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Eurex Clearing partners with seven for new clearing service

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Seven banks have agreed to work with European clearinghouse Eurex Clearing of the Deutsche Börse Group on a new clearing service for OTC interest rate swaps (IRS).

Barclays, BNP Paribas, Citibank, Credit Suisse, Deutsche Bank, J.P. Morgan and Morgan Stanley will all support the launch of EurexOTC Clear for IRS that Eurex Clear said will deliver risk management and safety for dealer and client clearing.

The service will be ready at the beginning of July 2012 and it will be rolled out in the second half of the year.

In an emailed statement, Matthias Graulich, the head of clearing initiatives at Eurex Clearing, said that the specific terms of the partnership are confidential.

He added: "The arrangements and details are still subject to contractual finalisation. The partners are in the process to concluding all the detailed work. The partnership honours the early and sustained commitment to adopt the service and provide the best choice of clearing solutions to customers."

Eurex Clearing's decision to partner with big banks on the new clearing service is one that it has taken before. Consulting and cooperating with market participants such as Barclays and J.P. Morgan are "measures we have used for many years", explained Graulich.

"As a clearinghouse and market infrastructure provider we have various committees—including for example a risk advisory committee as required by EMIR—to gather such demands and advise and get directions from our customers and users to operate and further develop the service."

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ASTINBRIEF

ISDA partners up with Markit

The International Swaps and Derivatives Association (ISDA) will partner up with Markit to develop a solution that enables counterparties to amend their OTC derivatives documentation to aid compliance with Dodd-Frank.

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BNP Paribas mandated for Equinox fund

BNP Paribas will provide administrative services for the Frontier fund.The fund is owned by Equinox Fund Management, a US alternative investment manager with approximately $1.5 billion in assets under management.

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ISDA partners up with Markit

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ISDA and Markit expect that the solution will also be enhanced to facilitate compliance with regulatory requirements in other jurisdictions as they are finalised.

"ISDA is very pleased to work with Markit to provide an important service to firms who are faced with significant compliance requirements within a very short timeframe," said Robert Pickel, ISDA's chief executive officer. "We believe it will be an effective, efficient solution for market participants in the US and eventually in Europe and around the world."

"The industry is working against aggressive timelines," asserted a statement from ISDA. "ISDA and Markit expect to have an electronic questionnaire and reporting structure operational by 1 August 2012, in order to facilitate compliance with Dodd-Frank External Business Conduct rule October deadlines, with successive iterations available prior to other regulatory implementation deadlines."

Eurex Clearing partners with seven for new clearing service

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Eurex Clearing is also open to partnering with others on the new clearing service. Graulich said: "Our partnership approach is fair and open. We want to incentivise clearing members to adopt and offer the service at the broadest possible scale."

The move to set up a new clearing service for OTC IRS comes ahead of European and US efforts to push OTC trading into clearinghouses with the European Market Infrastructure Regulation and the US Dodd-Frank Act.

"It is the business logic of a clearing service to create scope and scale to become ever more attractive for its customers. Consequently, we are committed to eventually offer the full EMIR scope. We are also looking beyond the scope of the clearing mandate for further opportunities where market demands, the levels of risk profile, standardisation and liquidity justify and allow for a CCP offering," added Graulich.

Trillion-dollar business

The OTC IRS clearing business is picking up as regulatory changes approach.

More than $1 trillion in buy-side client notional volumes have been cleared on the platform of LCH.Clearnet's IRS clearing service, SwapClear.

"We are delighted to see such significant buy-side activity in advance of regulatory clearing mandates," said Michael Davie, the CEO of SwapClear. "By moving now, institutional clients are taking full advantage of a more robust infrastructure and the cost and efficiency gains of an orderly transition."

SwapClear's clients are capitalising on the benefits of trading on a clearinghouse, which include a reduction in counterparty risk, and operational and capital efficiencies, according to SwapClear.

Other benefits include a dealer liquidity pool of more than $300 trillion notional outstanding, market-standard pricing and operational simplicity.

Ray Kahn, the head of OTC derivatives clearing at Barclays, which uses SwapClear's services, said: "Every month this year we've seen an increase in the number of clients initiating their clearing process. Those buy-side participants who move to a clearing environment early are able to optimise their infrastructure and begin reaping the benefits of centralised clearing ahead of regulatory deadlines."

BNP Paribas mandated for Equinox fund

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The mandate follows Equinox's selection of BNP Paribas in January 2012 for administrative services of its mutual fund offerings, including MutualHedge Frontier Legends fund, and the Equinox alternative strategy platform.

The solution that BNP Paribas created for the Frontier fund simultaneously calculates daily equity and trading notional value for each managed futures trading company that is by the fund.

"We've enjoyed a positive experience with BNP Paribas and believe [it is] the right choice to deliver the highest-quality administrative services for our fund," said Bob Enck, CEO of Equinox. "BNP Paribas has raised the industry standard and continues to provide us with independent, best-in-class fund administration services."

Barclays scores a trillion

Barclays has cleared more than $1 trillion notional of interest rates, credit and FX OTC derivatives transactions on behalf of its clients.

Barclays's $1 trillion of cleared notional transactions include 11,000 derivatives contracts executed by regional banks, investment managers, pension funds, insurance, hedge funds and government agencies.

The transactions, which covered eight currencies, four high-yield indices and nine investment grade indices, were cleared on clearinghouses, including LCH.Clearnet's SwapClear and IntercontinentalExchange's ICE Clear Credit.

Michael Yarian, the head of agency derivatives services at Barclays, said: "Barclays has a very strong commitment to helping drive industry solutions significantly ahead of deadlines for regulatory change, and to providing the best possible clearing capabilities."

"We are therefore very pleased to have achieved this milestone. The investments that we have made in our platform have allowed us to provide scale quickly and easily for clients who are voluntarily moving to a centrally-cleared business model."

Ray Kahn, the head of OTC derivatives clearing at Barclays, said: "While this volume of clearing is significant, we believe it is only a very small portion of what will be cleared as regulatory deadlines approach and more clients move to a centrally-cleared model."

"To successfully achieve the automation and straight-through processing needs of central clearing, industry participants need to make significant investments in infrastructure and testing. Our work over the past two years allows us to provide practical solutions to our clients."

Fidessa lends a hand with Japanese equities

Nissan Century Securities, an independent securities company in Japan, has selected Fidessa's Japanese trading platform to trade Japanese cash equities.

Nissan Century Securities is the only Japanese domestic brokerage firm that offers access to the four major Japanese exchanges—Tokyo Stock Exchange, Osaka Stock Exchange, Tokyo Commodity Exchange and Tokyo Grain Exchange—as a clearing member/participant.

Both retail and institutional clients around the world already send orders to Nissan for more than one million derivatives contracts per month.

Tomoaki Hirao, an executive officer and the head of global sales and derivative planning at Nissan Century Securities, said: "The dramatically improved speeds of execution offered by the TSE's arrowhead system have influenced off-shore prop firms, who have been trading mainly derivatives, to shift their interests to cash equities."

"Our main aim for supporting domestic cash equity trading is to attract new off-shore customers to trade Japanese markets. To build up such a new business line in a short period of time, Fidessa was the best fit."

Polish brokerage house DM BOS selects SunGard

DM BOS, the Polish stock exchange member and OTC brokerage house, has chosen SunGard's Valdi and SunGard Global Network (SGN) for direct market access and global connectivity for its traders.

The deployment will help DM BOS to prepare for the launch of the Warsaw Stock Exchange's (WSE's) new NYSE Euronext UTP trading platform and to expand its business by offering connectivity to global exchanges and a network of trading participants.

The firm will use Valdi's automated trading tools for auto-hedging, index arbitrage, market making and contract rollover management.

Przemyslaw Sobotowski, vice president at DM BOS, said, "SunGard proved to be the right technology partner to support our ambitious growth plans. The solution offers broad and deep functional coverage for trading and connectivity platform that will help us connect to the WSE's launch of the NYSE Euronext UTP trading platform later this year."

DM BOS was the first broker in Poland, and is the current leader of the future contracts market, with roughly 15 percent share of the market in 2011.

Smithfield Foods appoints BNY Mellon as custodian

BNY Mellon has been named custodian for US food company Smithfield Foods's employee defined benefit plan.

The bank will provide custody, accounting, performance measurement and benefit disbursement services for the plan, which has more than $1 billion AUM.

"BNY Mellon's highly developed technology solutions and responsive client service staff will allow us to better serve our thousands of employees and retirees around the country," said Tim Dykstra, the vice president and treasurer of Smithfield Foods.

"We look forward to supporting Smithfield Foods in this new mandate," said Samir Pandiri, the executive vice president and head of asset servicing-Americas at BNY Mellon. "As always, we'll work hard to deliver the information, performance metrics, and related services Smithfield requires to make informed decisions in managing their employee defined benefit plan."

Polish CSD links with its Latvian counterpart

The National Depository for Securities (KDPW), the Polish CSD, is opening a new direct link with the Latvian Central Depository.

They signed an agreement in June 2012 that provides for the clearing and settlement of trades in shares of companies that are dual listed on the Warsaw Stock Exchange and the stock exchange in Riga, Latvia, which is a part of the Baltic market exchanges of Nasdaq OMX.

Iwona Sroka, the president and CEO of KDPW, said: "KDPW is working actively to enable foreign issuers to be listed on the Warsaw trading floor and for them to raise capital from a broad range of investors present in the Polish market. Latvian issuers seeking capital can take advantage of the offer and the benefits of the Polish stock exchange, its business environment and infrastructure."

"We believe such a complementary offer may benefit both the Warsaw and the Riga stock markets by stimulating their growth."

KPDW opened a link with the Sibiu Depository in Romania in March 2012. It has also opened links in Slovenia, Bulgaria, Canada and Lithuania.

BNY Mellon asset servicing vital to valuation

Forbes has declared BNY Mellon's asset servicing business crucial to its $27 per share market valuation.

Maintaining a price estimate of $27 for a BNY Mellon share, nearly 26 percent above the current market price, Forbes stated that it believed that this premium is largely due to the "weak short-term outlook for global custody banking".

It added: "The bank's foreign-exchange related lawsuits are also a bitter pill for investors to swallow."

Asset servicing represents 30 percent of the company's stock value, with Forbes noting that BNY Mellon's assets under custody have grown at "well over" 7 percent annually over the last five years, with approximate expected

growth of 5 percent in coming years, due to consolidation in the industry and expansion in developing economies.

SimCorp: Dodd-Frank is a catalyst for change

Investment management software and services provider SimCorp has released a white paper examining credit risk exposures and how buy-side firms can use the US Dodd-Frank Act to assess their readiness for credit risk reforms and implement risk management.

The white paper, which is authored by Else Braathen, the head of the risk management domain at SimCorp, looks at the Dodd-Frank definition of credit risk exposures and the obligations and opportunities that this presents to buy-side firms, assessing a firm's readiness for credit risk reforms, and credit default management.

The white paper's release comes as 30 percent of respondents to a SimCorp poll, which surveyed approximately 100 executives from 50 buy-side firms in the US, admitted that it would take days or weeks to estimate the profit and loss of a potential default of the companies to which they are exposed.

Dodd-Frank outlines that credit exposures need to be measured across all transactions and holdings to limit the ripple effects of company defaults, explained SimCorp.

"While Dodd-Frank is a good start for credit reforms, definitions are limited and overlook the potential default of the issuers of the derivatives' underlying assets, which can have a significant impact on a firm's exposure," said Braathen.

The white paper goes on to identify eight aspects to an effective credit default risk solution.

These include: consolidating position-keeping across all holdings for an accurate view of exposure; identifying exposures for all issuer and counterparty risks; showing underlying issuer risks derived from the underlying assets of derivatives and funds; including collateral to view mitigated counterparty risk exposures; and aggregating all of these to gain a complete view of exposure in case of a default.

David Kubersky, the managing director for SimCorp North America, said: "While OTC derivatives have come under fire for being risky products, they can also provide great returns if managed with a 360 degree view into both exposure and performance."

"Many of our clients who chose to leverage technology to facilitate transparency in the trade lifecycle were among those least impacted by the 2008 financial crisis."

NAB on custody high

Fiducian Portfolio Services has mandated NAB's asset servicing business as its new custodian, and AMNIST Super has renewed its contract with the Australian bank.

Fiducian currently manages approximately AU$2.1 billion across a retail platform and wholesale funds and provides financial services in five areas—funds management, advice services, portfolio administration, information technology and business services.

The new custody mandate is effective as of the middle of May.

"NAB's key differentiators from other market participants included the advantage of a solid local Australian company, a desire to enter into a long-term partnership, in-depth knowledge of our type of business and a focus and commitment to the Australian market," said Indy Singh, managing director at Fiducian.

NAB also was reappointed as custodian to the AU$1 billion AMIST Super for a further three-year contract after an independent review that was performed by Michael Block.

"NAB's understanding of our industry, the strength of NAB's balance sheet and the consistent service levels they have provided over a period were key aspects of our decision," said James Thomas, the CEO of AMIST Super.

Semiconductor company selects BNY Mellon in Taiwan

Taiwan-based semiconductor company Himax Technologies has chosen BNY Mellon as the depository for its American depository receipts programme.

Himax produces driver integrated circuits and timing controllers that are used in TVs, notebook computers, monitors, mobile phones, tablets, digital cameras, car navigation systems and other consumer electronics devices.

It employs approximately 1,400 people throughout Taiwan, China, South Korea, Japan and the US. It also owns more than 1,200 patents globally.

Jackie Chang, the chief financial officer of Himax, said: "We were impressed by the global resources and customised solutions that BNY Mellon can offer a high growth company such as ours. We look forward to working with BNY Mellon on initiatives that will strengthen visibility of our company and our despository receipts programme."

"To be chosen by Himax illustrates our capacity to support rapidly growing firms in dynamic sectors," said Michael Cole-Fontayn, the CEO of BNY Mellon's depository receipts business.

Algorithmics launches pension risk management solution

Algorithmics, an IBM Company, has launched a new edition of its existing solution, Portfolio Construction and Risk Management for Pension Funds, to help pension funds better manage their funding status.

Algorithmics has recently signed the Alberta Teachers' Retirement Fund Board (ATRF) as a client for the new edition of the solution. Derek Brodersen, the chief investment officer of ATRF, said: "Pension funds are increasingly being required to meet higher standards for risk management.

"With Algorithmics we have a solution that helps us address our fiduciary requirements. Our former risk advisory service used Algorithmics as its technology platform so we are familiar with the software and the quality of risk analytics to help set and monitor our performance against agreed risk targets and limits."

Dr Andrew Aziz, executive vice president of buy-side risk solutions at Algorithmics, commented: "Pension funds are facing more complex and volatile markets. While this requires sophisticated understanding of investments and risk, many smaller funds lack specialised staff, data and infrastructure to meet evolving needs."

BNP Paribas wins Polish sub-custody mandate

BNP Paribas Securities Services has won a mandate to provide sub-custody and settlement services to ConvergEx in Poland.

ConvergEx provides proprietary software products and technology-enabled services to more than 4,000 asset managers and financial intermediary customers. It offers its global customers execution in more than 100 markets worldwide.

Commenting on the arrangement, Bea Ordonez, the chief operating officer of ConvergEx's global execution business, said: "We were very impressed with BNP Paribas Securities Services' capabilities in Poland and are pleased to have appointed them as our sub-custodian."

Andrzej Szadkowski, the head of BNP Paribas Securities Services Poland, said: "We are pleased to have signed this agreement with ConvergEx and we look forward to supporting their business activities here in the burgeoning Polish market. This win significantly strengthens our position as a sub-custodian in Poland."

The development extends a relationship that began in 2009 when ConvergEx appointed TEB Securities Services, BNP Paribas Securities Services's joint venture in Turkey, as its local custodian in the Turkish market.

Israel pension fund chooses Citi

Citi will provide fund administration services for Phoenix Pension & Provident Funds to support its new personal provident fund offering, a form of retirement savings through defined contribution schemes.

Citi launched fund administration services in Israel in March 2012, and this mandate represents Citi's first fund administration agreement with a local institutional asset manager.

Sanjiv Sawhney, global head of fund services at Citi Transaction Services, said: "This deal illustrates Citi's ability to combine global resources and practices with local expertise to offer our clients best-of-breed solutions. I am confident that this will prove to be a valuable fund administration model for our clients in Israel."

Asset Control gains footprint in Brazil

BTG Pactual, a Brazilian investment bank, will implement solutions provider Asset Control's AC Plus.

Stage one of the implementation is scheduled to be completed by the end of next quarter, leveraging Asset Control's local delivery capability.

BTG Pactual will have access to AC Plus' out-of-the-box Bloomberg loader, which is fully supported and updated by Asset Control. The loader provides quick time to production, and mapping libraries eliminate the maintenance required on updates to the Bloomberg feed.

Phil Lynch, CEO of Asset Control, said: "The rapidly expanding economies of Latin America and Brazil represent a real opportunity. Technology will be a necessity for capitalising on this growth, but investment will only provide returns when combined with a focus on data management."

Income drops at RBC after Dexia buyout

The Royal Bank of Canada released its 2Q results, which revealed that for continuing operations, net income was at $1.56 billion, down 7 percent from $1.68 billion year-on-year.

However, profit from continuing operations excluding a loss tied to buying out its RBC Dexia Investor Services partner rose to $1.73 billion.

RBC's move to take full control of global custody, fund and pension administration services provider RBC Dexia Investor Services was approved by the European Commission on 15 May.

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.

Of the results, Gordon Nixon, RBC president and CEO, said: "Our solid second quarter results reflect continued business growth and an investment in a strategic acquisition with attractive growth prospects."

Riding it out

AST talks to Nick Solt of Moore Stephens Fund Administration about what Jersey has to offer in a stormy marketplace

GEORGINA LAVERS REPORTS

What is your career background?

I trained as an accountant in general practice in the UK, and after qualifying, I moved to Jersey to work for Moore Stephens in the audit department. Early on, I was seconded into an area dealing with large real estate and fund promoting clients in order to cover for a period of staff change.

This was a growing area that has since become the separate fund services business that is Moore Stephens Fund Administration, and when the opportunity to extend my time in this area was offered, I gladly accepted, as it was an exciting time of growth in the Jersey funds sector.

Since then, I have worked my way up through the ranks to become a director of Moore Stephens Fund Administration, a role in which I am involved in overseeing the provision of a quality, bespoke fund administration service to our clients, as well as sitting on the board of a number of fund structures and being responsible for a great deal of the business development effort being undertaken by the company.

How would you sell Jersey as a domicile to fund promoters?

Jersey is a politically stable and well-regulated jurisdiction. It provides fund investors with comfort that the funds that they invest into are being operated under sound guidelines by duly qualified and regulated professional service providers.

The benefit of this to a promoter is not only that they can be confident in the service that they will receive but also that the pool of potential investors is widened, as many investors are now keen to seek the more stable fund regimes for their investments.

While overseeing a ‘blue chip’ regulatory environment, the Jersey Financial Services Commission (JFSC) is able to adapt to changes to the funds industry to ensure that Jersey continues to provide the best possible service.

While it would be disingenuous to ignore the benefit of being a tax neutral jurisdiction, the strength of the regulatory framework and the depth and quality of service providers in Jersey ensures that it compares well to other destinations when promoters are looking at suitable domiciles for their funds.

What regulations are currently causing you concern?

Regulation has expanded significantly in recent years, which is, probably, an understandable reaction to various events during the financial crisis.

Given our location, it would be fair to say that AIFMD probably heads that list, especially as it still seems to be continually evolving.

In Jersey, we have the benefit of strong industry bodies in the shape of the Jersey Funds Association and Jersey Finance Limited, which, in conjunction with the JFSC, are working hard to ensure that the island as a whole is able to react positively and be compliant with the directive in whatever form it finally takes. Having said that, it is clear that, until such time as we can be certain how the directive will operate, Moore Stephens Fund Administration and Jersey as a whole will

have to ensure that we are continually aware of developments.

As for the wider regulatory framework, we works with these professional bodies in Jersey to ensure that this is continually reviewed and updated to ensure that Jersey's regulatory environment is one that allows us to provide a comprehensive and effective service to clients. An example of this is the recent introduction of the Private Placement Fund Regime in Jersey, which provides a fast track, lighter-touch regulatory regime for promoters setting up funds for sophisticated investors.

Do you think consolidation will reduce competition, and is it worth considering?

Clearly, a large-scale consolidation will reduce the number of service providers and, being someone who is by nature an advocate of competition as a means to ensure the maintenance of quality and comprehensive services, I think that too much consolidation isn't necessarily a good thing. Moore Stephens Fund Administration has grown organically over the years as it allows us to control culture and quality, but that does not mean that we would rule out growth by acquisition in the future if the right opportunity arose.

In either case, I believe that there will continue to be a place for a wide spectrum of service providers from the smaller bespoke operation to the larger fund houses as the differing cultures and expertise provide the variety that is important for clients and is healthy for the wider industry.

Do you feel that the time from enquiry to the launch of a fund is longer than it should be?

Clearly, in recent years the timescale for fund launches has got longer. This is the result, in part, of greater regulation, but also an understandable increase in investor caution.

The greater pre-launch work being required during the promotional phase is perhaps inevitable, but for certain promoters and larger investors that do not need the extra regulatory protection, this can prove frustrating.

However, in Jersey there is a regulatory move towards offerings for such sophisticated investors and those promoting funds to them, which will allow for shorter fund establishment times. A prime example of this move is the Private Placement Fund Regime, which allows for faster fund launches to enable opportunities to be targeted where speed to market is of an essence, as these can be launched in three days.

What funds do you think are coming back into fashion?

In our experience, the effect of the economic uncertainty has led investors to change their attitude to risk quite a lot. The acceptable risk profiles and returns of funds that we are dealing with are less than they used to be.

We are noticing that this has had a couple of main effects. Firstly, there seems to be a return to a preference for safer cash generating assets in sectors such as real estate. Secondly, the smaller, private pooled investment schemes seem to be back in vogue as they allow greater control and bargaining power for the larger lead investors.

This latter move has in some cases reached its ultimate conclusion with promoters winning single investor mandates from large institutions to ensure that they have complete control over the portfolio of assets.

What are some of the extra demands being placed on administrators?

The increase in regulation and demands by government and other bodies in the form of legislation such as AIFMD in the EU and FATCA in the US are obviously placing extra demands on administrators. They have to ensure that they are on top of these changes and have the procedures and controls in place to be able to operate under them.

The changing profile of both investors and investment opportunities, as the global economy shifts and the new emerging markets develop, also place greater demands on administrators to ensure that they have the expertise and processes in place to be on top of the due diligence and other challenges that these present.

In recent years, we have found that there has been a drive for closer scrutiny and greater attention to the detail of fund performance by investors and this has led to a demand for tailored reporting that is specific to their individual needs. This is especially prevalent with new start up fund promoters, which is an area in which Moore Stephens Fund Administration can provide that added value, as one of our key strengths is the provision of bespoke accounting and reporting solutions.

At Moore Stephens Fund Administration, we see these extra demands as an opportunity for the quality service providers to differentiate themselves as they meet these challenges without allowing them to affect the service that is provided.

What are your feelings on outsourcing?

As a rule, Moore Stephens Fund Administration does not outsource many services, as we feel that the bespoke services that we provide are best served by us. This is because we have a high level of in-house expertise, which allows us to control and maintain quality of service.

However, there are certain niche services that may need to be outsourced, and for larger service providers offering homogenous platforms, there may indeed be efficiencies to be found by outsourcing certain services. In these cases, there is no reason not to do so as long as there are proper processes in place that can ensure that these services are properly monitored and controlled.

A prime example is the provision of technical accounting services, where a fund administrator does not have the expertise in-house to do this. As this is a service that we can provide, I am obviously not adverse to this.

I would say that there is an inherent risk if outsourcing is taken to an extreme. This is particularly true when a fund operation is not maintained and controlled in the jurisdiction in which it is regulated, as this can create issues for both the fund administrator and the regulator in the local jurisdiction.

Are you expecting more fund administrators to enter into the Jersey market?

Given the current climate and upfront costs required, I do not expect too many new fund administration providers to be set up in the short term. This is because the existing market has a wide range of service providers already supplying quality services, from bespoke operations such as Moore Stephens Fund Administration up to the larger, bank-owned operations.

Having said that, the positive approach of the JFSC in helping businesses to migrate to Jersey and the positive regulatory environment could lead fund managers and administrators to move their businesses and the funds that they operate to Jersey. I am aware that there have been enquiries to this effect already.

Hopefully, the slow economic recovery will gather pace and, along with possible business migrations, this will lead to an expansion of the Jersey funds sector, which can only benefit us all.

How will AIFMD affect your business, and what do you expect for its final draft?

AIFMD continues to be something that takes up a certain amount of our time, as there is still some of uncertainty as to its final form.

While this uncertainty reigns, predicting the final draft is at best tricky, but clearly the final result will place the greater regulatory controls on funds (and hence fund administrators operating those funds) that wish to promote to investors within the EU. However, I do not see this as being a barrier to entry to other jurisdictions that are prepared to maintain the same standards. This would be as much of a detriment to the EU as it would to those jurisdictions.

The JFSC and industry bodies are confident that Jersey as a whole will be able to provide AIFMD compliant structures, and we at Moore Stephens Fund Administration are equally confident that our high standard of procedures and controls will enable us to continue to provide an efficient service in whatever form the directive finally takes.

Is the on-going review of corporate governance welcomed?

As a service provider with already strong corporate governance processes operating in the current environment, any review does not concern us. In fact, it could be said that the on-going changes should be welcomed by providers such as Moore Stephens Fund Administration operating under regulations such as those that exist in Jersey. It is better if all service providers and jurisdictions are maintaining the same standards, so that the playing field is level.

What are the challenges of working and living in an offshore jurisdiction?

The challenges of working and living in an offshore jurisdiction are both business and personal.

On a business level, offshore jurisdictions can suffer from staffing problems, but in Jersey we are fortunate in having a large pool of quality professionals to recruit from where necessary. Not being too far from the rest of Europe allows us to bring in additional expertise.

The relative remoteness is less of a problem as modern communications are such that there are few problems with maintaining work relationships and contact with clients. The only possible issue is that you have to allow a little extra time for travel when you are meeting with people face-to-face, but we factor this into our plans.

The challenges for me on a personal level are maintaining contact with family and friends, as I am not from Jersey originally, although they seem less concerned, which might be a cause for concern for me!

A challenge or perhaps frustration that can raise its head occasionally is that often, outside of finance, the role of a tax neutral jurisdiction in facilitating the efficient movement of capital for the benefit of the world economy is often misrepresented. You can occasionally find yourself justifying things to those that have been, perhaps, misinformed.

What about the benefits?

Jersey is a lovely place to live, with access to both the countryside and the sea. Compared the commute in London, my commute to work is slightly less onerous, because if you travel too far in Jersey you are going to get a little wet! This means that, even in busy periods when working long hours, it is easier to wind down after a hard day at the office. **AST**

Nick Solt
Director
Moore Stephens Fund Administration

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Eastern European worries

Gerard Bermingham of Information Mosaic discusses corporate actions in Eastern Europe

CORPORATE CHALLENGES

The fall of the Iron Curtain in 1989 not only created drastic political changes in the region but also introduced the need for the establishment of new capital markets. Once termed LEDCs (less economically developed countries), these nations continue to develop into markets that can attract internal and external investment, and generate profits. However, as with any emerging market, the nations need to address challenges in establishing a workable infrastructure, trade execution and sound regulation.

It is fair to say that Eastern European markets currently have a less integrated environment in which to work. The absence of adopted messaging standards, lack of automation, and reliance on manual processing are just some of the noted deficiencies. In general, the inconsistency in which information is dispersed in these markets poses many obstacles to trade operations processing.

The big emerging market in the region is Russia. At the recent ISITC (International Securities Industry Trade Communication) Industry Forum and Working Group event in Denver, Colorado, Sean Flynn of Fidelity Investments, and the co-chair of ISITC's Investment Manager Forum, presented an in-depth presentation of the Russian market. Many of the following points are based on Flynn's presentation.

The Russian stock exchange was a logical evolution of the large scale privatisation of state-owned companies in the 1990s and the need to raise private capital. The timing of this occurrence was actually advantageous as the first national stock exchange, the US dollar-denominated Russian Trading System, or RTS, had electronic, not paper-based, share certificates from the outset. This makes the exchange unique from many of the Eastern European markets, which are heavily based on physical securities. However, transfers and settlements in Russia are still paper-based and require the physical delivery of orders, which can result in unpredictable delays. There may have been a lack of infrastructure planning on the part of the exchange in the initial stages as there was no central depository established and the control of tracking and settling trades was given to the issuers' registrars. In addition, there is still no agreed settlement cycle for Russian equities; much of the settlement process is dependent on the location and capabilities of the registrar.

In regard to corporate actions in Russia, the most troublesome issue may be the lack of a centralised source for the announcements of events in the Russian equity market. In established markets, several sources are normally available and the use of data cleansing applications can be deployed to ensure accuracy. Without any announcement being generated, the timing, election and execution are all radically affected once the event is finally released.

In general, when an announcement, such as a dividend, is made, there is often a lack of information on when the dividend will actually be paid. There are no ex-dividend dates as the Russian market is record-date driven. This structure, coupled with the absence of market claims in Russia, means that there is no established mechanism for compensating the rightful holder of entitlements at the time of the event.

There are also multiple changes to the announced dividend rates, and sometimes the rates are estimated, which are often significantly different from the final rates. There can be several updates to the rates between the announcements of the record and payment dates.

The majority of dividends and other mandatory actions are announced after record date in Russia. This is especially true of ADRs (American depository receipts)—an important source of external investment—in which rates are not announced until close to the pay date, in spite of the fact that local credit lines are announced much earlier.

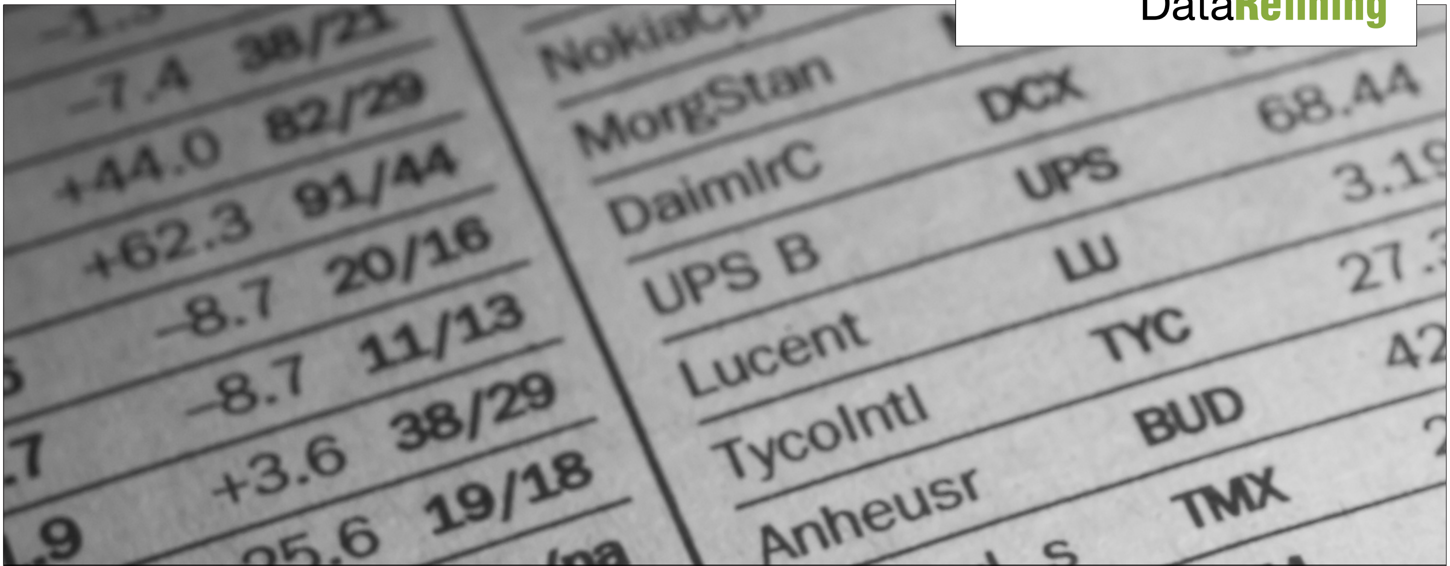
When dealing with local sub-custodians in Russia, many asset management firms have observed and experienced long delays in response to inquiries. As in any market, a delay in resolving an issue could result in missed deadlines, incorrect elections and lost revenue opportunities.

Finally, and perhaps most crucially, is the delay in payments for Russian corporate actions. Compared to other markets, payments on corporate actions on Russian companies take significantly longer to be received than from other countries. It has been noted that the proximity of an issuer to the city of Moscow can have a direct effect on the speed of payment.

However, there may very well be hope on the horizon for Russian corporate actions processing. Starting in 2008, Russian and global custodians met with regulators on a recurring basis to identify ways to improve operations processing. While there have been setbacks along the way as registrars continued to insist that trades and settlements be done through them, a major milestone was reached in December 2011. The then-Russian president Dmitry Medvedev signed into law legislation that, when put in effect at the end of this year, will establish a Central Securities Depository, among other changes. This regulation should significantly increase the confidence of international investors and broaden access to the Russian market.

It is also hoped that once increased investments are witnessed in Russia, other Eastern European markets will see the benefits of streamlining information, automating processing and increasing transparency for the investor.

In parallel with the current effort in Russia, the establishment of the Corporate Actions Joint Working Group (CAJWG) in 2009 may help all markets in Eastern Europe. The CAJWG have been recognised for establishing best market practice guidelines for non-EU member nations as well as those in the EU. The gaps addressed by the working group include the lack of ISO-based data, establishment of market claim rules, and agreed settlement cycles. These are all common corporate actions processing deficiencies that can be found in the Eastern European markets. **AST**



Lost and found: claiming shares in the US and the UK

AST talks to Jennifer Borden of Unclaimed Property Recovery & Reporting (UPRR) about the company's efforts to locate the owners of forgotten shares

MARK DUGDALE REPORTS

What is the background of UPRR?

UPRR started in the mid-nineties. In the US, we have quite burdensome unclaimed property laws. Those laws have very good intents to them, but unfortunately the nuances of them are not always clear. So the UPRR team would help organisations, primarily transfer agents and large public companies fit in with the federal and state regulatory structures. We focused on the US equity market and conducted a lot of consultancy work, as all of the partners at UPRR were known experts in the regulatory requirements as well as the securities industry.

Based on our work with these companies, we saw a need for us to become a nation-wide reporting firm, and UPRR became the premier compliance firm in the country. Then, unfortunately, US states began to take in unclaimed shares—they would liquidate them and use the cash. When investors claimed back their shares, whether they were equities or mutual funds, the investors would find that those shares had already been liquidated at $10 or $15 per share, even though they were being traded at $50 per share or more. As a result, the investor would not get back the money that it was expecting.

What sort of durations of dormancy are we talking about here?

When the company began, the average dormancy was seven years. It then dropped to five and now it is just three years before shares are turned over to the individual states.

When are shares declared dormant?

When letters are sent to your home and then returned, you can be declared 'lost'. After three years, stocks are turned over to the state. Additionally, the states are now saying that if you haven't been active enough, we'll take your property, as we'll assume that you're not active—you've forgotten about the account. That has been the biggest motivator in the US—if you haven't done anything with your account, it might have been turned over to the state, which might have liquidated it. All the while, you may be thinking that you have those shares waiting for when you need them, but they have been liquidated!

That's when UPRR decided that while it was still important to focus on compliance, it was also vital to focus on finding people and making sure that they keep their accounts active. These companies have to stay in compliance, they must file their legal reports to the individual states, and if they don't, they will get penalised. If you don't report, you'll get fined, and if you do report, you'll end up with very unhappy investors and very bad publicity. The transition of the company has been from a compliance and consulting firm to a search firm.

Is this now an active search?

It's more than that. Typically, a company will give us their files to analyse for accounts that can be identified as vulnerable—we look for un-cashed cheques, returned mail and deceased accounts. We perform the analysis for the company to show them what accounts to concentrate on. We can also widen the net to look at inactive accounts. The last thing that we want to see is a client losing someone as an investor because it didn't know to look at those accounts. It's not just accounts in equities that are lost; it's also mutual funds, 401ks, royalties, insurance funds and so on. Our business has extended to help all account holders find or reactivate their accounts, because it's right that they still have access to those investments. The logical progression of this was to look to other markets. We have lots of clients in the UK who have 'lost' their accounts in the US, simply because of the rules over there.

How does this translate into the service in the UK?

Even though the regulatory requirements in the UK are different from those in the US, insurance companies, distributors and mutual funds have 'goneaways' and deceased accounts. In the short time we have been here, we have recognised that though there is no regulatory requirement to do so, there is both a desire and a need to reunite these people with their assets.

In part, this is due to the 'know your customer' requirements and 'treating customers fairly' rules in the UK.

Are your UK clients British companies with British investors?

We can serve UK investors well, regardless of the nationality of the company that holds their assets.

In the UK, the areas that we are working in cover mutual funds, distribution, insurance

and pension funds. We can serve a client better if we start with its records and find the end investors, rather than the other way round. If an investor were to come to us, we can help, but we have a greater effect if we begin with the client's records. Also, there are services that are already available for end investors.

What we are saying is that companies need to ensure that their customers do not lose track of their assets.

How are you transferring the business model to the UK?

The process is the same as the US, but the data sources are different. We know how to find people, and we have been able to secure the best databases in the UK. Sometimes the trick is not just about having the best source, but it's about looking at multiple sources to confirm elements of the data so that we can get a high level of certainty that we are getting to the rightful owners. Many times, the reason that people get lost is due to the data quality—something as simple as people moving and the company can't match the data. We can do that by looking at multiple sources and linking and confirming the information. Instead of taking a view that something looks right, we can actually build a certainty that we have the right person. Some people describe this as data mining, but we describe it as data refining.

The reach-out process is also exactly the same as in the US. It has taken us almost two decades to perfect the way that we alert investors that they or a relative may have some funds that they are unaware of and get them to take action on their account. It's a really well drafted letter that explains what the asset is and where it is. We believe very strongly in full disclosure of what the asset is and how the owner can retrieve it.

Is there a cost to the individual in this?

We charge the estate or the beneficiaries if they want to use our service. With estates, a certain amount of paperwork is required to make a claim, and we can assist with that. If an investor didn't know a relative had an account in the first place, there are a number of documents that they'll need to produce to access the asset. Our clients determine the fees to be charged for these services, and they are typically a small percentage of the value of the property.

UPRR tailors its programmes for different types of clients, and as we are now a UK company, we are compliant under the Data Protection Act

Are there particular types of account that are more likely to see investors go missing?

Yes. Types include accounts that allow for passive investors, and investments that are held by older investors.

It's also not just individuals who we can reunite with their assets. We have a lot of experience with corporations too, whether they are small businesses or investment advisers. One of our biggest claims was a group of UK investment advisers who had purchased stock in a US company and over time had lost track of that investment. We helped them to reclaim millions of dollars. When it comes to the corporate side, our success can be because someone in the company doesn't realise what the investment or cash management strategies were in the company—the investments are made by one individual and the notices are received by another who doesn't realise their importance. Our work can make a significant impact on peoples' lives. **AST**

Jennifer C Borden
Executive vice president & general counsel
Unclaimed Property Recovery & Reporting

Clients are king

AST's panel discusses how the size of fund administrators, UCITS and FATCA are shaping client demands in Europe

Paul North
head of EMEA product development
BNY Mellon Asset Servicing

Gail Weiss
vice president and head of global business development
DTCC Wealth Management Services

Kenneth Farrugia
chairman
FinanceMalta

Andrew Frankish
director
IDS Fund Services Malta

Jason Nabi
head of asset servicing client segment and managing director
Markit

Paul Roberts
managing director, Europe
Milestone Group

Keith Hale
executive vice president, client and business development
Multifonds

Nick Solt
director
Moore Stephens Fund Administration

Edward Glyn
director, funds
SWIFT

André Valente
head, fund services, Switzerland
UBS Fund Services

How have the demands and requirements of your clients changed in recent years?

Paul North: We are seeing a shift in client demands, but this is possibly an indication of trends that will accelerate in the coming years. Much of this shift is driven by the effects of the financial crisis that are still playing out in markets. For example, the sovereign debt crisis in Europe and regulators that are still drafting their reforms of financial infrastructures and financial institutions. It is the regulators that are the biggest players making demands on our business right now, both in Europe and the US. They still have some 12 to18 months to complete their drafting of regulations, and once this is complete, we will see the impacts on our clients and their demands of us.

At this stage, what we are experiencing is a lot more questions from clients regarding regulatory change and developments; a greater demand to share knowledge and experience around both specific topics and general market insights and a focus on big ticket items such as RDR (the UK Retail Distribution Review), AIFMD and FATCA.

Some clients are also looking at their existing business models to explore new opportunities that arise from the financial crisis and market reforms. Beyond these general demands, we are also seeing some specific demands emerging, some related directly to the financial crisis, others to the continued drive from our clients to grow and progress their businesses.

Nick Solt: While clients and prospective clients have always, understandably, been keen to receive a top-quality service, the effect of the economic downturn and subsequent pressure on returns have meant that the ability to provide this service in a cost efficient manner has become ever more important.

Additionally, information and reporting demands have become greater as investor representatives require more detail to gain comfort across the spectrum of funds that they invest in.

We have also seen a desire in certain quarters for greater control by larger institutional investors, and so schemes with fewer or one main institutional investor are becoming more common, which changes the relationship with those investors and the format that structures may take.

It has become essential that a fund administrator has quality processes and expertise in place to provide a high level, efficient and transparent service to its clients.

Edward Glyn: For many clients, their funds proposition was traditionally seen as an idiosyncratic, niche activity, quite separate from core securities servicing, cash processing or custody. Many players viewed distribution as a horizontal business that was a necessary service to help win new administration clients. In recent years, distribution servicing and platforms in particular have emerged as key vertical businesses in their own right and this is where many clients are looking to differentiate themselves from their competitors.

Sophisticated front end, distributor-focused value propositions can command much higher monetary rewards for a provider, in terms of fees and margins, than traditional record keeping. We see many clients therefore investing heavily in people and technology to ensure that they are not viewed as a commodity back-office processing provider, but as a key partner in helping the fund company to gather assets efficiently, so that it can delight and retain the end client.

Jason Nabi: Markit provides a wide range of services to asset servicing firms, including global custodians and fund administrators. These services include underlying data, hosted portfolio valuation services, analytics and risk management solutions, as well as trade management and enterprise data management solutions.

Since the financial crisis in 2008, our asset servicing clients have had to deal with a wave of regulatory and industry changes that are aimed at bringing greater transparency and efficiency to the securities markets. With the US Dodd-Frank Act, EMIR, AIFMD, UCITS, BIS III, Solvency II and MiFID II all affecting the asset servicing industry, the challenges for both large and small fund administrators is significant. The buy side (both alternative and traditional) is at the same time increasing its take-up of investment operations, outsourcing and demanding a range of core (custody and fund administration) and value-add services (such as collateral management and valuations) that can enable businesses to be compliant and competitive at the same time.

For the larger fund administrators that maintain a multi-asset class, multi-jurisdiction full-service funds platform that is supported via strategic service hubs, adapting to these developments is a major task. Meanwhile, smaller fund administrators need to continue to be able to compete by having a functional and service-rich proposition for certain fund types that invariably includes OTC or illiquid asset classes. Markit can help both of these types of asset servicing firms, large and small, by being the partner within, and through the delivery of valuation, risk and trade process solutions—all with integrated data for the OTC markets that helps them to service their end-clients. This removes a significant challenge and provides a best-of-breed solution for a complex set of issues that would otherwise require substantial IT expense, as well as considerable and specialist resourcing. Both of which are constraining and costly in these current market conditions.

Paul Roberts: In the last couple of years, we have seen our fund administration clients focus on extracting process and cost efficiencies from their operations. This has led to an increased focus on automation and process control, particularly where organisations are seeking to deliver new servicing capabilities within their product range. A good example is the trend towards automation of the whole NAV workflow with automated checking and dissemination of NAVs replacing manual activities from fund accountants.

We have also recently seen a noticeable shift in emphasis among fund administrators to value-added services, such as cash allocation and order management, distribution fee and rebate management, and share class hedging, which serve to deepen client ties and create new revenue streams.

Kenneth Farrugia: The new regulations that have been introduced of late, such as UCITS IV, and those yet to be introduced, such as AIFMD, have inherently increased the demand for additional services. Likewise, the heightened sensitivity of the importance in having a sound and robust risk management framework has brought with it increased demands for risk reporting as well as performance reporting from the directors of the funds and the fund manager. Equally, the industry is also experiencing an increase in the extent of regulatory reporting. Consequently, fund administrators are compelled to invest in new system functionality to address these growing reporting requirements.

Gail Weiss: We are all working in an ever-changing environment with new regulations, intense profitability pressures and a heightened focus on risk management. The nature of our work is transforming as we look for new ways to leverage our existing operational capabilities and expertise, while striving to offer more effective ways to manage and oversee the risk in the financial system.

We've seen how our cornerstone mutual fund service, Fund/SERV, has helped grow the funds market, taking transaction processing from what were only hundreds of trades a day 25 years ago in the US to an average of 850,000 trades a day globally today. The attractiveness of Fund/SERV is that it can comfortably process massive amounts of trading activity, bringing greater economies of scale to the industry while reducing operational risk.

More recently, our emphasis has been focused on strengthening our infrastructure to address new global market dynamics while bringing greater flexibility to accommodate both a broader range of fund types and capture more data to facilitate compliance requirements. For instance, the alternative investment space—non-traded REITs, hedge funds and funds of funds—is still wrestling with manual trading and significant operational risk similar to the challenges faced by the fund industry 25 years ago. They've come to realise that the power of the DTCC infrastructure and the efficiency and scalability of DTCC can be applied to the alternative investment space.

André Valente: We have seen an institutionalisation trend among our clients base and were confronted with more complex requirements in terms of transparency and governance. Our clients require more tailor-made reporting and sophisticated connectivity. We have seen a stronger demand for our risk management and investment control tools.

Furthermore, our clients expect our role to be moving beyond a pure back-office task into product development, advisory competences and assistance in regulatory matters. In addition, asset managers continue to outsource additional tasks to their administrator, including regulatory reporting, tax figures calculation, middle-office solutions, including more sophisticated valuation, and risk management.

Andrew Frankish: I think that in all industries times are not as good as they were, meaning that people are increasingly wanting either lower costs, more services or both. This can be seen through requests for bundling of different service areas into what one currently provides, such as including corporate secretarial services in your base cost, or simply ancillary reporting requests. Clients want to know more about what is going on in a real time fashion, so ad-hoc reports that they were requesting on a monthly basis previously are now down to weekly or daily, and are essentially becoming a part of the report packs rather than ad-hoc. We are also seeing a change in service demand, where managers were previously happy with a four-day turnaround on monthly NAV's, they are now pushing for one to three days.

Keith Hale: This depends on who you consider to be the client. Investors, particularly institutional, expect good performance, but increased levels of risk management, transparency and liquidity, as well as adherence to the new regulations in the market, are forcing alternative funds to become more like traditional funds in their characteristics. In other words, there is a convergence between long only and alternative funds.

Fund managers expect administrators to deal with all of the new regulations, new jurisdictions, asset classes and fund structures, but with a reduced rate card. In the case of some hedge fund managers, they may still be living on management fees because they have been or are still below the high water mark for performance fees.

Throughout the investment fund value chain, more transparency is required, ideally from a consolidating number of systems, with common operating models to improve efficiency. As a software vendor, the job of Multifonds is to cater for increasingly complex asset classes, fund structures and regulation, while providing transparency to the calculations that our system performs.

Do clients now think that bigger is better when it comes to choosing a fund administrator?

Solt: As Moore Stephens Fund Administration could be described as one of the smaller, boutique service providers in the fund administration sphere, I may be somewhat biased. However, I believe that there is a place for such specialist players in the market.

In many cases, there will be individual requirements and information needs for certain collective investment schemes that would be better served by the adaptability and expertise of a boutique house.

The desire for greater control by some institutional investors is such that single investor structures, joint ventures and private funds are becoming more popular and these are often better suited to smaller service providers.

I see it as very much a case of 'horses for courses' and, as long as the proper processes are in place to ensure that competitiveness is maintained, there should always be a place for a variety of fund administrators in the market.

Farrugia: Clearly, there is room for boutique operations providing bespoke, personalised fund administration services. Likewise, the large administrators may find it economic to service small-sized funds. In addition, as it is today deemed appropriate to segregate fund administration from fund management, this has in turn created an increased demand for fund administration services, particularly for those funds whose administration requirements were serviced by the fund managers themselves.

Hale: Asset managers continue to look for wider market and regulatory coverage, but at reduced administration fees with a strong balance sheet to rely on, which is likely to lead to continued consolidation in the service provider market. The large administrators have to gain operational and cost efficiencies to remain competitive, as they are driven by reduced numbers of users, across a reduced system, which is used across an increasing number of fund types and jurisdictions. The net result is that administrators are typically becoming large global 'factories' that are focused on offering economies of scale to their clients and efficiency internally, or niche players with specialised products in a region or fund type with very in-depth customer service. The niche players have places while the large administrators sort out their global operating models and multiple IT systems that often perform similar functions.

It is becoming harder for niche players to differentiate themselves and compete on costs in particular. Our job as a software vendor is to supply high efficiency, global and scalable software to the large administrators, but also flexibility and nimble capabilities to the niche players.

North: Bigger is probably better, but it is not simply the size of AUC that needs to be considered. Size of investment budgets, capital, compliance teams and change teams are probably more material. For example, the risk profile for administrators is changing; this means that administrators will need to maintain higher levels of risk capital. As another example, regulators are much more aggressive in their oversight and penalties. The FSA (UK Financial Services Authority) has agreed some £160 million in settlements with banks in 2011, a record in recent history and further evidence of a rising trend. The FSA is also more demanding in the reviews of our business and more active in raising concerns and seeking redress, so administrators will need to invest more in their governance and oversight functions.

Also, clients and their agents are more litigious in efforts to recover costs where real or perceived losses have occurred. All of these points suggest that large administrators that have robust and well-resourced governance processes and structures, and deep pockets, are possibly a better partner than a smaller administrator with fewer resources.

Weiss: At DTCC, we see our fund clients use a variety of different fund administrators, ranging from very large to start-up firms. Each of these fund administrators has strengths that have appealed to our clients and play an important role in the overall success of our fund clients. Though larger firms often provide certain economies of scale, boutique firms often offer newer, more flexible technology. We definitely see a place in the funds market for both types of fund administrators and find that we work equally as well with all.

Glyn: The amount of money that needs to be continually re-invested in maintaining first-class fund administration operations and technology means that this is certainly a difficult market for new entrants. Size and its associated scale is a key factor in ensuring that margins are kept at a sufficiently high level to make fund administration a viable business. There do exist though a number of highly successful boutique operations, the focus of which is often centred on bespoke serving for niche products or geographies. Often, they do not have to deal with the challenges of old technology or legacy client assets sitting on multiple administration platforms, and can therefore work more quickly, with less of a one-size-fits-all operating model, and can focus on providing higher margin and higher fee value-added services.

Nabi: At Markit, we work with the largest global custodians that have fund operations across a number of jurisdictions. All cover both traditional and alternative fund structures and have sizable balance sheets. We also work with the smaller, independent, more specialist fund administrators that in some cases focus on niche sectors, such as private equity/real estate funds or global hedge fund administration.

There are challenges at both ends of the scale. The smaller independents have built very successful and capable businesses with a degree of focus and flexibility with regards to the underlying fund accounting, support services, end-client service model and sector specialisation that is not easily replicated. There are excellent examples of firms doing exactly this in the private equity/real estate and hedge segments where smaller firms have achieved remarkable commercial success as they have grown their client bases in the last 10 years. We have also seen larger global custodians acquire smaller independent boutiques in the last three to four years, so that they are able to add this specialisation to their global asset servicing strategy.

Valente: It strongly depends on the client segment. A bigger provider is better fitted to keep pace with the numerous regulatory changes and the need for product innovation. Substantial investments in technology, process re-engineering and specialists are required and this is obviously challenging for smaller boutique operations.

On the other hand, we observe that smaller fund promoters, asset managers, pension funds and family offices with requirements for tailor-made services appreciate a boutique-like approach in combination with industrialised, highly efficient core administration services.

Frankish: As long as there are smaller managers and new start-ups, there will always be a need for the smaller administrators. The larger names more often than not have a bottom cap on the fund size that they will take on, essentially providing a market for the smaller players. This doesn't mean that the smaller guys don't get larger clients. We tend to find that it is not always about going for bigger administrators, but rather going for what you know. If someone is a smaller name but known in the market that they are servicing, they will generally be able to hold their own with new business flows. In these markets, it comes down to the service that is offered, as the reputational risk to a smaller administrator that slips up is that much more without the name behind them.

Roberts: This is a 'horses for courses' discussion: it's all about matching the right provider to specific needs. Our experience is that a wide variety of

factors come into play in the choice of fund administrator, such as global presence or capability in servicing alternatives and private equity.

It seems likely that we will move towards a two-tier fund administration industry that sees the ongoing consolidation of larger players alongside smaller, boutique operations that provide specialised capabilities for specific asset classes, and for smaller and more agile, demanding fund managers.

Having said that, there are some common pressures on fund administrators, irrespective of size, including continued cost pressure and a requirement to be able to deal with an increasing breadth of asset classes and asset servicing requirements. The industry is still being pushed to deliver cost efficiencies and large and smaller service providers continue to be measured by their ability to generate genuine process efficiencies as a competitive advantage.

The UCITS model has proved a huge success. How has this affected your business?

Roberts: The global adoption of UCITS has led to an increased focus on counterparty and operational risk issues from both order originators as well as custodians executing on behalf of their clients. We are seeing distributors across all markets look closely at opportunities to strengthen their order management practices irrespective of fund asset types (mutual funds, hedge funds, and private equity—not just UCITS). Distributors are realising that use of third-party fund distribution networks only manages part of the operational risk profile.

Specifically for fund administrators of UCITS products, we see the up-coming AIFMD and UCITS V regulations prompting reviews of internal processes. In particular, fund administrators will have more responsibility in the area of overseeing administration activities for the funds that are acting as depositary banks, which will demand greater operational rigour to ensure that opportunities for efficiency can be realised.

Farrugia: The strength of the UCITS brand has attracted the interest of various non-EU investors and fund managers, and consequently, this is translating into demand for the creation of new UCITS funds, as well as the increased incidence of hedge funds being transformed into UCITS. Malta has seen an increase in the setting up of UCITS funds, although growth of the industry is still being driven by hedge funds, with more than 450 funds now authorised by the regulator in Malta.

Frankish: Our main business concentrates on non-UCITS type funds, so we have not been hugely affected by the developments here. We have however seen some developments through our South Africa office, where the alternate fund industry is looking at the UCITS regime for guidance in the regulating of local products. IDS in South Africa has taken an active role in assisting the local regulator through the process, and should see results of the global success of the UCITS model flowing through the South African jurisdiction in the future.

Hale: Much of Multifonds's growth has been underpinned by the success of the UCITS brand globally. Multifonds was founded in Europe supporting UCITS fund administration, and grew globally into Asia in particular, as the UCITS brand was adopted outside of Europe. This created critical mass for us in Asia, enabling us to work with the likes of Standard Chartered Bank, Citi and HSBC to support not only UCITS distribution, but also domestic fund administration across the region in countries such as Australia, Hong Kong, India, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Vietnam, with South Korea and China being added this year.

North: Supporting the distribution of UCITS funds has become a key buyer value in recent years. All of the large investment managers see cross-border distribution as a key element of their future growth plans and are looking to their service providers to help them execute on these strategies. As a result, all administrators are investing in capabilities to help their clients to distribute their funds. For example, opening service centres in Asia and the Americas to help with regional distribution, developing services to help to develop and distribute marketing materials, developing services specifically for distributors and even helping clients in defining their distribution strategies. Distribution support services are now as important as the core transfer agency services.

Glyn: With close to 1,000 fund clients in more than 70 countries, SWIFT's funds business is a key part of our overall 2015 securities strategy. The success of the UCITS model has meant that fund distribution and its associated servicing are now core business areas for many financial services organisations. At the top of their collective agenda is the drive to differentiate themselves from the competition by providing an open or guided architecture value proposition, with choice and excellent client service.

To do this profitably, while complying with ever-increasing regulatory pressures, fund players must streamline operations to eliminate unnecessary cost and risk. This is where SWIFT is regarded as such a necessity and we have had to ensure that we have stayed at the forefront of providing collaborative solutions. Increasing STP rates across multiple fund products has a considerable impact on the cost income/ratio of our clients' funds businesses. The industry looks to SWIFT to help it to automate the entire transaction lifecycle of a fund. To do this successfully, we have to provide open, flexible standards, a world-leading communications platform and expert professional services teams to ensure seamless integration between the SWIFT network, the ISO funds messages and our clients' operating platforms. The UCITS model is a global one, and so SWIFT has had to provide a global, single window to our funds distribution client base to enable our customers to communicate with one another.

Nabi: Markit's role is to work with fund administrators and with the growth of alternative UCITS fund launches. We are seeing UCITS servicing hubs develop both scale and functionality in Luxembourg and other service centres.

Valente: Our strong UCITS capabilities in various countries are an advantage and allow us to keep up with specific UCITS requirements. As we provide admininistration services not only to large UCITS fund promoters such as UBS, but also to our large third-party client base, we have invested the necessary resources and paid attention to the required developments.

Weiss: The success of the UCITS model has affected our business in a very positive manner. We are leveraging the consistencies of the UCITS model by taking comfort in the knowledge that certain aspects of UCITS are adhered to uniformly. This reliable consistency enables DTCC to facilitate the onboarding of new UCITS funds onto our platform, which reduces the time to market for many UCITS funds.

Furthermore, our rigorous ongoing risk review process is often simplified because of the regulatory oversight that is performed by these funds' primary regulator, which certifies UCITS status.

Solt: UCITS funds are not a sphere that Moore Stephens Fund Administration operates in, and so their growth has not affected us directly, other than in the role that they have played in the expansion of the funds industry generally. What it does demonstrate is that global consistency can only be a benefit for the funds industry.

How much of an impact will FATCA have on your business?

North: FATCA is a tremendous challenge for the industry and has required a large amount of professional expertise since the enactment as part of the US Hiring Incentives to Restore Employment (HIRE) Act in early 2010. The enhanced accounts/client due diligence, tax withholding and reporting regulatory requirements that FATCA requires will be an additional burden. In the short and intermediate term, there are significant account on-boarding, technology and operational efforts related to the phases of the FATCA implementation to ensure compliance both for BNY Mellon and our clients from now until at least 2017. FATCA, in the long term, will become part of business as usual. Nevertheless, it will lead to increased costs across the board for the industry as a whole.

Weiss: We are definitely concerned about FATCA from the perspective of our clients' potential compliance requirement. DTCC is committed to working with the industry to enhance our solutions to address industry-wide needs such as FATCA compliance. We are currently in discussions with numerous clients to ascertain the appropriateness of enhancing our system to support new data fields that will remit useful information specifically for FATCA compliance.

Farrugia: Compliance with FATCA will be bring with it a significant operational challenge for fund administrators apart from the fact that FATCA is being viewed as a significant threat to the funds business. The extent of reporting, apart from the operational implications of the withholding tax requirements, will bring with it serious considerations as to whether such business is commercially viable to service, apart from the fact that the introduction of FATCA will have a significant impact on the distribution strategy of investments funds. Administrators in Malta are evaluating the implications on FATCA.

Solt: FATCA is one of many regulatory changes that will affect the way fund administrators operate. Clearly, for anyone who administers funds with US investors or investments, FATCA cannot be ignored. We are already in the process of addressing our approach to FATCA with the benefit of advice from the North American members of the wider Moore Stephens network.

It seems clear that enhanced procedures will be required to ensure that service providers comply with the terms that are stated in the directive, particularly in ensuring that we are able to fully identify investors with US connections. However, given the existing broader requirements for knowledge of our clients, we would hope that the additional costs associated with this would be minimal.

Valente: This will have an impact on our shareholder systems, on the fund admin or custody side, in terms of development and resources, but it will not have a significant impact on the way that we do business. Our shareholder systems will be updated where necessary since FATCA is complicating knowing-your-client and reporting capabilities.

Roberts: FATCA is having a significant impact on the industry and is taking up a lot of bandwidth from an operational perspective, and a significant amount of clients' project resources are being directed to it. As with many of the new regulations that are coming into play over the next couple of years, these initiatives are testing organisations' ability to deliver operational transparency. Firms are now recognising that the main implementation constraint is not necessarily the legislation itself—rather, it is the transparency of the supporting data and flexibility of fund processes that are the constraining factors.

Uncertainty relating to the final form of FATCA (and other regulations such as Solvency II and AIFMD) directly affects the ability of funds organisations to plan to comply with these initiatives with confidence.

Hale: FATCA has little benefit to the funds industry unless you are the US IRS or a consulting company, but potentially has a huge impact on operational costs for our clients, which are estimated to be between $20 and $50 per account. Multifonds needed to be proactive with our users in identifying the required changes, especially on the investor identification processing. Our approach was to share the cost of analysis and software changes that were required across our users and ourselves, to keep the cost of system changes to a minimum. As a result, the first phase of investor identification functionality will be available in v3.90 of Multifonds, which is released in July. This gives our clients one year to upgrade their versions of Multifonds, to use the identification algorithm and verification capabilities to verify investor data. We endeavour to take this pro-active, cost sharing approach with the key regulatory changes that are flooding the industry.

Glyn: Reputation is probably the most important capital for any financial institution, and so collaborating with our clients, or helping them to collaborate with one another, to reduce the total cost of ownership (TCO) of regulatory compliance, is part of the life-blood of SWIFT.

SWIFT is continuing to monitor developments on FATCA and to assess its implications at the operational level, with the priority being to understand any need for changes to our messages. This is a changing landscape, however, with a number of countries (initially France, Germany, Italy, Spain and the UK) now entering into agreements with the US tax authorities, whereby FATCA reporting on the tax status of clients in those markets will be done locally by financial institutions, and then supplied by the local tax authorities to the US IRS. This will affect the operational impact of FATCA in these markets and it seems that more countries may adopt this approach.

Given this development, and the recent industry consultation that the US has run over the past few months, it is still too soon for us to be definitive about our response. We are interested in receiving input from customers on their views about how SWIFT should respond, and in particular from our customers in the funds industry.

Frankish: We generally don't have too many US investors across the funds that we administer, but even the few that we have will mean that we will feel the impact. Compliance costs are generally understated when looking at any change in rules or reporting across the industry. The general trend is to want more for less and having to add in costs for a new line of reporting then becomes a question of where this cost sits. I don't think that there is an administrator out there that won't look at charging something for the extra reporting, but I also think that an administrator that gets into a position to provide a seamless process for the reporting and handling of the FATCA requirements will be in a winning position. Those that are making investments now to be able to absorb the new requirements into their processes will walk away on top.

Nabi: Markit is a leading provider of reporting and process management. We see FATCA as an interesting area as we develop our hosted reporting capabilities aligned to the asset servicing firms. Our focus with all major regulatory initiatives is to determine how Markit can best support its clients in the delivery of either functional capabilities or processes.

What are your predictions for how the market will develop in the future?

Solt: It is fair to say that we continue, as the old proverb goes, to live in interesting times, and the trials of the global economy continue to present challenges, particularly in the eurozone as doubts as to its future persist.

However, while it is easy to fall into the trap of believing that we are all doomed, I believe the truth is more positive than that.

Evidence here in Jersey is that investors are beginning to become more active and an increasing number of funds are being set up, as there is still the desire from institutions and wealthy individuals to seek the best returns possible.

As emerging economies' growth continues and the power of the world economy partially shifts in the direction of these countries, there has been a widening of the net by promoters both in terms of sourcing investors and identifying investment opportunities.

We have also experienced funds moving into spheres that the banking sector is deserting, such as mezzanine financing on secure assets, which present opportunities for suitably funded schemes with experienced promoters.

In my view, this shift will continue and will carry on providing opportunities for well-run fund administrators and other service providers.

Glyn: Distribution will be king and the importance of platforms in both domestic and cross-border markets will continue to grow. Key to success will be the ability to understand a client's changing needs, the flexibility to provide quick-to-market solutions, helping clients to navigate safely through the waves of regulation facing the securities market and reducing the TCO for participants that are involved in the operational aspects of fund distribution.

Capturing domestic corporate pension opportunities will increase in importance to both fund manufacturers and service providers, and there will be a race in many countries to win the nascent, though very relevant, workplace-based savings market. Brand equity will be a key differentiator—having the absolute trust of one's client base and maintaining the mantra of under-promising while over-delivering.

One thing that will not change is SWIFT's role in providing collaborative solutions to enable operational efficiency to the funds industry. It has been said that the greatest contributor to Alpha is cost control and it is here, in our constant drive to optimise the fund transaction lifecycle, cross-geography, cross-product, cross-transaction and cross-asset class, that SWIFT will continue to make its greatest contribution to the funds industry.

Farrugia: The market is in an interesting phase of its development. Despite all of the challenges, Malta's fund industry has gained significant momentum with 255 administrators having set up their operation in Malta, the presence of 80 investment services operators and more than 575 funds so far authorised by Malta's regulator. Over the past two to three years, Malta's administrators have managed to begin servicing funds that are domiciled in non-EU jurisdictions, which is an interesting development. Despite the turmoil that has gripped the world markets and the challenges that this has brought with it, I am confident that the industry will be able to sustain the momentum it has been able to register so far in the years ahead.

North: There remains optimism about the future of the market. Demographics, stock market values and growth in global funds distribution will increase asset values of funds that are managed and domiciled in Europe. Product innovation will continue, as this is often a catalyst for raising new assets. However, given the challenges of regulations and resultant pressure or profits within the industry, it would be reasonable to assume that there will be some consolidation. Looking forward, there will possibly be fewer asset managers, fewer funds and fewer administrators in Europe. Costs for investors are unlikely to come down in the medium-term, and so this and a greater awareness of value may accentuate the growth in passive investments and ETFs. Hopefully, as an industry and economy at large we will also see a return to growth, less volatility and Europe looking and acting more as a single market for investments products.

Nabi: I think that the move to electronic trading and CCP clearing for the OTC derivatives markets will likely trigger a shortage of collateral. This will push up collateral costs and demand for collateral transformation services.

I also think that the buy side will continue to move middle- and back-office processes to fund administrators and outsourced service providers. Ongoing growth in full outsourcing models will see asset servicing firms deliver greater value-add to the buy-side. In turn, the asset servicing industry will continue to develop fund service hubs. Partnering with strategic providers such as Markit when it comes to enhancing end-client capabilities and applications is just the start.

I also see a number of the smaller regional or independent boutique fund administrators being acquired, given the growing pressure on capital, service and scope.

Valente: We will see continuation of the institutionalisation trend with investors and fund providers looking for regulated funds and more sophisticated services in terms of reporting, risk management, middle office, higher transparency and, in general, enhanced governance. UCITS regulated products will continue to be in the focus. Furthermore, we observe a higher request for alternative assets, including real estate and private equity. In terms of geographic priorities, we will see growth, innovations and new opportunities in the Asia Pacific and Latin America regions

Roberts: We see increased pressure on fund administrators to be able to demonstrate scale advantages and genuine technology-based efficiency for functions that are currently outsourced and those finding their way on to the outsourcing agenda.

We also see the opportunity for fund administrators to benefit from increased servicing opportunities by embracing and leading automation of the next wave of outsourced functions, including cash allocation and order management, distribution processing, fee and rebate management, share class hedging, and other functions that have not traditionally been part of a standard outsource offering.

The idea of automated, disciplined fund oversight is attracting attention from asset managers that have outsourced functions. This rigorous approach is required to ensure both the integrity of the outsourced relationship, and also that the benefits of outsourcing are not eroded by having to establish manual processes to oversee outsourced functions.

There is a genuine opportunity for outsourcing to reach a new level of maturity, both for the asset manager and the fund administrator through the use of more advanced technology that has recently become available.

Frankish: From a service provider perspective, the opportunities for development in the marketplace are vast. There are numerous new regulations coming to the fore, both in Europe and beyond, and each of these opens a gap for a service provider to step up and provide a solution to help smooth the way for funds and managers.

Reporting solutions around FATCA or management company setups for AIFMD are just a few that can be taken advantage of. I think that we will see a diversification in the add-on services that are offered by providers, be it through new developments in existing organisations, or the acquisition of niche providers by the larger organisations.

Hale: Fund types will continue to converge in their characteristics as a result of more institutional investment into alternatives and retail investor demand for absolute return funds. Private equity fund administration will increasingly be outsourced on the back of AIFMD. An Asia fund passport may emerge as well as domestic and UCITS fund distribution in Asia.

As asset managers continue to look for reduced administration fees, this will likely lead to further consolidation in the service provider market. Administrators will look to gain operational and cost efficiencies, as the cost of maintaining in-house systems will become increasingly uneconomic with continued regulatory change.

Weiss: With constantly changing rules and regulations, the financial services markets will always be in a constant state of flux. This year, many of the rules proposed under US Dodd-Frank Act will go into effect, so the industry's ability to respond to these regulations is just now becoming apparent. I believe that the full impact of these rules has proposed many challenges and the overall compliance success rate is yet to be determined.

On the global front, the movement to adopt uniform principles and practices will have a profound impact on how many financial institutions operate. This regulatory common ground will facilitate cross-border activity, while limiting certain aspects of regulatory arbitrage that occurs today. In fact, a key point that is reflected in the CPSS-IOSCO principles is precisely this commitment among the securities regulators and central bankers to work together to craft common principles for the financial market infrastructures. **AST**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Access Europe: a tough nut to crack

AST talks to the DTCC's Ann Bergin about the corporation's European journey, and how its user-owned model has gone down on the continent

MARK DUGDALE REPORTS

How did DTCC get where it is today in the funds business?

DTCC, through its subsidiary National Securities Clearing Corporation (NSCC), launched Fund/SERV in 1986. It was for the US market and primarily for load funds, which were sold through broker dealers. The broker dealers were aware of NSCC because they were processing equities through NSCC's systems, as it was tremendously more efficient than the manual processes that were in place at that time. The broker dealers were seeing similar operational inefficiencies in mutual funds, so they approached NSCC and asked if something could be done. Today, Fund/SERV is an industry standard platform for processing and settling mutual fund transactions, which links fund companies with their distribution partners.

For the past 25 years, Fund/SERV has helped the funds business to grow and scale in the most efficient manner possible. Our strategy has included watching the evolution of the funds market and anticipating the best ways to support it. Consequently, NSCC has expanded its mutual fund services over the years and broadened its reach with different types of products passing through Fund/SERV from both the retail and institutional markets. Now there are approximately 50,000 funds on Fund/SERV and 800 clients.

Of course, we are keenly focused on enhancing the system to meet the needs of the marketplace. At a minimum, we release two updates a year—sometimes more—to upgrade the system. These updates fine-tune the system for various market needs, including new regulatory mandates.

How did DTCC find the European market when it first arrived?

The European market is challenging for many different reasons. Europe appealed to us because of the market fragmentation and the high cost of processing and settling mutual fund transactions. The magnitude of it suggested that there was room in the European market for a solution such as NSCC's, as the savings and efficiency derived from our platform could be translated into a less expensive, automated alternative for European users. In addition, we underestimated the political atmosphere in Europe. To bring all of those individual markets in Europe together onto a common platform for common purposes was difficult. When we were considering our strategy in 2000, the market was quite vertical. The large broker dealers had their own funds and they were distributing those funds to their clients. The horizontal model of open architecture was yet to be established in Europe and the European market was more focused on regulatory reforms at that time.

How did you overcome this?

We realised that the way that we should be approaching the European market was to make it more accessible for our clients. We had clients that were trading cross-border funds, primarily in the Lux-Dublin domiciles, so they were very interested in access to those products. Working closely with our clients, we identified the funds that they wanted and provided access to distribution partners.

A few years ago, we expanded our direct membership to non-US entities in addition to permitting offshore domiciled funds to access our platforms via a US distributor member. Now that we have opened up direct membership to non-US entities, we are beginning to see strong interest among non-US fund managers and distributors. This gives NSCC an opportunity to further extend the value and benefits of its robust processing platform.

What are you expecting to achieve in Europe, now and in the future?

We are not looking at a big bang delivery in Europe. What we really want to do is continue to explore where there are natural adjacencies to the services that we are already providing, looking at how we can deliver the same level of value and service, but tailored to additional marketplaces.

In listening to European market participants, we've identified a need to offer settlement in a variety of currencies. To that end, we've established an authorised payment agency under the UK Financial Services Authority called DTCC Solutions Worldwide, which is currently pending US Securities and Exchange Commission review and approval. Its initial charter is to settle fund trades in euro and pound sterling. However, we anticipate expanding to additional currencies based on market demand and broadening the payment agent functionality.

Our strategy is about making the funds market more globally accessible for our clients. We have established an NSCC user group in Europe, which I think will be really important because it largely represents the funds there. We have found that with the user group we have a dedicated forum where we can identify key service enhancements and build industry consensus. This has proven to be a successful manner to expand the reach of NSCC and further our business relationships in this market.

I started with Fund/SERV in 1997, which is about 10 years after it had been developed. At the time, we were processing less than 50,000 trades a day. Now, we're processing about 850,000 on the average day and 1.7 million on our biggest day. This is because we put the right platform in place to help facilitate market growth.

We have a solid and comprehensive model that can work in Europe—one that has been tried and tested. If European firms are interested in broadening their access to funds and European funds are interested in broadening their distribution, then I welcome the opportunity to show them what we have to offer. In today's competitive environment, it's all about choices. I'm confident that European firms and funds will see Fund/SERV as a good choice to lower their operational costs and risks. AST

Ann Bergin
Managing director and general manager
DTCC Wealth Management Services

Game on: fund admin in Malta

AST talks to Joseph Camilleri of Valletta Fund Services about the company's fund administration activities in Malta and further afield

MARK DUGDALE REPORTS

What role does VFS play and where are you seeing the most asset servicing business coming from?

Valletta Fund Services is the fund administration arm of the Bank of Valletta group.

The group's fund administration activities date back to 1995. They were initially performed through another group company, Valletta Fund Management, which was a joint venture entity that was owned by the Bank of Valletta and Insight Investments (a BNY Mellon company) on a 60-40 arrangement. Valletta Fund Management provided in-house fund administration services for its proprietary funds.

In 2006, the fund servicing activity was spun off into a separate entity, VFS, This was the result of a strategic decision of the group that saw the fund servicing activity being extended to third party mandates.

It is interesting to note that at the end of May 2012, which was six years since VFS was set up, the company was administering 117 funds, with 25 of them being proprietary. This is clear evidence of VFS's positioning as an active player in the field of fund administration to third-party clients. VFS currently administers more than 30 percent of authorised funds in Malta. Considering that there are 24 recognised fund administrators on the island, VFS's share, having a total AUM value of approximately €2 billion, makes it by many counts a major player in the local scene.

It must also be stated that VFS's role in the fund administration field ranks high in the hedge fund space for locally registered professional investor funds (PIFs), even though the company's initial services were predominately in the proprietary retail sphere. VFS is also active in the UCITS context, for both proprietary and third-party mandates, and in providing fund administration services to funds that are domiciled abroad.

Finally, VFS's clients for asset servicing are predominately EU-based. Our clients are mainly regulated fund managers that are based in a number of EU countries, from Italy to the UK, Germany, Holland, Slovakia, the Czech Republic and others. Another major and very important market is Switzerland, which ranks among the top three domiciles from where our business is generated. Other interesting markets that have considerable scope for expansion are Turkey and Scandinavia.

What about the services that Malta's fund administration industry offers?

Fund administration in Malta has come a long way over the years. In 1995, when the new legislative and regulatory framework came into force, which allowed for the possibility of setting up fund administration companies in Malta, the initial activities in this field were few in number and limited in expertise.

At the time, it was the two major local banks that took a position in the market place, by structuring their own funds and providing for in-house fund administration. The funds back then were plain vanilla funds, investing predominantly in listed securities.

The first real quality leap was seen post-2000 with the introduction of a regulatory framework for the hedge fund space. The initial slow start of this specific sector saw a gradual and constant growth in numbers, with a marked growth development occurring with Malta's accession to the EU, which in effect put Malta on the radar of many EU fund managers, alongside other established domiciles in the funds sector.

Growth that was registered in the PIF sector was underpinned and sustained on various fronts, particularly from the fund administration side. In fact, the growing numbers of fund administrators on the island, and the investments that were made by the local service providers in IT systems and HR training, played a fundamental role, ensuring that they were well placed to face the challenges of providing services to funds with diverse investment strategies and investments in myriad asset classes.

It is interesting to note that it is not mandatory for locally registered funds to appoint local service providers. As of the end of 2011, more than 70 percent of registered funds in Malta were administered by local fund administrators.

On the custody side, Malta has seen a somewhat slower growth pattern, which is reflected in the growth path of UCITS schemes that have been authorised in Malta. Currently, however, there are some big names in this business field, such as the likes of J.P. Morgan (through its global custody arrangements with the Bank of Valletta), HSBC and Deutsche Bank, which are contributing towards the strengthening of the custody offer in Malta. This should also translate into further growth of the UCITS funds sector.

In view of the depositary requirements that have been imposed by the EU AIFM Directive, it is likely that Malta will be attracting more custodians to the island in to enable these to service the locally registered AIFs (alternative investment funds).

Who are your typical clients and who are the clients that you would like to attract to Malta?

VFS's client base consists of two segments. On the one hand, VFS's anchor client is the Bank of Valletta group itself, for which VFS acts as the fund administrator for all of the group's range of funds. On the other hand, and most importantly considering the faster growth path, VFS has more than 50 different relationships with as many fund promoters/fund managers to which we provide a full set of services, including the determination of the net asset value of the funds, transfer agency services, the reparation of financial statements in accordance with the International Financial Reporting Standards, company secretarial and registered office services, anti-money laundering reporting services and others.

The typical third-party client of VFS is representative of the fund managers that Malta is attracting to its shores. These mainly consist of small- to medium-sized fund management outfits. As to the investment strategies that are adopted by our various clients, these are varied and wide ranging, from long/short strategies, to funds of hedge funds, arbitrage funds, algorithmic funds, distressed debt funds as well as, albeit to a minor extent, real estate funds and private equity funds.

While VFS will endeavour to strengthen its market positioning in the alternative funds space, it will maintain its proactive approach in identifying the potential growth areas and gear itself towards meeting the challenges that these new areas bring with them. VFS has been at the forefront in handling re-domiciliations of investment schemes from offshore jurisdictions to Malta, as well as in the UCITS sphere, which we feel has a great potential for further expansion. Likewise, VFS has been also active in providing turnkey solutions to its clients for the setting up and licensing of investment schemes in Malta, as well as fund management companies, to which VFS also provides regulatory reporting, including the drafting of quarterly financial statements.

How are you working to differentiate VFS from your competitors?

We look at competition on a macro-level rather than limiting our view to the local scene. Malta is often referred to as the 'new kid on the block' and so it is imperative that our first differentiation from our competitors should be looked at from a jurisdiction perspective. That is Malta, as an alternative to other domiciles, rather than focusing on how VFS differs from its local competitors.

On this front, I strongly feel that Malta's compelling business proposal is underpinned by its robust yet flexible regulatory framework, the can-do mindset permeating the psyche of the industry players, the time-to-market considerations, the cost competitiveness, the small and nimble concept, and the political will that is aimed at developing this sector further into one of the main pillars of Malta's economy.

This brings us to VFS's differentiating factors on the local scene.

VFS is decisively at the forefront in promoting Malta as a fund domicile; this gives us a head start in attracting business to our company. This in itself is a differentiating factor in that the extent of overseas events, roadshows, presentations and seminars organised and participated in by the company are substantial and continuous.

Whereas most of our local competitors benefit from outsourcing arrangements for fund servicing mandates from their parent companies abroad, VFS's business model is based on direct mandates by third-party clients. Our extensive and continual investments in IT platforms, as well as the investment in developing the skill sets of our most important resource, that is the human resource, ensure that our service offering exceeds our clients' expectations. In turn, VFS's SAS 70 certification, as well as our rigorous internal and external compliance audits checks, provide further comforts to our clients.

Of all the regulatory changes being mooted and implemented, which one interests you and your clients the most and why?

No doubt that UCITS IV and the AIFM Directive are the ones at the core, particularly the latter considering that our third-party mandates are predominately represented by hedge funds.

The directive will no doubt present opportunities to fund managers to market their AIFs within the EU, allowing for higher distribution of those funds falling within the scope of the directive. The main implication for our clients is adherence to the directive's various provisions. Investment managers will most likely outsource most of the obligations as set out by the directive to external entities, so that they can focus on what fund managers do best: investment management. The major impact of the directive will be on service providers rather than fund managers that the directive regulates.

It is expected that fund administrators will be on the receiving end as they are best placed to provide for most of the additional reporting requirements that are imposed on managers, be it regulatory reporting, investor reporting, risk reporting, liquidity testing (that is monitoring of the assets' characteristics against the fund's redemption policy), as well as others.

> The major impact of the directive will be on service providers rather than fund managers

The likely winners will be those fund administrators that gear themselves up sufficiently, through investments in systems (and in automation) and training, in order to be better placed to provide for this additional requirement that is to develop in the marketplace.

On the UCITS side, the fund administrator's role in the compilation of the KIDD (Key Investor Information Document) also ranks high on our agenda and that of our UCITS clients.

What are the emerging markets that interest VFS the most and why?

VFS's core markets remain the mature ones. As stated above, most of our business clients are based in EU domiciles and in Switzerland.

Our marketing efforts will remain predominately focused on these markets, as we firmly believe that for the foreseeable future, these markets will remain VFS's main source of business.

Having said that, it is also clear that some EU domiciles are showing signs of strong potential, like the Czech Republic, Slovakia and Scandinavian countries. Our efforts in these markets are likely to be stepped up, while ensuring that we do not lose focus on the core markets. Likewise, Turkey is another interesting market that is developing in an interesting manner, and we will surely be channeling some of our marketing efforts in that direction. **AST**

A gateway to Europe

Sun, sea, and administration services are all up for grabs in Malta, and the gateway into Europe is attracting significant interest

MARK DUGDALE REPORTS

Speaking of Malta as an onshore domicile does not sit comfortably on the tongue. The traditional offshore domiciles—Bermuda and the Cayman Islands to name but two—are swelteringly hot and are home to beautiful beaches too. Malta, particularly in July and August, is like this. Accepting the idea that such a place could exist as a part of Europe geographically and the EU politically is like trying on a pair of shoes for the first time; it just doesn't fit.

Yet Malta is such a place. The island became a fully-fledged member of the EU in 2004 and of the eurozone in 2008. Adopting EU rules and regulations brought Malta to the mainland, at the behest of both government and the financial services industry, according to Kenneth Farrugia, who is the chairman of FinanceMalta.

He says: "Before Malta became an EU member, it was an offshore finance centre. All of Malta's legislation was based on the offshore positioning of similar island states and domiciles. I'd say the regulatory culture was very much reflecting the UK regulatory culture."

In the 1980s, Malta welcomed a new government to office. "One of the main priorities of the new government was for Malta to become a member of the EU, which meant that they had to overhaul the positioning, and with that the legal and regulatory framework," says Farrugia. "That was quite a laborious process as the new government worked very closely with the industry to draft the new legislation. Actually, investment services spearheaded some 14 pieces of legislation, which I think opened the way for the level of financial services as we know it today."

Malta's financial funds industry has grown as a result of Malta's EU membership. In 1995, there were five collective investment schemes. Today, Malta is home to more than 500 funds.

"Clearly, the catalyst for the growth of the industry is very recent, it's post-membership," says Farrugia. "I think it took a few years for our membership to sink in with the other members. Post-membership, I remember going to the likes of Italy and they didn't even know that Malta was a member of the EU. There was that sort of visibility gap. But in 2006/2007, we stated seeing an acceleration and exponential growth in some of the key sectors. Funds was and still is the fastest growing sector."

This growth has increased year-on-year, according to FinanceMalta. The combined net asset value of funds in Malta reached 7.8 billion euro at the end of June 2011. Service providers have also set up in Malta post-membership, as they bid to capitalise on its growing funds industry.

Six custodians and approximately 70 fund managers currently operate in Malta. The Malta Financial Services Authority (MSFA) has licensed 24 fund administrators, which include HSBC, Amicorp, Custom House and TMF, according to FinanceMalta.

FinanceMalta explains: "As fund managers and administrators worldwide are reviewing their set-ups and operating environments which are increasingly dominated by higher taxes and regulatory costs, Malta is being seen as complementary jurisdiction to Luxembourg and Ireland for fund servicing and domiciling."

In the regulatory upheaval since 2008, the Alternative Investment Fund Managers Directive (AIFMD) has taken aim at offshore domiciles, according to commentators. The directive, once implemented, could shut the doors of Europe to funds that aren't domiciled in a European jurisdiction, so that European money would be protected from funds in domiciles with less than satisfactory regulatory frameworks.

"The thrust of this directive to ring-fence business in the European marketplace is misguided," says Farrugia. "I believe that offshore jurisdictions and onshore European jurisdictions can co-exist. It's not the case that it's a free-for-all in these jurisdictions. They are coming to realise the importance of having good governance within their industry, good regulation and good oversight. We cannot just simply point the finger at offshore jurisdictions."

He adds: "In terms of the EU, I think this thrust to try to ring-fence business—that if you want to do business in the EU, you have to be domiciled in the EU—will have its ill-effects. This is sort of the law of unintended consequences. There are quite a lot of funds in the Cayman Islands and other jurisdictions that are in turn investing in Europe. Now if you close the doors, ultimately European economies will feel the brunt of that.

The threats that offshore jurisdictions face from legislation such as AIFMD could force many funds to re-domicile to places such as Europe, according to some commentators. But Farrugia disagrees.

He says: "We've seen structures whereby the fund manager has decided that it wants to focus on European investors so they decided to re-domicile. But ultimately, if you don't have European investors, there is no need for you to have a European platform, because you'll be focusing on other markets. Hopefully the regulatory framework for hedge funds will gain the strong brand belief that UCITS has, because that will be a reason for non-European financial institutions to set up funds in Europe. All of this talk about significant re-domiciliations has happened to a degree."

Professor Joe Bannister, the chairman of the MFSA, says that AIFMD may not be the cause of recent re-domiciliations to Malta.

He says: "The scope of the hedge fund directive is very good, but maybe it is a bit weighty, particularly on the service providers, but that's ongoing and has yet to be implemented. At the moment, we see a lot of offshore funds coming onshore to Malta. We have good re-domiciliation legislation, and this has worked very well in funds." **AST**

Industry appointments

BNY Mellon has named **Edward Watson** as executive vice president and chief operations officer.

In this newly-created position, he will report to Kurt Woetzel, BNY Mellon's head of global operations and technology and chief administrative officer.

Watson was most recently executive vice president for operations, technology and general services for Fannie Mae.

Solutions provider Asset Control is looking to expand its Japanese presence, both by opening a new office in Tokyo, and appointing of **Hidet Kobayashi** as country manager.

Clearstream will undergo a significant shakeup this summer, as its head of client relations resigns, and its Asian business splits in half.

Philippe Metoudi, Clearstream's head of client relations Asia-Pacific, Middle East and Africa, has decided, for what the company's statement described as "personal reasons and at his own request", to resign after 20 years with the company.

From 1 August 2012, one day after his resignation is made effective, Clearstream will also divide its Asian business into a North and a South section. Responsibility for the northern region, which includes Clearstream's Hong Kong and Tokyo offices, will be in the hands of **Alton Chan**, who has been responsible for the Clearstream accounts in the Asian-Pacific region for the last 15 years.

Robert Tabet will be responsible for South Asia which includes Clearstream's Singapore and Dubai offices. In their new roles, Chan and Tabet will report directly to Clearstream CEO Jeffrey Tessler.

Jeffrey Tessler, chief executive officer of Clearstream, said: "The new organisational structure will put us in a position to provide clients in the region with even more comprehensive advice and support. I feel certain that Chan and Tabet will bring new impetus to our successful Asia business and continue to grow it."

State Street Corporation has appointed **Timothy Donovan** to senior managing director and head of real estate fund services for North America.

Donovan, who reports to Bhagesh Malde, the senior managing director in State Street's alternative investment solutions group, will help expand State Street's real estate investment servicing business across North America.

Donovan joins State Street from Beacon Residential Management.

BNY Mellon has recruited **Paul Gately** and **John Lehner** for its outsourcing business.

Gately will be the head of BNY Mellon's global outsourcing business, which oversees the bank's OnCore integrated outsourcing solution. He will report to Lehner, who has taken responsibility of the strategic oversight of BNY Mellon's outsourcing business.

Lehner will report to Lou Maiuri, the head of global financial institutions within the bank's asset servicing business.

Boston-based Lehner will continue as president and CEO of Eagle Investment Systems, which provides data management, investment accounting and performance measurement solutions, and is a subsidiary of BNY Mellon.

Gately, who is based in New York, previously worked as a consultant at Eagle where he focused on its outsourcing and insurance services initiatives for BNY Mellon.

The Budapest Stock Exchange has appointed **Zsolt Katona** as its new CEO.

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Katona replaces **György Mohai**, who resigned from the position, effective from 15 May.

The exchange has also appointed Katona as a new member of its board of directors. Mohai has joined the exchange's supervisory board as a new member. **AST**

Rex Wong

AST chats with Rex Wong, the head of business development in the Greater China region at BNY Mellon Asset Servicing, who is based in Hong Kong

How did you get to where you are today in your career?

I've been involved in the asset servicing industry since 1993. I am the kind of person who sets personal goals and constantly seeks new challenges to help me to develop my career. I have been at BNY Mellon for over four years, originally joining the asset servicing team as a product manager. Last year, I was promoted to head of business development for the Greater China region. I think that my attitude, commitment and the mutual trust that I have established with my managers and team are key contributors to my career success to date.

How did you get into your industry and did it meet your expectations?

Not many people know this, and it is not the most conventional of beginnings to a career in asset servicing: my first job after graduation was as a marketing trainee in a direct marketing company that sold gold and silver coins in Hong Kong through bank credit card centres. After three months, I realised that it was not the career for me, so I secured my first asset servicing position as a fund accountant in the global custody division of a US bank. I liked the job a lot, learned very fast, worked long hours, and was fortunate to progress swiftly through the ranks to manager level. The blend of operational, product development, and sales and relationship management experience that I gained increased as I progressed in my career. The blend of experience that I have gained has equipped me with the skills that I need for my role as a business manager.

What would you change about your industry?

For many financial industries, the challenge for global players is to roll out their global products and services in the fragmented Asian region with distinct legal, regulations, cultures, economics, languages, and so on. Even though there is an on-going regional initiative for regulators to work closely together so that they can align their rules and practices within the region, we are bound to see variations as each market stands to protect their local investor interests and develop according to their stage of development. I wish to see the collective efforts of industry participants and regulators to continue to push for a common operating platform for our industry.

Do you have any role models in the industry who have helped or inspired you?

I have worked with a number of inspirational senior leaders throughout my career who have given me opportunities to work on a number of key initiatives and advised me as my career developed. In particular, I had the opportunity to lead the set-up of the middle- and back office- operations for the first ever ETF in Hong Kong in 1999, which was a pioneer in the Asian ETF industry. I subsequently worked on the other market leading ETFs in China, Taiwan and Singapore. Ever since, I have witnessed the rapid growth of the ETF market in Asia. In fact, some of the infrastructures that have been set up in Hong Kong for physical ETFs are a result of our efforts with market participants to make it happen.

What are your ambitions?

I have a special interest in ETFs. It is the product design, implementation and the interactions with market participants that are appealing to me. If time permits, I want to devote more time to the ETF servicing business of our BNY Mellon in this region, given the global leadership of the bank in this area.

If you could go back in time, what would change or do differently in your career?

Well, everyone makes mistakes. I have made a few incorrect decisions, but overall, I am satisfied with what I have achieved from a career development perspective. Most importantly, I have the support from my senior management and I have a good team that supports me.

If you weren't in your current industry, what would you be doing?

When I was a high school student, I wanted to become an economist or an Economics teacher. That's why I took my undergraduate degree majoring in Economics in Sydney, Australia, in 1989.

What are your interests and hobbies?

I enjoy going to the cinema, travelling and reading. Some of my favorite books include: *Capitalism and Freedom*, by Milton Friedman; and *The ETF Handbook: How to Value and Trade Exchange Traded Funds*, by David J Abner. **AST**