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Daiwa sells global asset services arm to Sumitomo

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Daiwa Securities Group has sold its global asset services division to Sumitomo Mitsui Trust Bank (SMTB), after letting go of its synthetic prime brokerage arm in December.

In November of last year, the group announced that it would cut 300 jobs, including 30 employees from its prime brokerage arm, after it posted a third-straight quarterly loss.

The company went on to sell its prime brokerage business, which served hedge funds, to Canada's Bank of Nova Scotia for an undisclosed sum.

On the 29 June 2012, SMTB signed a share purchase agreement with Daiwa for two entities, Daiwa Securities Trust & Banking (Europe) and Daiwa Securities Trust Europe.

The entities collectively form its global asset servicing division, which includes Daiwa's fund administration/UCITS management company, its custodian, its trustee and its authorised corporate director entities domiciled in Dublin and London.

The agreement does not include the US subsidiary of Daiwa Securities Trust & Banking (Europe).

A spokesperson for Sumitomo said the company had not decided yet if it would let go of any personnel following the change.

Daiwa Securities Trust Europe has recorded negative net income year-on-year for the last two years, with €-1.18 million seen in March 2011 and €-303,000 in the same period in 2012.

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ASTINBRIEF

LIBOR scandal escalates

The former CEO of Barclays, Bob Diamond, has apologised to UK MPs, but denied personal culpability, for the bank's manipulation of LIBOR rates.

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CLPC chooses DST's HiPortfolio

China Life Pension Co. (CLPC), an affiliate of China Life Insurance Group, has implemented HiPortfolio, the asset servicing solution from DST Global Solutions.

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Daiwa sells global asset services arm to Sumitomo

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A Daiwa spokesperson stated Daiwa's wish to focus on its core activities in retail, asset management and investment banking as the reason for the sale.

In a statement, Daiwa said that this is a "very positive development" for the asset servicing division, its staff and its clients, "given the strength and global presence of the acquiring company".

It added: "The [asset servicing division's] management team is working with SMTB on the 3 year roadmap which builds on our core foundation of operational and fiduciary excellence as well as market penetration."

"The key headline items for the future involve; developing synergies based upon the new parent's stature as an established financial institution of size, developing existing and additional servicing capacities and utilising SMTB's global business network. The other major focus will involve strategic investment in technology solutions."

"This transaction allows Daiwa to focus on its securities and investment banking products, however, Daiwa will continue to maintain the servicing of its offshore fund business with [the asset servicing division]."

SMTB offers custody services, primarily for clients in Japan, and through its deal with Daiwa, it "intends to newly expand into the field of providing fund services to overseas hedge fund companies", according to an SMTB statement.

SMTB Group will look into offering clients in Japan overseas asset administration services, including fund administration. It plans to enhance the fund service-providing functions of the Daiwa Securities Trust Europe companies, and the existing custody service functions of the SMTB Group companies.

The acquisition price paid by SMTB is expected to be $37.5 million (JPY 3 billion), based on a third-party valuation. A statement from Sumitomo stated that it is estimated that an amount of approximately $24 million (JPY 1.9 billion) will be recorded as goodwill.

LIBOR scandal escalates

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Diamond appeared before the UK Treasury Select Committee after he resigned from his post on 3 July in the aftermath of the LIBOR scandal, which has rocked British banking.

Financial institutions contribute rates that are used in the calculation of LIBOR and EURIBOR. The contributed rates are supposed to reflect each bank's assessment of the rates at which they can borrow unsecured interbank funds.

For LIBOR, the highest and lowest 25 percent of contributed rates are excluded from the calculation and the remaining rates are averaged to calculate the fixed rates. For EURIBOR, the highest and lowest 15 percent are excluded and the remaining 70 percent are averaged to calculate the fixed rates.

Futures, options, swaps, and other derivative financial instruments traded in OTC markets and on exchanges worldwide are settled based on LIBOR, and mortgages, credit cards, student loans and other consumer lending products often use LIBOR as a reference rate.

According to reports, between 2005 and 2007, and then occasionally through 2009, certain Barclays traders requested that the Barclays LIBOR and EURIBOR submitters contribute rates that would benefit the financial positions held by those traders.

Traders in New York and London made the requests via electronic messages, as well as telephone and face-to-face conversations. The employees responsible for the LIBOR and EURIBOR submissions accommodated those requests on numerous occasions in submitting the bank's contributions. On some occasions, Barclays's submissions affected the fixed rates.

On top of Diamond's resignation, Barclays's board has agreed to an audit of its business practices. It has paid the US Department of Justice a $160 million penalty to resolve violations. The US Commodity Futures Trading Commission (CFTC) has ordered Barclays to pay $200 million, and the UK Financial Services Authority (FSA) fined Barclays £59.5 million for misconduct, which is the largest fine ever imposed by the FSA.

But the bank's co-operation with the FSA entitles it to a 30 percent discount under the FSA's settlement discount scheme, and Department of Justice's assistant attorney general Lanny Breuer said that the bank took a significant step towards accepting responsibility for its conduct by being the first institution to provide extensive and meaningful cooperation to the government.

Tracey McDermott, the acting director of enforcement and financial crime at the FSA, said: "Barclays' misconduct was serious, widespread and extended over a number of years. The integrity of benchmark reference rates such as LIBOR and EURIBOR is of fundamental importance to both UK and international financial markets. Firms making submissions must not use those submissions as tools to promote their own interests."

"The BBA [British Bankers' Association] is currently undertaking a review of the way LIBOR is set and will publish its findings shortly. The

FSA, along with the other tripartite authorities, is working to support market-led reviews of existing arrangements, with the goal of ensuring such arrangements continue to command the confidence of all stakeholders."

Losing LIBOR

Breuer called LIBOR and EURIBOR "critically important benchmark interest rates", but some financial industry professionals have called for the most prevalent benchmark rates to be reassessed. The BBA, which has overseen LIBOR for 26 years, is working with the government and regulators to abolish rate manipulation.

In a recent blog post, Josh Calper, the managing principal of securities and investment research firm Finadium, said that reworking LIBOR could mean changing a healthy part of the asset management business.

He explained: "[It has been reported] that over 300 funds use LIBOR as a benchmark, including 200 UCITS funds. And there are a countless number of funds that have derivative contracts based on LIBOR in some way or another."
"Now that the benchmark has proven to be historically manipulated, that throws into question likely millions of benchmarks and contracts between asset managers, their clients and their trading counterparties. Probably there is nothing to be done about this at this point—the deals are done and money has already changed hands."

"However, if a 'clean' historical LIBOR were ever to get published, that could retroactively change the fate of over 300 funds' returns as well as the returns of thousands of investment pools as their correct returns [versus] LIBOR get calculated. Lawyers will be busy for years on that one."

Orangefield Group acquires London's Waterlow Legal

Amsterdam-based Orangefield Group, a service provider and fund administrator, has taken over Waterlow Legal and Company Services, a part of Wilmington Group.

This is Orangefield's sixth acquisition since 2011, following Hong Kong's ICS Trust last month. Waterlow provides corporate secretarial services, agency services and company formation services, including specialist and offshore company formations and post-incorporation services.

"The acquisition of Waterlow and its thirteen employees is an important step for Orangefield Group to strengthen its foothold in London," said a statement from the company."

Joep Bruins, the CEO of Orangefield, said: "The Waterlow staff provides services of the highest quality, with this acquisition we are increasing our capacity to provide clients efficient solutions in various jurisdictions worldwide."

Joanne Vines, manager of Waterlow added: "We know that Orangefield has the same service-oriented and innovative mind-set that enables us to continue to meet our clients' requirements with timely solutions."

CLPC chooses DST's HiPortfolio

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As a part of China Life Insurance Group, CLPC offers a wide range of pension and annuity services for customers across China.

By implementing the new asset servicing platform, the company is able to integrate the accounting and valuation process between the custodian bank and the finance practice in order to help reduce human effort, audit risk and avoid potential reconciliation errors.

Yong Wang, the head of information technology at CLPC, said: "We were looking for improvements in portfolio management, automation of reporting and more efficient handling of bulk transactions. HiPortfolio has helped various divisions work together more smoothly and therefore more cost-effectively."

The efficient and low-risk migration of data with HiPortfolio was of immense benefit, according to Wang.

Philip Hogan, managing director, Asia-Pacific, at DST Global Solutions, said: "Pension companies in China are under increasing pressure to improve operational efficiency and increase margins."

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DST and XSP in alliance

DST Global Solutions has teamed up with XSP to develop a corporate actions solution for investment accounting platform, HiPortfolio.

HiPortfolio's solution will be offered as a module powered by XSP, after clients expressed desire for improved operational efficiency in corporate actions. The solution will initially be made available in Australia and New Zealand, and is SWIFT 15022 compliant.

Philip Hogan, DST Global Solutions's managing director for Asia Pacific, said: "Our joint working relationship with XSP is expected to help reduce costs and risks for third-party administrators and fund managers automating corporate actions such as dividends, mergers and acquisitions and rights issues."

Geoff Harries, the global head of asset servicing at DST Global Solutions, said: "With the industry striving for greater efficiencies at all stages of the trading life-cycle, corporate actions have been identified as an area for improvement."

"The operational response needs to ensure that visibility and control is maintained and that investment accounting information, coupled with validated market data, is used to present complete, accurate and timely information to other parts of the organisation. I am convinced that the combination of HiPortfolio and XSP will deliver significant operational gains in this challenging area."

KLP Asset Management chooses Algo Risk Service

KLP Kapitalforvaltning (KLP Asset Management), the asset management subsidiary of Norwegian-based KLP Group, has selected Algorithmics's risk management and reporting service, Algo Risk Service.

KLP Kapitalforvaltning manages the assets of KLP Group and of KLP Funds's external clients. It plans to implement Algo Risk Service across all its asset classes and portfolios in order to create a more integrated risk management function that links its portfolio managers, risk managers and client advisors together, and facilitates the management of risk consistently across KLP.

Harald Harlem, the head of investment management services at KLP Kapitalforvaltning, said: "Our vision is to have integrated risk management within our business. We chose Algorithmics for their reputation, their interactive portfolio construction capabilities and for their holistic approach to risk management."

NAB has custody of Suncorp

National Australia Bank (NAB) Asset Servicing has been mandated to provide custody for Suncorp Group New Zealand.

The mandate was awarded to NAB Asset Servicing in partnership with specialist fund administration provider MMc.

"MMc were able to lift out and re-engineer the back office for Suncorp New Zealand, whilst NAB provided a domestic and global custody solution," said Peter Hele, managing director, product and strategic alliances, at NAB Asset Servicing.

Cencosud selects BNY Mellon as its ADR depository bank

Latin American retail conglomerate Cencosud has named BNY Mellon as the depository bank for its American depository receipt (ADR) programme.

Each Cencosud ADR represents three ordinary shares and trades on the New York Stock Exchange.

Cencosud has operations in Argentina, Chile and Peru, and it employs nearly 100,000 people.

"Cencosud is the first listing out of Chile this year and a noteworthy transaction, given global market conditions," said Michael Cole-Fontayn, the CEO of BNY Mellon's depositary receipts business.

"Being appointed depositary for this milestone only reinforces our presence in Latin America, and we look forward to working closely with Cencosud to raise the company's visibility among investors."

Milestone Group automates at BNP Paribas Securities Services

Milestone Group has completed the first phase of a programme to automate two processes at BNP Paribas Securities Services.

Milestone Group's fund processing solution, pControl, is now delivering fully automated NAV production and validations for BNP Paribas Securities Services's mutual funds operations and supporting triparty reconciliations for its alternatives administration business.

The first phase of the programme was delivered on time and has set the foundation for further roll-out in 2012.

"We sought an operational platform that would allow us to apply globally consistent controls to our fund accounting processes, reduce time-consuming activity and in so doing, improve client service," said Alexandre Pirlet, the global head of fund administration at BNP Paribas Securities Services.

"This is exactly what we get with pControl. The fact that it supports both NAV control and reconciliations enables us to realise further efficiencies of working within one system. And despite still being at an early stage of operation, the feedback on usability and delivery of anticipated benefits is positive."

Paul Roberts, managing director for Milestone Group in Europe, added: "Where pControl comes into its own is its ability to automate multiple operational functions on one platform specifically designed to support funds processing."

"It's often the case that companies come to us to solve a specific operational challenge and the relationship develops to the point where we become the broader strategic solution supporting multiple processes, fund types and locations, all via a single instance of pControl."

Milestone releases new white paper

A radical rethink of investment decisions in fund administration technology is needed, according to optimised fund processing solutions provider Milestone Group.

It has published a white paper that explores the "inherent limitations in traditional investment decision models" that prevent firms from achieving transformational efficiency gains in fund administration operations, said Milestone Group.

The white paper is entitled Efficient Fund Operations—Decision Making for a Leaner Future. It discusses how a new approach to decision making can "unlock a level of efficiency that is often sought, but frequently believed to be out of reach".

Milestone Group said: "It considers how technology-driven transformational investment projects can be protected from short-term market changes resulting in shocks to revenue, by placing the decision making process in the broader context of non-financial costs and benefits and a longer term investment time horizon."

"The funds industry has faced extreme and rapid change in recent years," said Geoff Hodge, the CEO of Milestone Group and the white paper's author. "This is no longer a passing trend but the new normal. The industry needs to recognise that to achieve sustainable profitability in an ever-changing market, the traditional investment decision making models must be reviewed."

He added: "The current climate makes it critical that any investment in operational change produces an operating model that enables the business to remain competitive, whatever the market conditions. Demand for transformational change in fund administration will therefore be best served by a deeper and more flexible approach to analysis of costs and benefits associated with investment decisions."

The new white paper is the first of three that will examine the role of operating model design and technology investment in achieving efficient fund administration.

Northern Trust nabs the next Generation again

Generation Investment Management has reappointed Northern Trust as the outsourcing provider of full investment operations for its asset management business.

The investment management firm originally appointed Northern Trust in 2005 to provide custody, investment operations outsourcing, fund accounting, transfer agency, performance measurement and client reporting for its funds in Dublin and the US State of Delaware.

"Since initially appointing Northern Trust, Generation has grown significantly," said Peter Harris, the COO at Generation Investment Management. "Outsourcing the majority of our operations to Northern Trust enables us to focus on managing our clients' assets and benefit from the company's global expertise and technologies. We are pleased to continue our broad relationship."

Laurence Everitt, the head of global fund services in the UK at Northern Trust, added: "Outsourcing reduces the administrative burden of asset management, enables cost-efficiencies, and has the potential to reduce operational risk."

Northern Trust's global fund services business provides custody, fund administration, and investment operations outsourcing solutions to investment managers across the globe and across asset classes.

It has 20 full outsourcing clients and another 20 component outsourcing relationships in Europe, North America and Asia-Pacific.

Convictions shows faith in BNP Paribas

BNP Paribas Securities Services has implemented a mandate to in-source the fixed income dealing activities of Convictions Asset Management.

Convictions AM, which currently manages €628 million in assets, wanted its portfolio managers to focus on investment analysis and selection so that they could adapt to challenging market conditions, according to BNP Paribas.

The asset management firm decided to outsource trade execution and liquidity sourcing to a specialist provider. It appointed five-year back- and middle-office partner BNP Paribas to the role.

In Q1 2012, BNP Paribas migrated Convictions AM's fixed income dealing activities onto Dealing Services, which is the outsourced dealing platform of BNP Paribas Securities Services.

Through the relationship, BNP Paribas has enabled Convictions AM's investment team to focus exclusively on its core investment management business. BNP Paribas has also identified new and diversified brokers and counterparties for the asset management firm, helping it to locate new liquidity avenues.

Alexandre Hezez, the chief investment officer at Convictions AM, said: "When we agreed this project with BNP Paribas we expected it to result in more time to concentrate on research and allocation, and that we would benefit from access to better liquidity. However, while the current delegation only concerns fixed income, BNP Paribas' dealing platform would have the necessary flexibility to allow us to take on new asset classes, should that ever become a consideration for us."

Philippe Boulenguiez, the head of dealing services at BNP Paribas Securities Services, said: "Once limited to the back and middle offices, outsourcing in asset management is increasingly moving towards the front office. Convictions AM is at the cutting edge of this trend and we're delighted to have developed a partner-oriented approach in which they benefit from information and wider market access."

Citi secures Victory

Citi Transaction Services will continue to provide fund services to Victory Capital Management and its Victory funds after its contract was renewed.

Victory Capital is an investment management firm that manages $22.7 billion in investment portfolios as of 30 April 2012. This includes the Victory funds, which is a family of more than 20 funds.

Citi will continue to provide administration and accounting services to Victory Capital and serve as the global custodian and transfer agent to the Victory funds. The contract renewal affirms a long-standing relationship between the firms.

"Over the course of our association, we have developed an extraordinarily strong working relationship with Citi," said David Brown, the co-CEO of Victory Capital.

"As our fund business and portfolios have grown, our servicing requirements have expanded and become more complex. Citi has delivered an increasingly broader suite of services—the right solutions at the right time—to support our investment strategy."

Citi's North America head of securities and fund services, Bob Wallace, said: "Victory Capital is an innovative firm, seeking new and better ways to achieve shareholder satisfaction and growth opportunities. Our goal is to bring the best of Citi's global network to our clients, supporting innovation in a flexible and cost-effective way. We're pleased that Victory has decided to renew its relationship with us, and we look forward to meeting their needs both now and well into the future."

Multifonds releases new product

Investment fund software provider Multifonds has launched a new product that allows fund administrators to consolidate their investor servicing and transfer agency operations into a single, industry-scale platform across all investment types.

The new product is the result of an extension of the former Multifonds Transfer Agent platform to fully support alternatives. It has been rebranded as Multifonds Global Investor.

Five administrator clients of Multifonds are committed to using Multifonds Global Investor. Three of these clients, including European Fund Administration, are already using the platform to operate alternative and long-only funds together on the single investor servicing and transfer agency platform.

The new product is supporting more than $1.2 trillion in assets globally.

It is designed to meet the investor servicing needs of both the alternatives and traditional markets, according to Multifonds.

It delivers functionality for alternatives, including partnership accounting, and for unitised funds, fund-level performance fees, using both investor equalisation, as well as series of shares processing.

For long-only funds, it delivers full fund distribution capabilities, including commission structures, and controls, such as 4-eyes checking, control reports, audit trail, investor risk adequacy check and linking order processing, with fund rules such as AML/KYC.

The new product supports fund structures such as limited partnerships, hedge funds with series of shares, hedge funds with equalisation, master/feeder fund structures, fund of funds and alternative UCITS funds, as well as mutual funds, money market funds, UCITS funds and unit trusts.

On top of the new product, Multifonds has recruited professionals to expand its alternatives expertise.

Sern Tham, the head of alternatives product, joined Multifonds from Citadel (Omnium). Tham leads a team that includes Jeff Sedgwick, who recently joined Multifonds from Advent.

Multifonds recently opened an office in Ireland, a leading centre for alternatives, which is headed by Alan Raftery, who previously led Koger's Dublin operations.

In the US, Peter Muldoon has joined Multifonds from Linedata, where he was responsible for the Mfact and Mshare products globally.

Oded Weiss, the CEO of Multifonds, said: "We are delighted to offer clients a proven, scalable solution for alternative as well as traditional funds. Multifonds Global Investor is the only transfer agency product that can offer a combined long-only and alternatives solution."

"As a single platform across different fund types, it enables our clients to reduce their cost of ownership, deliver consistent reporting to both managers and investors, and improve operational efficiency through implementation of a consistent operating model."

Standard Chartered expands regional custody

Standard Chartered Bank will expand its regional custody coverage for investors from its MENA regional hub in the Dubai International Financial Centre.

The service now covers more than 40 markets across Asia, Africa, and the Middle East.

Farooq Siddiqi, the regional head of transaction banking in MENA at Standard Chartered, said: “This expansion is a clear example on how we are leveraging our network to benefit our clients and the wider region. We are already seeing intra-regional and international investment flows in the markets that we cover and this will only grow over time.”

The expanded coverage leverages the bank’s custody capabilities in Africa and enables Standard Chartered to provide custody solutions to Middle East investors and intermediaries.

Fidessa releases derivatives markets white paper

Fidessa has a new white paper, For Whom the Bell Tolls, which examines how the previously separate OTC and exchange-traded markets are being brought together by overlapping regulations.

It considers three key changes in detail. First, it looks at the drive to move bilateral OTC trading onto centrally cleared, electronic platforms. Doubting the validity of the regulators’ belief that this approach is intrinsically safer, it considers the subtle interplay between the US Dodd-Frank Act and EMIR, and discusses some of the unintended consequences that could result.

Second, the paper examines the growing competition that is emerging between the derivatives venues themselves and discusses how this will affect market participants.

Finally, it turns its attention to clearing and the interplay between the OTC and exchange-traded markets.

“Just as we saw with equities, regulation and technology are combining in new ways and firms need to decide how they are going to run this particular gauntlet,” said Steve Grob, the director of group strategy at Fidessa and the author of the paper.

SGSS offers UCITS solution

Societe Generale Securities Services (SGSS) has launched a turnkey solution to enable asset management companies and third party managers to create, manage and promote UCITS funds.

The UCITS label enables asset managers to distribute UCITS funds in every EU country. It also offers guarantees of transparency, risk control and liquidity for investors, according to SGSS.

SGSS’s solution offers a Luxembourg legal structure that fulfills EU regulations.

The solution is aimed at asset managers globally that do not want, or do not have, the means of creating a UCITS-registered asset management firm, so that they can benefit from the UCITS label.

SGSS will use Luxembourg-based asset manager Societe Generale Private Wealth Management’s expertise, which meets all UCITS regulatory requirements, according to SGSS, to offer the solution.

Neuberger Berman selects J.P. Morgan

Employee-controlled investment manager Neuberger Berman Management has selected J.P. Morgan Worldwide Securities Services to provide it with securities services.

J.P. Morgan will provide integrated prime custody services, fund accounting and fund administration for the recently launched Neuberger Berman Absolute Return Multi-Manager Fund.

The new fund seeks capital appreciation with an emphasis on absolute returns. It allocates its assets to multiple hedge fund advisers that employ distinct alternative investment strategies, according Neuberger Berman.

The fund is the first of its kind from an asset manager with the size and operational infrastructure of Neuberger Berman, and members of its fund of hedge funds team manage it.

Robert Conti, the CEO of Neuberger Berman Management, said: “We believe that alternative mutual fund solutions—‘liquid alternatives’—are ready to enter the mainstream of retail mutual fund investing. Neuberger Berman is well placed here, with our deep experience in mutual funds and significant alternatives business.”

“The fund is applicable to investors who have historically not been able to access hedge fund strategies as well as institutions that seek liquid and cost-effective solutions. Our decision to partner with J.P. Morgan reflects our confidence in their ability to support us across this multi-faceted and diverse set of strategies.”

Centro Fund Services launches in South Africa

Point Nine Financial Technologies, Prime Administration and the IDS Group have joined together to form Centro Fund Services, an independent middle office service provider to the South African investment manager market.

The deal marks the first time web-based technologies have been used to deliver enterprise service solutions to the South African fund management market.

Centro Fund Services offers day-to-day portfolio administration covering trade capture, counterparty trade reconciliations, settlements, and reconciliations with other third parties such as fund administrators, prime brokers and custodians.

It allows fund managers and their investors to maintain oversight of the middle office function by providing real-time access to a wide range of activities—including transactions, positions, shadow NAV and counterparty risk—through Point Nine’s proprietary web-delivered Circle platform.

Insightful times: 25 years on the clock and counting

AST talks to Jeffrey Holland of Brown Brothers Harriman about how he sees the future of custody after more than two decades in the business

GEORGINA LAVERS REPORTS

How did your career begin?

I really came into the financial industry through working for what is now called Accenture, in the financial markets section of that group.

I worked with a number of asset management firms and stock exchanges for the first five to six years of my career. During that time I lived in Frankfurt, New York and Boston. When I was in Boston, in the mid-1990s, one of my clients was Brown Brothers. I often joke that Brown Brothers offered me a job just to save money on consulting fees, but I ended up at a firm that I admired, particularly its approach to client partnership and client service, and I started work in the operations area.

We underwent a transformation in the early 1990s, growing significantly in the fund space, particularly in the US. In 1998, I moved to Ireland to take over the Dublin business, as the financial centre there was taking off, and until 2005, I was a council member, and eventually head of, the IFIA (Irish Fund Industry Association). It was through this that I met Sean Pairceir, who we hired to head the Dublin office in 2000. I didn't leave until 2005, when I moved to London, and shortly afterwards I became a partner of the firm.

In 2007/2008, we reorganised the management of our business to align to our client segments globally, as opposed to our geographical regions, and I became head of our financial institutions business globally. And that's where I sit today.

Is the distinction being blurred between sub and global custodians?

I think it depends on your perspective. If you're talking about sub-custody, inbound custody, then I would say absolutely. What we are seeing in light of AIFMD (Alternative Investment Fund Managers Directive), T2S and the like is that there are some banks that are beginning to get into self-clearing, and extending their proprietary network in an effort to create more control over the assets for which they are responsible.

You see CSDs moving up the value chain and global custodians moving down, in the form primarily of both costs and safekeeping of assets. If you look at it the other way in terms of a manufacturer/distributor, I would say that the distinctions are becoming clearer.

Many local and regional banks are starting to recognise that they're acting more as distributors to local markets for asset management, private banking, investment banking, and retail banking, and the fact is that custody is a component of the service that they offer. They do not need to be a global custodian in their own right, as they can hire those services. I think that people haven't yet formally made that distinction—they are trying to hold on to the world that was.

What about custody in the regions?

Increasingly, you find that people are looking for more standardisation across the globe, so I don't think the distinction has increased. There's still some distinction by market with regards to regulation and tax, but recent times are forcing us to change. The other thing to consider is that markets such as Dublin are very different to New York or Frankfurt, in that Dublin is almost entirely a cross-border funds centre. The US, like France or Germany, is much more of a domestic centre, whereas Dublin and Luxembourg are much more international.

What do you see as the main priority for institutional investors in 2012?

Right now, there are two major factors; safety of assets and price. They're a bit at odds with each other, and that was one of the themes that came out of NeMa, the recent network management conference in Budapest. There is an increasing awareness, and I finally saw a little more realism, especially among the network managers, that the environment we're in requires a lot more focus on costs and transparency, and at the same time, people are expecting others to take more responsibility for assets and regulation.

How did you find NeMa?

I go to NeMa primarily to network and see what people are talking about. There was far more realism, transparency and awareness of some of the key issues. John Gubert of Unicredit was moderating a panel in which I participated, and as we went from panelist to panelist describing the current state of the industry, just to be contrary, I said that I was optimistic. We welcome the increased appreciation for transparency. Clients are now more open to having realistic conversations with us about how assets are held. We do not glean over risks in favour of returns. From our perspective, having a realistic dialogue upfront is an advantage. We probably earned less than others during a turbulent time, but we, and our clients, were definitely affected less later. AST

Jeffrey Holland
Partner
Brown Brothers Harriman

The Iberian gateway

T2S looks set to change the way Iberian countries Spain and Portugal do custody, as AST discovers

GEORGINA LAVERS REPORTS

Securities settlement harmonisation has always been critical for Spain and Portugal, but with T2S approaching, it is vital.

The deadline for European CSDs to indicate whether or not they would sign the T2S Framework Agreement was 30 June 2012, a key milestone in the T2S project.

On top of the first group of nine CSDs that have already signed up for T2S in May 2012, including Spain's Iberclear, another 15 CSDs have recently announced that they will join T2S, with Portugal's Interbolsa among them.

The to-do list for countries before the project gets underway is lengthy, with Spain's tasks being particularly extensive. The country must examine how T2S fits with multilateral trading without a CCP, evaluate the viability of a CCP for equities to simplify the pre-settlement processes, and most importantly, to make a number of decisions to bring Spain's current post-trade processes inline with European standards and practices.

With T2S expected to go live in June 2015, "Spanish custody looks open to significant transformation in the next few years," said an insider at a major Spanish bank. "In 2010, Spain had just over €1.5 trillion in eligible assets, a figure incomparable with that of the UK or US."

"We have an odd central clearing system, with no netting and each trade settled individually; but if T2S happens like it should, this will all change."

Other changes are set to change the face of the Spanish banking system, with the crisis leading to increased centralisation. Two years ago, more than a third of the 80 custodian banks registered with the Spanish Central Securities Depositary (Iberclear) were local savings banks—or cajas—and they were only registered with Iberclear for custody of Spanish public debt. Now, a series of deals has slashed the number of cajas from 45 to less than 10 since the country's banking crisis took hold.

The Bank of Spain has already nationalised and sold off the troubled cajas Unnim (bought by BBVA) and CAM (bought by Sabadell). Banca Cívica, which is another merged caja that was listed on the stock market in the summer of 2011 along with Bankia, was merged with Caixabank, and three unlisted Spanish savings banks—Liberbank, Ibercaja and Caja3—will combine to create Spain's seventh-biggest lender by assets.

Aside from the cajas, the market is dominated by Spain's four largest banks: Santander, BBVA, La Caixa d' Estalvis and Caja de Ahorras de Madrid.

Staying in the market requires ever-increasing capital, and insiders doubt that any of the smaller custodians will want to make this investment. Boards of small- and medium-sized custodians are looking at how to withdraw from the business, often using global custodians and administrators to pick up elements of their back-office servicing, such as collateral management and stock lending.

"Domestic Spanish investors don't ask for such a wide range of services that investors in other markets demand, probably because we simply don't offer them," said the source. "[Spanish custodians] don't tend to provide value added services commonplace in other markets, so price competition is limited to plain custody and settlement services. Again, this will change as T2S comes into place."

View from the bridge

There are far-reaching ties that still exist between the Iberian peninsula and South America, and so major players such as State Street and BNP Paribas have settled in Portugal to access the developing Latin American markets, seeing the country as a strategic gateway to Brazil, South America and parts of Africa. Deutsche Bank also began offering custody services in 2008, with the bank establishing a direct link between its Euronext platform, Interbolsa, and Banco de Portugal.

Another rival in the Portuguese and South American custody markets is Banco Santander, with local Portuguese custody banks, including Millenium BCP, Banco de Spirito Santo, and Caixa Geral de Depositos, also offering healthy competition.

AST talks to a spokesperson from Spanish banking group BBVA, which also maintains a strong presence in Portugal, about Iberian custody.

What is the situation with sub-custodians?

From our perspective, and as per the feeling perceived from clients and prospects, the time for sub-custodians has not passed. On the contrary, we consider that, more and more, clients are demanding the local expertise of a local agent: the 'local touch' is a must for markets such as the Spanish one. We feel that the focus on value-added services such as corporate action and tax reclaim services will help us to differentiate ourselves, as a local agent, from other competitors.

In the following years, we are sure we will see an increasing competition scenario, in which there will be changes in the roles and business models of custodians and CSDs. We anticipate big opportunities as well as big threats for every player in the post-trading infrastructure.

We think that all of the forthcoming changes in the Spanish and European marketplaces will, in relation to infrastructures, give BBVA the opportunity to increase the service offering to those financial institutions that will not meet the minimum requirements to have direct access to such infrastructures.

What other services are clients looking for when they send out RFPs?

As per the last RFPs received, there is a strong demand on liquidity and collateral services as well as securities lending. The current situation demands a more proactive management of collateral services and local agents are key in order to provide such liquidity services. In the past, these types of services were included in the custody services fees. However, we see that unbundling as key in order to decouple such services from the pure custody services.

In addition, the most advanced technology related with the value-added services that local agents perform is highly valuated. In order to be able to cope with our clients' and prospects' demands, a brand new internal system called NSCV (Nuevo Sistema Corporativo de Valores) went live two years ago, covering all of the cornerstones of asset servicing. The NSCV platform is an in-house proprietary platform that is designed to provide securities and custody services for the whole bank, ie, institutional clients, retail and collective investment vehicles, as well as for domestic and foreign securities.

With the implementation of NSCV, our clients have benefited from increased STP processing, as well as from enhancements on transactional control, higher flexibility in terms of SWIFT reporting and improved management capabilities.

What changes relating to derivatives will we see in the near future?

We do foresee that regulation will be key in order to dispel some of the concerns about derivatives. In this regard, the role of central counterparties in the clearing process will be a significant factor in order to eliminate counterparty risk.

How would you describe the custody market in Iberia?

Specifically referring to Spain, the custody market is deeply changing. Irrespective of some specific features that could be not homogeneous if compared with the post-trading models of EU member states, the Spanish market has proven to be one of the most secure infrastructures within Europe. The fact of being such a controlled market has revealed its strong position to face the current crisis (ie, the Iberclear delivery guarantee mechanism applied to On Exchange Activity, the tight control of naked short selling that allows our registry system). AST

Industry appointments

Patrick Birley will be chief commercial officer of NYSE Euronext's (NYX) new full-service clearing house in London, which is due to commence operations in June 2013.

Birley joins NYX's senior management team for clearing at an important time, following the news that, subject to regulatory approval, NYSE Liffe Clearing will be expanded next year to become NYSE Clearing—a fully integrated Central Counterparty (CCP), serving multiple markets.

He will report to Mark Ibbotson, executive vice president of global clearing at NYX, and work alongside Declan Ward, executive director and head of NYSE Liffe Clearing.

It has also been reported that **John Tanner**, post-trade business architect at the London Stock Exchange, has left after 25 years of service, as the LSE diversifies beyond cash equities.

RBC Dexia Investor Services has appointed **Simon Hirtenstein** as head of portfolio solutions within its market products & services (MPS) team.

Reporting to Susan Pike, global head of market products & services (MPS), Hirtenstein will be based in RBC Dexia's London office and work closely with MPS product managers. He will direct the necessary support to enterprise custody sales, product pricing, product rollouts and enhancements. In addition, he will be responsible for direct sales of market products and services on a third party basis.

Prior to joining RBC Dexia, Hirtenstein held a number of senior leadership roles in Canada, the UK and Bermuda, including a position at HSBC Securities Services where he led a program that built and introduced a third party securities lending platform. Most recently he was a consultant director with SIAM consulting, a business focusing on strategic consulting, operational improvement, product development and offshoring. His previous roles included senior relationship manager, offshore, at Barclays Wealth, where he built a business proposition to provide client solutions in the fund and private equity sectors, and vice president, senior business change manager at HSBC Bank Bermuda.

Susan Pike commented: "We welcome Hirtenstein to RBC Dexia and look forward to the strong contribution he will make in assisting product managers to maximise client returns with our securities lending programme and in supporting our unique suite of market products and services.

"His experience in senior, global positions demonstrates our ability to attract top talent and our commitment to developing customised and client-centric market product solutions."

KB Associates has chosen **Bjørn Barbesgaard** as a senior consultant in Luxembourg.

Barbesgaard will be responsible for advising asset managers on the establishment of funds in Luxembourg and performing the role of director/conducting officer of Luxembourg investment funds.

Barbesgaard has been active in the financial services industry since 1978, previously acting as managing director at Nordea Investment Funds S.A. where he was responsible for a number of Nordea SICAVs.

He has also held executive positions in a number of jurisdictions with Chase Manhattan Bank, Bank of America and Banque Internationale a Luxembourg. He was a director of BIL Funds Services both in Luxembourg and Ireland and of various BIL banking subsidiaries worldwide.

Citi has made **Richard Street** the EMEA head of client sales management for investors.

Street joined Citi in 1993 and has managed its securities and fund services franchise across the Middle East and Pakistan. He has been based in Dubai since September 2007.

In his new role, Street is responsible for Citi's investor client sales management teams across EMEA. He will work to develop the EMEA investor franchise and build enduring relationships with investor clients.

Street will report to Tom Isaac, the global head of client sales management for financial intermediaries, and Richard Ernesti, the global head of investor client sales management.

Piers Murray will be Deutsche Bank's global head of fixed income prime brokerage in markets clearing.

Reporting to Jon Hitchon, the head of markets clearing, Murray will begin in Deutsche Bank's New York offices in September.

Prior to this appointment, he was the global head of rates clearing at J.P. Morgan. **AST**

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