we have had a notable increase in the number of requests from beneficial owners who wish to establish securities lending programmes. These beneficial owners include institutional investors (insurance companies, pension funds) and more interestingly, for the first time, Singapore-domiciled mutual funds and unit trusts.

These beneficial owner lending requirements tend to be global in nature and are not limited to Singapore equities and bonds. Cost pressures have been encouraging beneficial owners and fund managers to seek out additional returns from their portfolios.

Beneficial owners have also focused on risk mitigation, showing a greater awareness of risk adjusted returns rather than absolute return as was previously the case.

What collateral requirement trends are you seeing in Singapore?

Over the past year, we have seen a significant increase from clients requiring collateral management services. The main reasons for this increased demand are as follows: to minimise counterparty credit exposure; to increase the number of counterparties with whom clients are able to transact; and to increase the return on trading activities

The increased collateral requirement has largely been linked to clients wishing to extend International Swaps and Derivatives Association agreements to include CSAs with trading counterparties. Many clients have been examining whether they have the infrastructure and people to support collateralised trading and what the alternative costs are in outsourcing this activity to securities services providers such as HSS. **AST**

Conversations with…

AST talks to Alistair Almeida of CIBC Mellon about what's happening in Canada's asset servicing industry

MARK DUGDALE REPORTS

How would you describe the current state of the Canadian asset servicing market?

Canada is a relatively smaller market, but it is definitely in a position of strength right now, which is reflected in the current state of our asset servicing market. Domestic and global investors are not only looking to Canada as a desirable investment destination, but also as an opportunity to hedge portfolios against the US dollar, euro or yen by diversifying into one of the world's most stable and fiscally sound markets. Custody providers have consolidated in recent decades, so foreign or domestic financial institutions looking to safe-keep client assets in Canada have a choice of three or four mature custodians depending on the segment.

The strength of Canada's financial sector is receiving a lot of global attention, and all five of Canada's major banks continue to top various rankings as some of the best-capitalised and safest institutions in the world. Bloomberg recently named our Canadian parent CIBC as the strongest bank in Canada, and third strongest in the world—with all five of Canada's banks appearing in the top 25.

The regulators are another area that sets Canada apart—not only because of our regulators' acclaimed prudence and effective stewardship, but also because Canada actually has a very complicated regulatory framework. We have 13 different jurisdictions, which can create challenges for both domestic and foreign investors.

Given the complexity of the Canadian market, the obvious choice for foreign asset servicing providers coming to Canada is to partner with a Canadian sub-custodian with a track record of longevity, commitment to the business and ability to invest in technology across all client segments. Backed by the massive scale of the world's largest custodian, BNY Mellon, the local expertise of CIBC, and our growing share of the domestic market, CIBC Mellon stands out in this regard.

Have there been any major changes in the way business is conducted since the financial crisis?

In Canada, as elsewhere, we've seen a tremendous focus on appropriate risk mitigation and a bull market in regulation. The ever-increasing appetite for transparency and reporting is driving many clients to refocus on their core capabilities and instead meet these substantial administrative challenges through outsourcing. Even some of the largest financial institutions are balking at making the necessary technology and system investments in-house, and so they are looking to their asset servicing providers to provide a bundled back- and middle-office solution.

There has always been a strong focus on cost efficiency in the asset servicing space, which continues to intensify as a result of diminishing returns in the stock market and persistent low interest rates, but post-crisis we have seen a substantial premium placed on stability and capital ratios. In working with both current and prospective clients, the question has often become 'what price premium do you attach to quality of balance sheet?'

Many large global institutions are looking very carefully at their counterparts to determine which providers are integral to their business beyond the base custody requirements, such as the cost of settling a fully automated, straight-through-processed trade. Asset servicing providers with global scale, resources to invest and a sound balance sheet should fare better than those willing to discount Canada as a loss leader or simply compete on price alone.

Are there any major regulatory or market developments being introduced that affect how business is being conducted?

Cross-border regulations like FATCA and Dodd-Frank will have a substantial impact in Canada and around the world, so we are working with our clients and stakeholders to prepare. We are seeing regulatory evolution in many areas, for example around derivatives, where the G20 nations have all made commitments around collateralisation and central clearing. While the province of Quebec has legislation in place, Canada currently lacks national derivatives regulation, so we are watching this space carefully.

More than regulation, however, I think the Canadian industry will be affected by infrastructure changes—in particular the Maple Group consortium's bid to take over Canada's stock market operator, and the Bank of Canada's mandate to create a central counterparty for derivatives trading.

Maple's offer for the TMX Group has been extended a few times and currently expires on June 30. While the offer may be further extended, several of Canada's regulators, as well as the federal competition bureau, have indicated that their concerns have been suitably addressed, so I think Maple will likely be able to proceed with the purchase of the Canadian Depository for Securities (CDS) clearing house and Alpha Trading, an online trading exchange that was set up by the banks to compete with the TMX. The intended consequence of this takeover is an integrated trading and clearing group whose success will be based on its ability to meet the needs of participants in Canada's capital markets and to compete more effectively abroad for listings. Hopefully, the transaction will proceed, as it will bring such benefits as an opportunity to leverage infrastructure that already exists through the depository to net fixed income transactions in line with the Bank of Canada's requirement for a central counterparty (CCP).

Our market will also see an improvement when Canadian Derivatives Clearing Competition (CDCC) develops its fixed income CCP, which launched this past February. As CDCC is owned by the TMX group, it remains to be seen whether the new system might be bundled with the current system of netting fixed income trades that already exists within the CDS should the Maple acquisition proceed.

Are there any areas you are actively looking to strengthen or new services that you are looking to offer?

Certainly, the ever-growing appetite from clients, regulators, boards and other stakeholders for increasing transparency, reporting and assurance around the strength of our governance are areas where we are focusing on continuous improvement. This is the 'new normal' for our industry, I think that making a strong one-time investment into a new system or product is not enough to deliver what clients need. They need to invest substantially and keep on investing to keep up with the constantly advancing target of client needs.

I would also point to growing demand from clients to tap into investment information though mobile devices; we responded last year with an app for the iPad. We are of course committed to continuous improvement, and we will continue to roll out regular improvements to our information-delivery platforms to better serve our clients.

How important are the European market and your relationships for CIBC Mellon?

Canada continues to benefit from a relatively healthy economy, but we are not immune to events that occur beyond our borders. What happens in Europe affects us as well, so we are monitoring the situation in Greece and the eurozone with great interest. That said, we continue to maintain a very strong focus on the US; it is our biggest trading partner and any recession there ultimately affects our economy.

We do have a high concentration of clients in Europe and those relationships are key to our business. We are dedicated to understanding the concerns and challenges of our clients, and we work very hard to anticipate their needs and exceed their expectations.

Will CIBC Mellon be at NeMa 2012 and what will you be looking to accomplish?

I am definitely looking forward to attending NeMa. I think the conference will be a great opportunity to tap the minds of senior industry experts and veterans. Network managers have the enviable job of benchmarking sub-custody services across different markets. This means that although Canada may be considered to be a fairly stable and low-risk market from an asset servicing perspective, there is still an opportunity to learn about some of the risks facing other markets and to identify best practices that could be implemented here in Canada.

If you could change one thing about the industry, what would it be?

From a global perspective, I would advocate for more jurisdictions to embrace regulation as an opportunity for dialogue and collaboration, in particular as new regulation is under consideration. Here in Canada, market participants tend to prefer a collaborative approach to working with the regulators, which works well to help ensure the cost of implementation does not outweigh the benefits derived. A good recent example of this is when local regulators agreed to delay the implementation of same-day trade matching in Canada as a direct result of industry feedback.

From a Canadian perspective, if I could change one thing it would be putting a national securities regulator in place. Our federal government recently mounted an effort to make this change, but some of the provincial jurisdictions objected and the case went to the Supreme Court of Canada, which unfortunately denied the federal government the authority to unilaterally implement a national regulator. This was a setback for the industry, as the fragmented regime of 13 provincial regulators plus other regulatory bodies is one of the major challenges for both domestic institutions and global financial institutions looking to invest in this country. Simplifying our regulatory environment with a single set of rules across the country would further bolster Canada's strength as an investment destination.

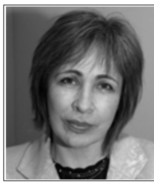
All in all, there are positives to be taken away from the way the asset servicing industry in Canada and around the world has coped well in the wake of the recent financial turmoil. We should continue to collaborate to ensure that we are well prepared for the road ahead. I look forward to discussing current industry challenges and trends with my industry colleagues, peers and friends at NeMa. AST

Alistair Almeida
Vice president, business development & relationship management, global financial institutions
CIBC Mellon

Eyes on Europe: custody challenges

AST talks to a panel of experts about what is challenging the European custody business at the moment

Sid Newby
Head of sales, EMEA
BNY Mellon



Lilla Juranyi
Global head of custody
ING Bank

Ulf Norén
Global head of sub-custody
SEB

Jonas Modigh
Head of sales & client relationship management
Handelsbanken Custody Services

Ken Hartlage
Head of corporate development
Information Mosaic

Simon Shepherd
CEO
MYRIAD Group Technologies

BNY MELLON

INFORMATION MOSAIC

ING

Is the market in better shape than it was three years ago?

Sid Newby: I think that it is difficult to say that market conditions are in better shape than they were three years ago. Confidence is weak with all eyes on the eurozone and government debt situation. AUM growth has not returned, managers are holding cash waiting to see what happens and interest rates remain near zero. In some respects, these constitute a perfect storm for the fundamentals. There is a pick-up in demand from our clients to join securities lending, but demand is capped, and while there is a shift from fixed income to equity, we are not back to pre-2008 levels.

On the positive side, we are seeing a significant amount of client activity as they seek help in managing their businesses through these same fundamental market challenges. This is creating opportunities for providers, such as BNY Mellon, to broaden and expand relationships into other areas.

Lilla Juranyi: I prefer to look forwards than backwards. The crisis is not over. It is not only a European crisis where we are faced with challenging times but it is a worldwide crisis that leads us to a much slower economic recovery than most of us would have expected two-to-three years ago. A good sign is that we hear more often about the positive trend that is expected in the second half of 2012, but there is no doubt that it will be a slow recovery, it will not happen in each market at the same time and to the same extent. We should be patient and use these days preparing for the better times by implementing a clear strategy. Being a prominent provider in Central and Eastern Europe (CEE), the mid- to long-term outlook of this region is important for us and for our clients. Analysts are positive about the growth opportunities of CEE so I hope that the investors' trust will be visible during 2012-2013 through asset inflow and increased activity.

Ulf Norén: There are certainly aspects of the market as a whole that are in better shape now, following three-to-four years of major adjustments in risk- and compliance-procedures and how to handle situations in a crisis mode. Though, in general, my answer would still be no. We have a eurozone in great trouble with major in-balances to deal with and also with major divides between North and South.

We have at least 20 major regulatory initiatives to deal with and they are, at best, lacking some coordination. The political view to mitigate all risk with either clearing or collateral will put great strain on the industry and other measures will hamper volume. Some players go through great lengths to position themselves and deal with the situation while others take a more defensive approach. It is hard to predict the outcome.

Jonas Modigh: On a European level, we believe that the financial problems will continue to dominate this year. Many banks will not survive without further help from the ECB. International Monetary Fund (IMF) and eurozone funds will assist governments having trouble raising enough money in bond markets.

The major banks in the Nordic markets are very stable and well-capitalised and we feel confident about the situation in the Nordic region. Handelsbanken has recently been ranked as the strongest bank in Europe and 10th strongest in the world by Bloomberg, and among the top 20 on the list, Handelsbanken has the highest tier one capital.

Ken Hartlage: Although a range of indicators have returned to or exceeded pre-crisis levels, structural and regulatory issues continue to plague parts of the economy and threaten to undermine many of the gains achieved. The uncertainty about how and when these issues will be addressed, questions about the future of the euro, and other factors all contribute to a challenging business environment. The continuing uncertainty has increased risks, and the extreme fluctuations in market and stock values have prevented the retail investor from returning. They are driving institutional investors to perceived safer assets and havens.

> Norén: We have a eurozone in great trouble with major in-balances to deal with and also with major divides between North and South

Yet, the interdependency between markets and globalisation has truly shaped the industry, not only in Europe but throughout all markets. The impact of an economic decision in one market no longer affects just that market; all markets seem to follow in the same direction. This is no more evident than with the euro crisis; decisions on the future of the currency and the impacts of these decisions are being felt from Tokyo to Los Angeles and everywhere in-between. The impact of these decisions would have been far less prevalent even three years ago.

Simon Shepherd: From a technology point of view, adoption of new functionality has been relatively slow over the last three years. Categorically, there is a wider acceptance of the need to innovate, but financial institutions have lacked both the capability and the budget to drive ahead with an overhaul of their systems and processes. This may be a little frustrating for the vendors but is entirely understandable, given the economic conditions. The business benefits are obvious and include efficiency, transparency and an increase in capacity, at a time when resource is often stretched to the limit. Financial institutions of all flavours need to re-gear to a more technology-driven era and figure out how best to execute, otherwise they will get left behind.

Do you feel that the trends of consolidation and some players pulling out of the market have come to an end?

Norén: No, not at all. We will continue to see consolidation and fewer sub-custodians going forward. This is driven not only by the issues emanating from the previous question but also due to a general expectation that it will require more capital to be active in servicing the financial institution segment and to build structures to be compliant. Industry participants are also subject to even more fee and competitive pressure and regional providers are deemed a better fit for cross-border clients needs, not least in their ability to run an influencing agenda over multi-country border lines.

Hartlage: We expect that the market will continue its trend of bifurcation between global custodians on the one hand and regional providers with strong domestic markets on the other. This should come into sharper focus with the rollout of T2S, which not only alters revenue structures but also provides custodian banks with the opportunity to access markets via a single channel. Additionally, as harmonisation of market practices is still a way off, the business environment will continue to favour those institutions that can deploy scalable technology and operations from a single platform while catering to individual market practices.

Newby: There are several factors that should drive greater consolidation in a number of areas. The regulatory agenda will force providers to validate their business model and determine whether it is sustainable. The cost of keeping pace with new regulations is significant. It can also shift the competitive positioning and risk profile in a market. Take T2S: single market sub-custodians will be considering the viability of their business in light of the changes that T2S will bring. The ability of the industry and market participants to pass back the cost of regulation through the value chain while innovating will also drive longer-term viability, which in turn will drive further consolidation.

> Shepherd: Consolidation has not finished and new players will continue to enter the market or expand their current capabilities. Many benefits touted before a consolidating event are never realised

As scale starts to become a critical success factor, our clients expect us to keep ahead of these regulatory agendas, so having a global footprint with a significant client base spanning all key industry segments is vital to being able to maintain the investment in people, training and technology and understand how these different regulations link up.

Shepherd: Consolidation has not finished and new players will continue to enter the market or expand their current capabilities. Many benefits touted before a consolidating event are never realised because the systems and processes in place are not leveraged sufficiently to drive the change wrought by consolidation. There is plenty of evidence of M&A activity over the last 20 years where banks have come together and still not properly integrated their networks, many years later. A clear execution strategy, based on superior technology, will support consolidation at all levels.

Juranyi: I expect that the landscape of the securities services world shall see further changes, especially in the sub-custody world. I leave it up to the global custodians to comment if further consolidation is expected among them. In the sub-custody world I expect that a few agent banks will review its custody service offering and raise the question if it is a real long-term business case for them or not. Our business is a 'scale business'. If a bank does not have sufficient scale and it is not a strong multi-market provider, but forced to make continuous investments keeping track of the changing regulatory or market requirements, a strategic phase out can be a reasonable decision.

Modigh: For the Nordics, I believe that this trend has not even begun. The future custody landscape in Europe in particular, will put pressure on the Nordic custodians. You will need to put in a lot of resources to analyse and interpret all market infrastructural changes and market regulations, invest heavily in your internal IT infrastructure in order to comply with all these changes and finally the work to implement them. This will put an immense pressure on your business case for custody services, which not all custodians will be able, or prepared, to do. I strongly believe that single market providers will face a difficult time in finding a business case in this why some of them will eventually pull out of the business in one way or the other.

Is it now possible to charge for pure custody services, or are your margins being made on the additional services you provide to clients?

Hartlage: The feedback we are receiving in the market and from among the custodians in our customer base confirms the need for high quality asset safekeeping and servicing. This is especially true in light of the financial crisis and pending legislation, which has increased demand from investors for improved clarity and control over their assets and transactions. This, in turn, is leading custodian banks to offer enhanced services, such as aggregating asset and transaction information across providers and channelling it though a single platform to the investor for analysis and decision-making. The provision of real-time, accurate information is no longer considered an enhanced offering. It is a must as information becomes available immediately and investors need to make decisions on this information and their current investment immediately. Simply knowing your position and its value as of the previous day is not good enough.

Shepherd: Clearly, margins can be boosted by improving speed, accuracy and efficiency. Where margin is getting eroded, financial institutions need to focus on: (a) quality of service; based on (b) breadth and depth of product; and (c) pricing based on efficient operations.

> Modigh: The future custody landscape in Europe in particular, will put pressure on the Nordic custodians

Newby: Core global custody has largely been considered to be a commodity for some time. Fee reduction cycles have increasingly moved baseline custody fee levels towards the point they barely covered costs. Against a backdrop of increased investment to meet regulatory demands and developing products, the need to generate deeper relationships through additional services has never been greater. Regulations may provide an opportunity for a reset if providers can demonstrate how they provide a vital function in helping them to manage risk, which has a value. These additional costs need to be allocated fairly and proportionally throughout the value chain, from end investor, management companies and other intermediaries to service providers.

Clients are actively looking for solutions that help them to raise assets and become more efficient and profitable. This creates an opportunity for asset servicing providers, not simply to add products, but to become a more strategic partner and help them to execute strategic plans. The range of value-added services continues to expand and this drives innovation at most providers. Custody still has a fundamental role to play but increasingly because of its close link with many of the value-added services.

Juranyi: The question refers to the evergreen topic of bundled or unbundled fees: significant change of the fee structure has not been seen yet but everybody is talking about it and it is only a matter of time before it happens. The past several years—in CEE—was the time of pushing the local custodians and sub-custodians to lowering the fees to a level that might question the long-term feasibility. The crisis period is not the time to implement structural changes of fee schedules. Securities services are a complex

and risk-taking business with increasing regulatory and compliance requirements, with some special tailor-made services, controlling, liquidity management solutions, and so on. Such complexity should be reflected in a realistic fee level and fee structure.

Norén: As a sub-custodian, the fee structure still very much reflects the traditional fees based on asset values and transactions of various types. Other fee generators can be found in the voting territory, the interest net (although current interest situation is not favourable), GCM fees, securities lending, and so on. We believe that the trend is going towards a multitude of fee structures where the existing model will also prevail, but together with several other models, specifically that an unbundled service model will equal an unbundled fee model. We will see capped fees in some product lines, we will see underlying fees being distributed together with an agreed margin and we will see combinations of these—maybe up to three different models on one and the same institution depending on how their various business lines are structured.

Modigh: During recent years, the revenues deriving from pure sub-custody services in the Nordics have quite dramatically fallen due to the implementation of CCP and reduced prices. You are still able to earn money on this business but the revenues are not even near what they used to be in the 'good old days', but on an overall basis you can still have a good business case. Additional services and ancillary products can still provide good revenues, and this will continue to be even more important going forward. It will be very important to have a good quality and a high flexibility for these services in the future to offer a competitive custody product that fits into your clients' business models.

Has the delay of T2S had an impact?

Modigh: I don't believe that the delay of T2S has had any major direct impact since the original timeframe was quite far ahead, anyway. We have not initiated any immediate concrete actions so far, but rather we've been setting up strategies and business plans going forward. The implementation of T2S will mean fundamental change to many post-trade flows, and the adaptions that are needed require advance planning for custodians active in several markets to be able to put their rationalisation plans into effect. This requires major adaptions internally to implement new processes and harmonisations into your IT infrastructure. The changeover time will be considerable for custodians, CSDs, and so on. The delay of the project will probably lead to a higher cost for the project as a whole, which in the end needs to be paid by someone.

Hartlage: As with any project, delays add to costs and the extension of T2S dates is no exception. Nonetheless, it has also provided more time for some financial institutions to develop their strategy for T2S participation and for European custody as a whole, especially in light of decisions by several countries to opt-out of the T2S system. The landscape will continue to be a patchwork of market practices for some time and banks must factor this into their business, operations and IT planning.

Newby: The delay was announced by the ECB to create a buffer for the development of the programme. Under the T2S Framework Agreement, ECB could potentially face penalties if the platform was not delivered on time. We support the T2S project and follow it closely and development is well advanced. We are comfortable with the current project timeframe.

Juranyi: There are several outstanding questions about T2S that are not clear today. The total investment need of T2S mentions hundreds of millions. But how much should each institution spend, and how will the CSDs climb higher on the value chain? CSDs try to launch new services to replace the loss of revenue from the settlement side and it might mean special competition with the agent banks.

However, CSDs often have monopolistic status and with such special licences the competition with its own members raises questions. In addition to several uncertainties around T2S, one thing is clear: the settlement harmonisation of the European markets will happen. This is not only a threat; it also brings opportunities.

Norén: We still have T2S on top of our agenda as driver for change. Even if it would have gone

to a stage where it would not have been introduced at all, a select number of primarily large institutions will call for the benefits of T2S and ask for a service model where those benefits are delivered. T2S has always and is still surrounded by a certain degree of uncertainty. We do not really know the costs, how many participating CSD's will be involved, or what kind of functionality will be implemented. So, this is and has been the case for many years, and even if the delay contributes to the uncertainty, most question marks would have been there anyway.

Is the market now as automated as it can be, or is there work to be done?

Shepherd: Absolutely not: you only have to look at the plethora of invoice styles and structures that hinder automation and the future for a company like MYRIAD looks rosy indeed! Until the industry gets more cooperative and cleverer about its technology adoption, automation remains a long-way off for most. The informed, early adopters are the ones who can see that, operationally, they benefit from automation based on technology, but that an additional, sometimes incidental benefit is that a lot of regulatory and compliance pressure goes away at the same time.

Technology can improve automation as well as visibility and transparency. The infrastructure and technologies underpinning automation are in place: the buyers just need more backbone when telling the providers what they want.

Modigh: There are still many areas where there is room for improvement, and the corporate action area is one of them. Automated claims for failing trades in connection to corporate event record dates are desired in the Nordic region and there are several other processes lacking harmonisation. There are also possibilities for automation between the issuer and CSD for certain corporate events. Issuance and listing of warrants, for example, could be automated and harmonised between the issuer, stock exchange and CSD. We also see different levels of support at the CSD level for the fund market, where, for instance, Norway has more developed support in the VPS system than other Nordic markets. T2S plays an important role in this, acting as a catalyst for change and harmonisation.

Newby: With more comprehensive outsourcing models in place and with clients increasingly expanding their investment universes, STP has really taken on broader meaning. At BNY Mellon, we process all instruments across a complete range of services. So the STP lifecycle has shifted significantly in recent years. We implemented a new client in EMEA last year and they took 13 different services from day one, which are in the process of being integrated.

Juranyi: Automation on the developed markets is at a good level for settlement, asset reporting, income collection and for several asset servicing elements. On the other side some special, value-added services cannot be easily automated or it would require significant investment. There are often additional activities, eg, documentation monitoring, that require manual interventions and can hardly be automated. Corporate action processing in markets where no standards are used is also an example where further automation will be required in the coming years.

Let us not forget about the emerging markets where the street side is not offering automation. SWIFT is not used by settlement houses, CSDs or registrars. In these markets, STP processing is possible to the level that the market infrastructure allows. ING offers an online solution to realise STP in such markets with ING Compass.

Juranyi: Some special, value-added services cannot be easily automated

Norén: The chase for further automation remains. I would say that the settlement space is automated to a satisfactory level, the clearing space not.

Hartlage: Certainly, industry standards and market practices, and the technology to implement them, have made significant strides over the past decade. Furthermore, with work underway to standardise many of the remaining issues, everything from settlement finality to

BNY MELLON

INFORMATION MOSAIC

ING

market claims, the foundation for high levels of automation in the market is there.

However, the greater challenge facing a number of financial institutions is achieving automation within the company itself, especially across multiple market operations and multiple business lines. There continues to be significant redundancy in processing applications, securities and pricing files, as well as reporting databases, all of which can lead to reconciliation issues, the need for manual intervention and the potential for error. Furthermore, as custodian bank clients are asking for increasingly sophisticated views of their assets and transactions, not to mention consistent service levels across the business units that they support, the banks need to have the business and systems architectures in place to deliver.

Is there a wide differentiation in service levels depending on the country?

Norén: In our core part of the world (Nordics and Baltics), no. And as a regional custodian one of our absolute most important missions is to assimilate and raise the service level across country borders, something I think we have been very successful in doing. We also operate in Russia and Ukraine, and the complexity in these markets in a multitude of aspects makes the service level different and less predictable.

I believe that the main challenges going forward are:

- Dealing with the effects of the multidimensional debt crisis
- Assuring safety of client activity and making sure that market infrastructures develop in line with that
- Safeguarding your own balance sheet by prudent risk management and collateral strategies
- Dealing with and bridging the ever-increasing European fragmentation in order to achieve integration
- Understanding, managing, influencing and positioning yourselves in the wave of regulatory initiatives and avoiding bottleneck problems in that respect
- Organising in order to meet those challenges, both operationally and within your business model. There are a lot of things you can't afford and a sloppy, error-filled operation is definitely top of that list
- Defending the commercial value of the important job you do for the investor
- Never losing the local excellence focus or the focus on the client's importance.

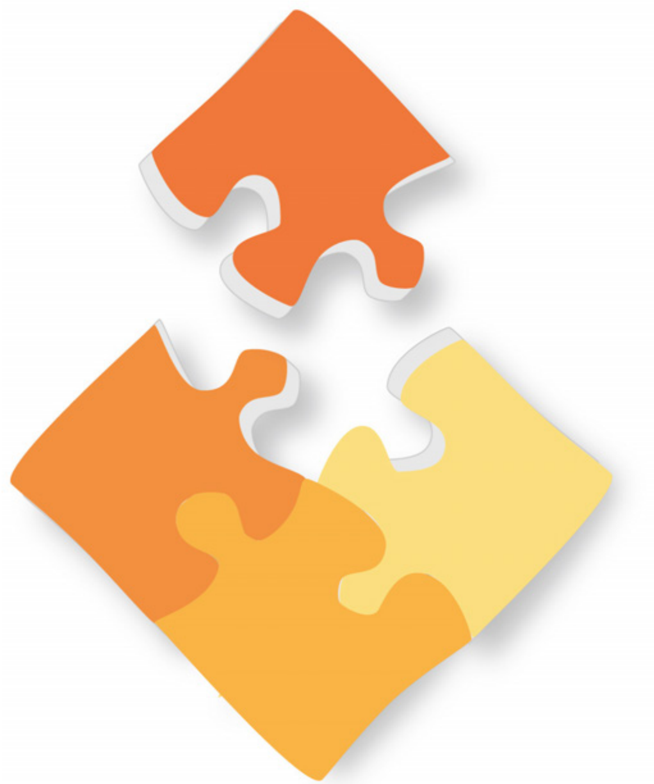
Juranyi: I'll mention first the differences between the offered services. There is no significant difference between the basic services of settlement and custody, but there is in connection with value-added services. In some emerging markets, special innovative products were developed to improve market inefficiencies, eg,. in Russia the custodians, especially ING, developed 'bridge settlement' between two custodian banks, making the settlement between their clients more efficient and shortening the period of the settlement. A regional provider will ensure that it offers similar service levels to all of its clients, even if it requires a lot of effort due to differences in market infrastructures.

We are often asked what our usp is…..

The answer is very simple: a Unique Single Platform

myriad

For all your Network Management needs



For more detail and a demonstration of our extensive functionality, please call or e-mail Simon Shepherd

Simon Shepherd
CEO MYRIAD Group Technologies Limited
65 London Wall, London, EC2M 5TU
www.myriadgt.com (t) +44 (0)20 3470 0320 (m) +44 (0)7799 892667 (e) simon.shepherd@myriadgt.com

Handelsbanken Capital Markets myriad SEB

Newby: While it is easy to think of homogenous regions, the reality is that there are still significant differences in local market practices. Southern Europe, for example, is a topical region at present. There are market attributes that are unique to that region. There is a critical need for further harmonisation to create a more integrated and efficient financial market in Europe, which requires effort from both the private and public sectors. Also, if you consider the emerging markets, there is still significant room for improvements with processing securities at the market level. The infrastructure is still developing and there is no STP into depositaries in many markets.

> Hartlage: The weakened economy, volatile capital markets and political uncertainty have led to increased deleveraging and a flight to safer investments and markets

Modigh: Handelsbanken Custody Services offers sub-custody services in all four Nordic markets, and we have been working a lot during the last five years to offer an equivalent high service level throughout the region. By operating in the same system platform in all four markets we have been able to achieve that. As a client, you should expect to receive the same level of excellent service regardless of which country you use our service in. The Nordic markets are quite similar markets and fairly easy to operate in, but there are of course country specifics that still exist. One example is the support for settlement of fund units at the CSD, where the Norwegian CSD (VPS) has come further in their service offering than other Nordic CSDs.

What are the key challenges that the European custody industry faces going forward?

Juranyi: All the above questions are our challenges: recovery from the financial crisis, increasing regulatory and compliance requirements, more sophisticated and tailor-made reporting, T2S, increasing automation, operational excellence, the possible changes of fee structure, and increased risk taking by custodians.

Newby: There are several but I would highlight three, covering a competitive, legislative and technology perspective. As mentioned above, there is still some over-capacity in the marketplace. As we work through the next wave of regulatory initiatives, finding the price point where asset servicing providers can continue to make the significant investment to meet these regulatory demands, and continue developing core services that innovate with new value-added capabilities, will be critical for determining the long-term success for each company.

The harmonisation of business rules and securities law is a big challenge that the European securities industry faces. European financial markets need to become more integrated, efficient, creative and competitive to catch up the US. Ultimately, this affects the ability of companies to raise capital and manage money and will affect the reputation and performance of Europe as a financial marketplace.

Data is the oil of the financial services industry. Clients are demanding greater transparency and flexibility and they want real time data. Against a backdrop of some of the local market attributes mentioned above and increasing complexity, the challenge for the industry and its providers is to package the data in a way that allows clients to unlock value by helping them to manage risk and to manage their assets more efficiently and effectively.

Modigh: We are facing a situation where the world around the securities business is constantly changing, where T2S acts as a catalyst for harmonisation of market practices and harmonisation in Europe. The work to adapt to all this is of course a challenge, but also we also face challenges in changes of different frameworks such as the CSD regulation, FATCA, Basel III, Securities Law Directive, EMIR, and UCITS V. They will have an impact on the competition and profitability for banks and CSDs. The financial turmoil has lead to an even higher focus on counterparty risk and collateral management, and different services attached to this.

All of these issues require adaptions to your IT infrastructure, and if you are operating in an environment with old legacy systems, you are facing a troublesome time ahead of you. Handelsbanken realised this at an early stage and initiated a huge IT project in order to replace the whole of our internal IT infrastructure for the whole securities value chain in the Nordic region. We are implementing a brand new platform to be able to have a cost efficient and flexible system that is built to meet all current and future changes.

Hartlage: The weakened economy, volatile capital markets and political uncertainty have led to increased deleveraging and a flight to safer investments and markets. These factors, combined with new regulations that mandate higher capital requirements, lower balance sheet leverage and increased liquidity are constraining banks' traditional growth channels while increasing their operational costs. But all market participants are facing such pressures, and banks can open up new growth channels by offering enhanced products and services to help their clients overcome these challenges.

As noted above, we are seeing interest in aggregating transaction and asset information from multiple providers to present clients with a truly global view of their business. By providing advanced analytical tools to make sense of all of that information, or indeed offering a risk analytics service themselves, banks can tap into one of their core strengths and establish new revenue streams.

> Newby: The harmonisation of business rules and securities law is a big challenge

Shepherd: Market share and profitability and how both can be underpinned by investing in vastly improved technology. So much of this industry is 'manual', with relatively little time spent on value-added activities and too much on the mundane capture and archiving of data. Both of these activities are necessary but actually doing that quickly and accurately frees up time to pursue initiatives that genuinely drive these businesses forwards.

Fundamentally, pricing remains an art rather than a science because the institutions simply do not understand their cost base properly. We do not believe that there is a single institution that has a really good handle on all elements of the equation. A comprehensive view of 'we pay this and we receive that' often lacks the detail to make a high quality, informed decision. We regularly hear of mispriced deals, which even in the context of wider reciprocity considerations, are at best under-informed and at worst, expensive. **AST**

Guernsey

With a natural stability and advanced financial centre, Guernsey looks set to prosper in 2012

GEORGINA LAVERS REPORTS

In January 2011, the International Monetary Fund (IMF) published six evaluation reports that recognised and commended Guernsey's high standards of financial regulation, supervision and stability along with its robust criminal justice framework. However, the IMF did not hand out gold stars to every jurisdiction. Luxembourg in particular received a less-than-perfect review. Good news, then, for a jurisdiction that often finds itself either lumped together with Jersey, or dismissed as too small.

Tamara Menteshvili, chief executive of the Channel Islands Stock Exchange, comments on how Guernsey and Jersey, simply due to their geographical closeness, and similar sounding names have often been thought of as the same jurisdiction. "Dublin and Luxembourg are both EU finance centres but, quite rightly, they are not grouped together. Every finance centre, including Guernsey and Jersey have distinct characteristics and unique selling points. "Gerald Hough, managing director at State Street Guernsey, disagrees, asserting: "It's my view that we should present ourselves as the Channel Islands. It's different flavours of ice-cream, but we have the same infastructures."

Mark Huntley, managing director at heritage International Fund Managers, takes a more global approach. "We're jurisdictionally agnostic, with a lot of non-Guernsey schemes. You can't get precious about where an entity is domiciled; instead, you should be more careful about where they are administered."

The makeup of the island bears mentioning due to its unusual political structure. There are no political parties in Guernsey and therefore the island is less disposed to to pendulum swings in regime or policy. The States of Deliberation is responsible for the island's domestic affairs, economy and tax regime, with Guernsey appreciating the fullest of fiscal freedom in tax and regulatory matters.

"The island has its own parliament, The States of Deliberation, which is democratically elected," says Peter Niven, CEO of Guernsey Finance. "I suppose you could say that we have about 45 political parties. We had a general election recently, where half of the members either left of their own volition, or were voted out. There are a lot of new ministers, which is significant of electorates wanting change."

Guernsey has the right to legislate without the involvement of the UK—there has been a flat rate of personal income tax, at 20 percent, for several decades. However, call Guernsey a tax haven to its inhabitants at your peril. Mark Helyar, a partner at law firm Bedell Cristin, asserts: "99 percent of what I do has no relevance to tax. We have a population similar to Yeovil [in England], but we have to provide for our own government, sewage, electricity … how many towns in the UK can do what we do on 20 percent tax? We have no debt and no borrowing."

Super freak

Again and again, Guernsey is described as the place to go for esoteric asset classes. Fine wines, art, timber and classic cars are some of

the more unusual funds, which bring their own unique set of problems.

However, there are places that Guernsey tends not to head. Comments Menteshvili: "Trends are important and it is not unusual to seek to identify 'the next big thing'. At the CISX we continue to innovate and to balance our pragmatic approach with responsibility."

Patricia White, managing director of Legis Fund Services, describes their setup split as "55/45: 45 percent for equity, and 55 percent for alternates and property". Alternates she describes Legis having interest in are wind farms, and Sharia compliant funds, which need a Shariah scholar to "trawl through the portfolio".

ABN Amro take a more cautious view when it comes to obscure asset classes, with Mariana Enevoldsen, director of banking services in Guernsey, stating that liability of the safekeeping of the assets is a significant obstacle. "The problem with open-ended funds with esoteric asset classes is, who stores the wine? The classic cars? Insurance is just one difficulty that causes a lot of aggravation. These different classes aren't appreciated by regulators. We return to equities, bonds, funds, hedge funds—traditional asset classes."

Jumping the hurdles

Guernsey has its own set of natural challenges, the most obvious being that it is an island. As easy as travelling to the jurisdiction may be—there are five flights a day to London Gatwick—it does not benefit from close borders with other countries, such as Luxembourg does.

White remarks that resources, whether natural or physical, can be a problem, but concludes that while finding staff is a challenge, the attractiveness of the island means a low staff turnover. Though the talent pool is undeniably smaller than it would be in London, for example, Guernsey's reputation as a financial services powerhouse means that the calibre of the pool is high. "There are 8,500 people directly involved in finance," says Horace Camp, chairman of the Guernsey Investment Fund Association. "This not only helps our reputation as a finance centre, but generates other jobs on the island."

Residents also signify that they take regulation with the utmost seriousness, in efforts to be seen as equally responsible as the UK. Of AIFMD, predictions have varied, with some forseeing a move away from funds administered in Dublin towards Guernsey, where the effects of the directive will not be as far-reaching. Camp comments of AIFMD: "We love it in many different ways—not that we're intending to exploit its unintended consequences. "

"There are two potential benefits: one, that people will look for alternatives to onshore products. I would guess there will be a physical relocation from the UK and Germany. We're not talking millions, but there will be a significant change if we get just 20 new structures." Another change, Camp notes, is the possible development of a UCITS-equivalent product in Guernsey. "Equivalence is the big thing for us. We have stated that we will always be an equivalent-compliant jurisdiction." **AST**

Conversations with...

AST talks to Eileen Muscat of the Malta Stock Exchange about developing an exchange in an EU jurisdiction, its work on its depository business and its migration to the Xetra trading platform

MARK DUGDALE REPORTS

How did the Malta Stock Exchange get to where it is today?

The exchange was set up 20 years ago. It primarily serves the domestic market, which is a hybrid market but also a highly retail one. Retail clients hold 40 percent of government paper. Ninety-five percent of those holders have less than €5000, so you can imagine the wide spread that the percentage of this is. Also, the equity/corporate bond market is very active and highly retail. It is a domestic market that has a highly retail component to it.

I think this highly retail aspect is the result of a political decision. When the exchange was set up, the idea of an exchange—the idea of actually risking your savings to trade was out of the comfort zone of the Maltese. The Maltese are savers; they are not high risk takers. They take risks, but they are calculated ones. To trade was a very big leap for the Maltese. To set up an exchange was a political decision of the government of the time, as it wanted a wider spread of ownership. All government debt was in the hands of banks and the institutional investors, but the government wanted to popularise government paper. That is where the exchange began.

What changes has the exchange undergone since its inception?

The exchange has undergone many changes since its inception. It began as a self-regulatory organisation, the regulator of the capital market, the listing authority and the licence issuer. That all changed in 2002 when the Malta Financial Services Authority (MFSA) came into being and the exchange was divested of its regulatory responsibilities. This actually pre-empted what was going to happen in 2004 when we joined the EU. In the EU, the model is very much to have a separate, single regulator.

In 2007, there were major legislative changes that affected the exchange, which also brought in the transparency directive and MIFiD. One thing that affected the exchange directly was the clauses in the law that allowed the exchange to go from a public authority to a group of companies structure. What we have now is a holding company that holds 100 percent of the shares in two subsidiaries, the regulated market and the CSD.

Another big change to the law that affected the exchange was the introduction of a whole new section on the regulation and oversight of depositories. Everything that we have in our law is actually included in the CSD regulation that is being discussed within the EU at the moment. I think we pre-empted a lot of things. The reason that this new section was originally put in was because when we were a regulator, our internal by-laws were deemed to have force of law. When we became an operator in 2002, and therefore ourselves licensed by the MFSA, that robustness of our own internal by-laws was deemed to be diluted. The advice we were given was to create a legal regulatory structure purely for CSDs, particularly as it was beneficial from a risk management and financial stability point of view.

What is the exchange's strategy going forward?

The exchange's strategy is now very focused on bringing in international business. We believe that local growth is finite and we have probably reached a plateau. We haven't reached our maximum yet, but definitely a plateau, especially on the supply side. The exchange is looking to leverage Malta's good reputation as a financial centre and I think that we're getting very positive results from this.

We're also very focused on developing the exchange's market and depository as individual strands of the strategy. Because of the way the exchange was set up, we've tended to look at ourselves as a one-stop-shop that can cover the whole value chain of a transaction. We're very proud and happy that we can provide all of the pieces of the value trade of a transaction, but we also believe that in a way we may have unintentionally undervalued the development of the depository. Not in the sense of the financial value of a depository or, because of the way are laws are structured, the many services that a depository can offer. Essentially, we were not exploiting the depository in terms of developing what the exchange can offer as a CSD.

How much interest is there in the exchange's depository services?

What we're seeing at the moment in is a lot of interest from overseas companies that are very focused in their interest. Some want the listing service, while others want the market, but a lot of them want the depository. The industry is telling us that different users have different needs.

What has enhanced the profile of the exchange's depository is its link with Clearstream, which we implemented via Clearstream Frankfurt in 2011.

This generated huge interest because, in the capital market world, the post-trading infrastructure is always the most expensive, the most difficult and the most risky. Therefore, the more you can facilitate that, the more interest you will have, and we're starting to see dividends.

What is the situation with T2S?

T2S is happening and we're looking to sign the agreement in June. We don't see any particular reason why we shouldn't sign T2S, but there are some issues.

Primarily, we do not see many short term benefits to signing up to T2S. Of course, this is not just particular to the exchange's CSD—but is common to many direct holding markets. We have to keep in mind that we are a very small CSD and we do not have the volumes that can increase cost-effectiveness. Also, in the same way as any direct holding CSD, the savings are actually very limited. Of course, T2S is a settlement platform—it doesn't do anything else, so it doesn't affect the other responsibilities and services that you have to offer to your end clients. Therefore, we believe that we will not garner many cost savings as a result of reshaping our CSD post-T2S.

Having said that, we see a lot of disadvantages in remaining outside of T2S, because as soon as you are outside of something like this, you lose your competitive edge. Everything we have done to enhance connectivity would actually be lost because we would isolate ourselves. Given our size, there would be no way we would be able to compete on pricing because of volumes. We cannot fathom remaining outside of T2S; it will isolate Malta, investors, companies and it would be a huge barrier to doing business with Malta.

We do see a lot of immediate advantages to signing up, particularly from the harmonisation that has to come from T2S. The contingency and risk management sides are all advantages that will accrue once we go on to T2S.

How is the exchange's migration to the Xetra platform going?

We are in countdown mode—on 11 June, we will begin using the Xetra trading platform. It's a very big change—a technology change and a strategic one. Our current trading platform contract expires in July—so we needed to upgrade our technology anyway—but in looking for new technology we looked at new technology as a business enabler.

We're getting indications that a number of overseas users who are familiar with Xetra are very interested in taking membership. A lot of people have asked us why we have opted for Xetra over another platform. We were looking for a hosted system that is used in many other markets. We also wanted a system that is familiar to many users and has a global reach. A global reach from the point of view of issuers, from the point of view of connectivity to its users, and of course, we already have the link with Clearstream.

We also wanted it to be future proof to the extent that it has significant capacity, as well as sufficient functionality, for it to cope with all of the different projects that we have. We wanted a European system too, because we wanted a system that is MIFiD compliant.

We looked at various systems, but what we wanted in the end was a business enabler. The system isn't an end in itself; it's a means of achieving an expansion in business and the services that we can provide. Technically, one trading system is similar to another. A trading system is a sophisticated matching engine and nothing else. You have to look at what suits you best from every angle—technical, functional, commercial, contractual and opportunities—we certainly didn't want a system that would keep us isolated. Connectivity was the big issue when we were looking at trading systems. International growth is the name of the game at the moment, so having the Clearstream link and the Xetra link will give us the passport to being able to go out there, beyond our shores, and attract business to Malta. **AST**

Eileen Muscat
CEO
Malta Stock Exchange

Industry appointments

Interdealer broker ICAP has appointed **Andy Coyne** as the new CEO of Traiana, its post-trade technology division.

Coyne joins Traiana from Citi, where he was head of FX prime and e-commerce products. He will be based in London and will report to the founder of Traiana, Gil Mandelzis, who has moved to the newly created role of executive chairman.

In his role, Coyne will be responsible for all aspects of Traiana's global business across asset classes, including foreign exchange, exchange-traded derivatives, equities, equity derivatives, fixed income and rates.

Fidessa has appointed **David Polen** as head of business development responsible for Fidessa's strategic development efforts in the US.

He will be reporting to Mark Ames, the CEO of Fidessa's US business, and working on the line of trader intelligence tools and connectivity solutions.

Polen previously worked at Fidessa for 13 years in positions throughout the company, but in his most recent external position, he served as managing director at Lime Brokerage.

J.P. Morgan has appointed **David Kane** as head of its trust and fiduciary and compliance reporting business, which is part of the firm's Worldwide Securities Services division (WSS).

Kane replaces **Tim Gandy**, who is retiring after a 47-year career and 23 years at J.P. Morgan.

Kane has experience in securities services and at J.P. Morgan. Since joining J.P. Morgan in 1987, he has held a variety of roles across the firm, leading teams in finance, operations, technology and bringing new client business into the firm.

He is based in J.P. Morgan's Bournemouth office, and his most recent role was head of global custody operations, a position he took over in 2006.

In this position, Kane led the development of WSS's global operating model across Dallas, Bournemouth, Mumbai and Bangalore, working with his colleagues during a time when assets under custody grew to $16.9 trillion.

Since 1991, Gandy has headed J.P. Morgan's trust and fiduciary and compliance reporting business, which is the largest in Europe with 12 European locations, and acts for more than 2,000 funds worth $1.3 trillion.

ABN Amro Bank's heads of equity finance and information technology solutions, **Sander Baauw** and **Raymond Vuyst**, have joined the IT company Synechron.

Baauw and Vuyst have become managing directors at Synechron. They moved on 1 May and are based in Amsterdam.

Baauw spent 11 years at Fortis Bank, which later became ABN Amro. He was responsible for equity finance trading in Europe.

Vuyst was in charge of IT solutions for the securities financing and the equities derivative departments at the bank.

"On the IT side we were always hiring Synechron for implementation, interfacing, testing, monitoring 24/7 and software development. That's how we came to know them and move there," said Baauw in a telephone interview.

Synechron provides IT services to the banking, financial services and insurance industries.

Baauw added: "We are going to focus on capital markets at Synechron. But what we're focusing on in the first instance is securities finance."

BNP Paribas Securities Services has appointed **Viraj Kulkarni** as head of securities services in India.

The firm hopes that Kulkarni will drive its custody business in a developing Indian market that offers custody and clearing, transfer agency and domestic fund services for buy- and sell-side institutions. He will be based in Mumbai.

ASSETSERVICINGTIMES

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
Tel: +44 (0)20 8289 2405

Journalist: Georgina Lavers
georginalavers@assetservicingtimes.com
Tel: +44 (0) 20 3006 2888

Commercial manager: Michael Brady
michaelbrady@assetservicingtimes.com
Tel: +44 (0)20 3006 2859

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row, Beckenham, BR3 1AT. UK

Company reg: 0719464

Kulkarni moves to BNP Paribas from security services management consultancy Pivot, where he was a managing partner. He founded Pivot in 2009.

He worked at Morgan Stanley and J.P. Morgan Chase in leadership, senior business development and operational positions.

Kulkarni will report to Lawrence Au, who is head of BNP Paribas Securities Services Asia Pacific, and Jacques Michel, who is chief executive and country manager at BNP Paribas India.

At BNP Paribas, Kulkarni is charged with animating its strategy in India. He will also contribute to the overall strategic direction of its custody business as a member of its regional Asia Pacific executive committee.