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# Australia’s securities commission protects custody’s rep

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High profile flops in the financial services industry, such as Trio Capital’s 2009 collapse, have led the Australian Securities and Investments Commission (ASIC) to produce a report on custodial and depository services in Australia.

The collapse of the investment firm featured a loss of $176 million, in what was the largest superannuation fraud in Australian history.

Around 5400 people who had their money invested in Trio Capital through regulated super funds have shared $55 million in compensation, but another 690 direct investors and people in self-managed funds missed out.

After the event, federal parliament’s joint committee on corporations and financial services said that regulators APRA and ASIC must take their share of the blame for the slow response to the fraud.

The committee also argued they hadn’t done enough since then to recover any outstanding money or pursue those responsible.

“There appears to have been very little follow-up activity,” said the committee’s final report. “The committee strongly believes there needs to be a renewed focus and energy on the part of ASIC, APRA and the AFP into pursuing every avenue to seek redress for Trio investors and to bring to justice all involved in this scheme.”

ASIC’s most recent report seeks to restore its reputation, identifying a number of key risks to the safety of client assets and recommending some matters of ‘good practice’ that custodians and responsible entities may need to consider.

Concerns over the safety of investment assets that custodians hold, the duty of care custodians exercise, and whether custodians have appropriate internal controls

readmore p2

## ASTINBRIEF



## Euroclear UK & Ireland reduces fund fees

Euroclear UK & Ireland (EUI) has cut its investment fund order-routing fees for both high- and low-volume clients with immediate effect.

readmore p2

## Chinese bank licenses XSP product

Industrial and Commercial Bank of China Financial Services (ICBCFS), a wholly owned subsidiary of ICBC, has licensed XSP’s newest product, XSPrisa.

readmore p3

## Australia's securities commission protects custody's rep

Continued from page 1

to ensure the safety of assets held for others, are all topics addressed in the report.

At the end of 2011, approximately $1.8 trillion of assets of Australian investors were held in custody, a figure that is "expected to more than triple over the next 15 years to $6.4 trillion", according to the report.

Key issues that ASIC addresses include unauthorised debiting of omnibus accounts, stability and safety of IT systems, operational risks that are created by manual and disparate systems, reporting in relation to suspicious third-party valuations, breach reporting relating to custodial and investment administration services, and the risks inherent in corporate actions, such as share buy-backs and rights issues

For each point, ASIC has highlighted key aspects of good practice—in line with its current regulatory guidance.

"Custodians are important gatekeepers in that they have access to information, including real-time data on the flow of money through investment products, unavailable to ordinary investors," said ASIC commissioner Greg Tanzer.

"However, there are concerns about an expectation gap between what is legally required of custodians and what investors expect the custodian to be doing to safeguard their investment."

"In order to promote confident and informed investors, and fair and efficient financial markets, we are also considering the need for clear disclosure about the role and description of custodians given that the term may create misconception among retail investors about the role of custodians."

The report, '291: Custodial and Depository Services in Australia', also foreshadows ASIC's intention to consult with industry about updating its regulatory guidance for the holding of scheme property.

In addition, ASIC proposes changes to the financial resource requirements of custodians, and the requirement of responsible entities and other financial product issuers to provide clearer disclosure about the role of custodians in retail marketing material, including product disclosure statements.

The report aims to inform users of the custodial industry, and is not intended to propose any new regulatory requirements or standards.

Separately, ASIC will issue a consultation paper on proposed changes to the financial resource requirements of custodians in the near future. This is part of a more general review of financial requirements that ASIC is undertaking for sectors within the financial services industry.

## Euroclear UK & Ireland reduces fund fees

Continued from page 1

The tariff for 10,000 or more orders per year has been cut by 9 percent, rising to a reduction of 33 percent for clients routing more than 25,000 orders per year through the EMX Message System.

EUI's fund order-routing fees are structured on a sliding-scale basis where higher message volumes are rewarded with lower fees. "The new tariff reflects economies of scale and provides greater savings for customers that route more orders through EUI using the EMX Message System," said a statement from the firm.

"Clients can also make meaningful savings through a new 'family concept' where fund orders generated by all clients of the same group will be aggregated to benefit from lower tariffs higher up the sliding scale of fees."

John Trundle, the CEO of Euroclear UK & Ireland, said: "Our fund services have grown and we are sharing the benefits of scale economies with our clients and will continue to do so in the future. We welcome the 30 new clients that signed up to our fund services over the past few months."

## Chinese bank licenses XSP product

Continued from page 1

Kevin McKeown, the COO at ICBC Financial Services, said: "At ICBCFS, we strive to drive business value and innovation to our global client base. With XSP's new solution, XSPrisa, we are able to quickly provide our clients with sufficient, secure and timely data whether domestic or international.

"We are experiencing strong growth in the market with an increased amount of international trading that led us to make the decision to search for a corporate actions automation solution that would help us reduce risk and deliver immediate results."

"XSP's proven corporate actions expertise and excellent hands-on client service are the perfect blend. My team has the comfort of knowing that they have access to a live person that understands the complexities of this market."

## Clearstream's June 2012 figures show 2 percent decrease

Post-trading services provider Clearstream of the Deutsche Börse Group has released its

June 2012 figures, revealing that the value of its customers' assets, which it holds under custody on their behalf, was €11.1 trillion—a 2 percent decrease from June 2011's figure of €11.3 trillion.

Securities that are held under custody in Clearstream's international business increased by 2 percent from €5.9 trillion in June 2011 to €6 trillion in June 2012.

Domestic German securities that are held under custody decreased by 6 percent from €5.4 trillion in June 2011 to €5 trillion in June 2012.

## Titanium Finance mandates Societe Generale

Societe Generale Securities Services (SGSS) in Luxembourg has won the right to provide Titanium Finance with trustee, pricing, transfer agent and registrar services for its first Luxembourg asset management structure.

SGSS in Luxembourg provides services including trustee, central administration, pricing, paying agent, transfer agent and registrar services, and is a listing agent on the Luxembourg stock exchange.

Founded in 1998, Titanium Finance is a Swiss capital management company with assets under management totalling £145.2 million (220 million Swiss francs).

## DTCC predicts end of physical certificates

DTCC has outlined a proposal to fully dematerialise the US financial services industry, helping to reduce the costs and risks that are associated with existing physical securities.

The multi-year programme is designed to further drive the elimination of all remaining physical certificates in the US market. The white paper, 'Strengthening the US Financial Markets: A Proposal to Fully Dematerialize Physical Securities, Eliminating the Costs and Risks They Incur', stated that "complete dematerialisation will contribute to a more cost-effective, efficient, secure and competitive US marketplace," calling for the input and cooperation of all industry sectors.

While the campaign to immobilise and dematerialise the US financial markets has been very successful to date, the industry still faces a remaining fixed-cost base that will disappear only once it achieves complete dematerialisation, the white paper said.

"Thanks to the success of ongoing dematerialisation efforts, the economies of scale for physical processing have been reversed: the fixed costs incurred to support physical processing are being recovered through dwindling transactions," according to the white paper.

"This paper is a call to action," said Susan Cosgrove, DTCC managing director and general manager, settlement and asset services.

"We're asking all sectors of the industry—stakeholders, banks, brokers, transfer agents, regulators and industry associations—to partner with us and to provide in-depth feedback on the proposals in this paper and help identify key, value-added services DTC can give market participants to accelerate the drive toward full dematerialisation."

Depending on the industry's response, DTC could begin implementing recommendations for its dematerialisation campaign in 2013, with the goal of reducing and ultimately eliminating physical processing over the following three-to-five years.

## J.P. Morgan integrates teams ahead of regulatory reform

J.P. Morgan has integrated the teams responsible for brokering client derivatives and securities trades with those that look after the back office aspects of those trades in response to regulatory reforms.

The consolidation became effective at the end of June.

As early as the end of 2012, the US Dodd-Frank Act could push many OTC transactions into clearinghouses, while Basel III capital rules, which will be implemented at the beginning of 2013, could force firms to begin posting margin upfront on trades.

Before the consolidation, J.P. Morgan Worldwide Securities Services handled securities clearing, but some OTC derivatives or swaps clearing took place within the investment bank, which was already acting as broker on cleared futures and options that were traded on exchanges.

J.P. Morgan's brokerage services for customer trading are now combined with the group that helps clients to source and manage assets that are required to fortify trades under the new rules.

It believes that combining three business lines into one will make it more efficient to trade under the new rules. This will benefit existing clients and attract new ones.

Emily Portney, who is already the global head of futures and options within J.P. Morgan's investment bank, will lead the consolidated business lines in an expanded role that also has her overseeing clearing and collateral management.

## J.P Morgan launches tax service for UCITS funds

J.P. Morgan Worldwide Securities Services has launched its tax calculation and reporting service for UCITS funds that are distributed into the UK.

The UK service currently calculates tax for more than 320 funds and 2000 share classes across the WSS client base.

The service, which is delivered through J.P. Morgan's proprietary tax reporting system, Fund Tax Reporter (FTR), provides investor tax information in compliance with HM Revenue and Customs and HM Treasury regulations and guidelines.

FTR is fully integrated with J.P. Morgan's fund administration services, enabling fund promoters to distribute their products to countries that require tax reporting for end investors.

Francis Jackson, a Worldwide Securities Services EMEA markets executive at J.P. Morgan, said: "The launch of the UK tax service demonstrates our continued commitment to providing solutions for the more complicated aspects of fund distribution for our clients.

"The FTR platform covers a range of markets, which we are ready to grow further as tax requirements change and our clients seek new channels for fund sales."

## BNY Mellon addresses key OTC inconsistencies

The transformation of OTC derivatives markets globally is having a substantial impact on how derivatives are used, according to a BNY Mellon report.

The report, 'Sovereigns in Search of Solutions: OTC Derivatives Reform', said that the reform raises particularly challenging questions for sovereign institutions.

"Sovereigns are generally regarded as low risk counterparties, and as such have not generally been required to provide collateral," said Jai Arya, the head of BNY Mellon's sovereign institutions group.

"With global regulatory reforms, however, precisely what is in and out of scope with respect to sovereigns remains murky. The classification of sovereigns and subsequent variation in Basel III capital adequacy rules must be addressed to avoid market distortions and regulatory arbitrage.

In addition, the cost of compliance to the new rules could potentially hit sovereigns—and those servicing sovereign counterparties—very hard."

The report noted that the continuing debate over 'extraterritoriality', which is defined as the applicability of a set of rules outside of the direct jurisdiction of the overseeing regulator, adds further complexity.

"We expect that a common approach will be reached between the major strands of regulatory reform to avoid market distortions and regulatory arbitrage, but inconsistency and conflict between national and supranational rules persists," said Nadine Chakar, the head of Derivatives360 at BNY Mellon.

"Until a consistent framework of exemptions from both capital adequacy and clearing requirements across jurisdictions may be agreed, sovereigns may find that their OTC derivatives activities become subject to mandatory clearing."

## Menzis appoints BNY Mellon in the Netherlands

BNY Mellon will provide custody and other value added services to Menzis, a Netherlands-based health insurance company.

Based in Wageningen, Menzis has approximately €2 billion in assets. BNY Mellon will record all unit holdings in Menzis's various pooled funds, its liquidity and return portfolio, and related underlying mandates. It will also provide consolidated fund accounting on a monthly basis.

Other services include cash transfer services, performance measurement and reporting, input for reporting to the Dutch regulatory authorities on a monthly basis, as well as Solvency II reporting, and annual reporting for Menzis's three pooled funds.

Ruben Wenselaar, the CFO at Menzis, said: "We were looking for a stable partner in the asset servicing space. Being able to turn our data into information is key in today's markets and BNY Mellon is well placed through their online portal with advance interactive reporting, as well as simple cash authorisations through their iPad app."

Leonique van Houwelingen, a country executive for the Netherlands, said: "After a thorough due diligence procedure, Menzis recognises our unique position in the Dutch market when it comes to supporting complex Fonds voor Gemene Rekening pooled fund structures and insurance companies."

## Comada uses QuoVadis for hedge fund investors

Comada, a solutions provider for hedge fund investors, has migrated its servers to a QuoVadis Services data centre.

A statement from Comada stated that the new centre enhances the levels of security for clients. Rupert Vaughan Williams, the co-founder of Comada, said: "Security is a key requirement for today's fund managers and their investors. With QuoVadis we are still able to offer clients robust solutions when compliance requirements mean they are unable to host software or data in a multi-tenant environment."

Gavin Dent, the CEO of QuoVadis Services, added: "QuoVadis has provided IaaS hosting to Comada for eight years, working with the company to support their fast growth and technology evolutions. By focusing on the performance, availability and security of the underlying platforms, QVS allows Comada's team to focus on evolving the software at the heart of their services."

## Broadridge releases white paper for mutual fund nominees

Broadridge Financial Solutions has released an industry white paper that explores UK market views on the specific requirements that are set out in Chapter 5 (investing in authorised funds through nominees) of the Retail Distribution Review (RDR).

The UK Financial Services Authority launched the RDR in June 2006. The review targets the quality and standard of advice available in the financial services sector.

Chapter 5's rules relate to firms that provide nominee services to retail investors that invest in authorised funds. The rules demand the timely distribution of certain mutual fund information and notification of voting events to all underlying investors.

The aim of the new rules is to supply investors who access authorised funds through a nominee with the same information as those holding units in funds directly. Mutual fund nominees—or intermediate unitholders—will have to make information that informs an individual investor about its investments, such as short reports, available.

"Since the circulation of the RDR consultation paper in 2010 little has been discussed about this particular section of the regulation and its subsequent Policy Statement 11/09 and, as firms manage the broader requirements of the legislation, we believe it is in danger of being overlooked," said Bruce Babcock, who is president, investor communication solutions international, at Broadridge.

Broadridge's white paper, 'RDR Intermediate Unitholder Obligations—the Developing Landscape for Nominees and Retail Investors', has been produced in association with UK specialist benchmarking and research organisation, ComPeer.

The white paper is based on industry research and interviews with market participants, including wealth managers (execution only, discretionary and advisory firms) and platform providers. It provides insight into the potential impact that these new rules may have on those holding nominee accounts—banks, brokers, mutual fund holders and fund platforms—and delivers an overview of the challenges and concerns that firms may face.

It recommends that firms should consider moving to an electronic communications environment, implement strategies to manage potential costs and plan ahead for future regulation.

Babcock said: "This piece of research aims to bring attention to the obligations and strategies that need to be considered and adopted by banks, brokers and platform providers in the UK to support their efforts in meeting approaching compliance deadlines, for, even with the possibility of deferral, the guidelines will stand and compliance will be necessary in the near future."

## Northern Trust grows Australian asset servicing division

Northern Trust has stated that it intends to grow its asset servicing business in Australia, with a significant increase in assets and the addition of new staff in its Melbourne office.

Christopher Thomson has joined as business development manager, a key role as Northern Trust aims to build on its base of 14 institutional clients with AU$137 billion in assets under custody in Australia and New Zealand.

With the addition of Thomson and other professionals, Northern Trust's team in Australia has grown by 54 percent in 2012. This, the company stated, is to support existing clients and prepare for future growth in master custody and middle office services for superannuation funds, investment managers, insurance companies and sovereign wealth funds.

"Strategically, Australia is a key market for Northern Trust, and we continue to invest in people and global capabilities to meet the needs of our growing client base of sophisticated institutional investors," said Rohan Singh, managing director for Northern Trust Australia.

As a result of its growth, Northern Trust has secured additional space at 80 Collins Street, Melbourne. Key appointments during the past two years include senior positions in investment operations outsourcing, custody relationship management and product management, as well as investment risk and analytical services.

Thomson comes to Northern Trust with three decades of financial industry experience, most recently as a sales and relationship manager with J.P. Morgan Treasury Services in Australia. He has also served as a client relationship manager and investment operations manager with other firms in Australia, including Goldman Sachs, JBWere and State Street Australia. Thomson reports to Jeremy Hester, the head of business development for Northern Trust Australia.

"Thomson brings strong investment management and product knowledge and extensive operational and strategic management experience in Australia, which will be valuable to Northern Trust and our clients," Hester said.

"The addition of Thomson to our growing staff reflects Northern Trust's ongoing commitment to the Australian and New Zealand markets."

Since entering the Australia market in 2006, Northern Trust has grown to AU$137 billion in assets under custody and in excess of AU$60 billion (for three investment operations outsourcing clients), in assets under administration as of 30 June 2012.

Recent client wins for middle office outsourcing include the AU$24 billion Commonwealth Superannuation Corporation and Queensland Investment Corporation, an Australian institutional fund manager.

## Growth of ETF services at RBC Dexia with Swiss & Global mandate

Swiss & Global Asset Management has chosen RBC Dexia Investor Services to provide custody and fund administration to four recently launched ETFs.

Swiss & Global's four new Luxembourg-domiciled JB Smart Equity ETFs are UCITS IV compliant, fully invested in equities and do not use derivatives.

The funds are the first active equity ETFs listed on Xetra, a worldwide electronic securities trading system that is based in Frankfurt, Germany. The funds aim to outperform their benchmarks by combining two proprietary systematic strategies into one portfolio to exploit price trends and valuation anomalies.

"RBC Dexia has developed its ETF services globally to meet the evolving needs of their clients and implemented the solution for Swiss & Global by leveraging capabilities in three time zones to deliver the specific requirements for their ETF products," said a statement from the company.

"We needed a customised ETF service solution and RBC Dexia's flexibility and ability to respond with a specific ETF custody and fund administration servicing allowed us to launch our latest innovation in the UCITS space successfully and timely," said Martin Jufer, a member of the executive board at Swiss & Global Asset Management.

## State Street does Goldman Sachs deal

State Street has confirmed that it will acquire hedge fund administrator Goldman Sachs Administration Services (GSAS) from the Goldman Sachs group in a deal worth up to $550 million, making the firm the top hedge fund administrator in the world based on industry data.

State Street already provides a suite of middle office, fund administration, risk analytics and credit services to hedge funds, private equity funds, real estate funds and institutional investors. Its alternative investment solutions (AIS) team has more than 3,000 employees in multiple offices around the world.

In GSAS, State Street is purchasing a global service provider to hedge funds that administers approximately $200 billion in single manager hedge fund assets on behalf of approximately 150 investment manager clients from locations across the globe.

The $550 million deal, which is subject to regulatory approvals and other conditions, will go through in Q4 2012. The deal does not include Goldman Sachs's prime brokerage business.

State Street expects the deal to "be accretive in the first full year of operation on a cash basis", it said in a statement.

It added that GSAS employees, including client-facing staff and the management team, will join State Street once the deal is finalised.

George Sullivan, executive vice president and the global head of State Street's AIS team, said: "GSAS is a premier provider of hedge fund administrative services and represents a strong franchise supported by longstanding relationships with highly regarded clients and an industry-leading service philosophy similar to our own. Servicing alternative assets remains a strategic focus for State Street."

"We expect that GSAS clients will benefit from State Street's robust and flexible global servicing platform that is scalable for funds of all types and sizes. Our continued investment in our global operating platform and technology solutions makes us well-positioned to meet clients' increasing needs for regulatory compliance, reporting, transparency and risk management requirements."

"We look forward to continuing to serve [hedge funds], including many GSAS clients, through prime brokerage and elsewhere across our businesses globally and will work closely with State Street and our GSAS clients to ensure a seamless transition," added John Willian, the global head of global securities services at Goldman Sachs.

Cory Thackeray, the managing director and global head of GSAS, said: "We are pleased to join the State Street AIS team, a group that has the same high-touch approach to client service as GSAS. With this transaction, we will be well-positioned to offer our clients an enhanced product offering that covers the entire investment lifecycle and provides relevant regulatory compliance, risk and transparency solutions that our clients often request to help them navigate today's complex environment."

## Standard Chartered develops OECD banks' Asia access

Standard Chartered has launched Asia Link Accounts for regional and domestic OECD banks with corporate clients conducting business in Asia. Asia Link Accounts features a range of transaction services that include payments and collections, liquidity management and reporting in the local Asian time zone.

"Asia Link Accounts offer OECD banks greater ability to broaden their offerings beyond what a traditional Nostro account offers by identifying and supporting the specific needs of the corporate client," said a statement from the company.

The statement added that OECD banks that are increasingly conducting and expanding their business reach in the emerging markets of Asia will require a robust solution, without the intricacies of establishing their own networks in Asia.

Commenting on the launch, Madhavan Ramaswamy, the global head of product management, said: "With Asia Link Accounts, OECD banks can expand their international reach into Asia with no additional investment. In addition, they will be able to support their corporate clients' growth ambitions in the emerging economies with reduced time to market and at lower costs."

"Our strong presence in Asia enables us to navigate the local complexities and offer OECD banks high quality cash management services across our footprint."


Financial software
solutions that
deliver



# Cost, visibility and control

## AST talks to Geoff Harries and Chris Lord of DST Global Solutions about their asset servicing platform HiPortfolio, as well as wider concerns in the industry

GEORGINA LAVERS REPORTS

In a difficult financial climate, investment managers are looking to maximise the value of their core systems with wider functional and asset class coverage. Support for derivatives and reconciliation processing, as well as regional tax and market practice requirements, can help firms to balance the need for innovation with the operational efficiency of a single post-trade environment.

HiPortfolio is DST Global Solutions's investment accounting and asset servicing solution for investment management operations. It provides full life cycle processing, including order capture, trade confirmation, transaction processing, accounting, financial analysis and tax reporting, for a range of instruments and tax jurisdictions. AST talks to Geoff Harries and Chris Lord of DST about how solutions such as HiPortfolio are responding to industry needs, the challenges of real-time, and visibility in the industry.

### What challenges do you face when convincing firms to switch to a real-time model?

**Chris Lord:** When moving to real-time, more than just the technology needs to change—processes, governance and skills are all affected. The end client experience is also important to consider, since third-party administrators may not necessarily want to provide data in real-time. Firms will consider what unique value they want to deliver, when and to whom.

### How can HiPortfolio help third-party administrators and fund managers?

**Geoff Harries**: HiPortfolio is trusted at the core of investment operations as a comprehensive, scalable and proven investment accounting and tax solution. The solution goes beyond traditional investment accounting offerings to offer best-in-class asset servicing capabilities in the areas of unit pricing and corporate actions automation, to name but two. Applying HiPortfolio's broad and proven capabilities will enable clients to increase operational control through transparency, accuracy and consistency, and enable organisations to rationalise operational workflows by removing error-prone manual operating procedures. The breadth of instrument coverage that has built up over 25 years of servicing the global investment management marketplace allows clients to gain significant leverage from a single system to accommodate new investment strategies or market entry.

### What is DST doing to address clients' cost concerns?

**Lord:** DST is focusing principally on two areas of cost reduction for our clients: reducing the cost of operations and the cost of ownership of the solution. The first, reducing the cost of operations, is being delivered by continually looking at opportunities to optimise our clients' investment businesses from a process perspective, and also leveraging capabilities that sit within our core application, rather than the cost of maintenance in supporting satellite systems. The second, the cost of ownership, is being addressed by enabling our clients to outsource activities to DST so they do not have to maintain application-specialist knowledge. This means that we can assist in streamlining upgrade planning and regression testing.

### Do you think visibility and control have improved, and what else is there to be done?

**Harries**: Visibility and control have been increased over the last two years, both internally within organisations, and also at the macro level in terms of regulators asking for greater transparency. This enables them to have visibility and, therefore, control in the name of stability of the financial systems. While internal projects have delivered visibility and control across projects, such as exposure management, we are beginning to see some of the regulatory changes come to fruition.

In July 2010, we saw the US Dodd-Frank Act signed into law. Two years on, we are seeing the implementation of that legislation. Control is taking the form of using central clearing to clear OTC trades, while visibility will be provided to supervisory authorities by trade repositories that will receive defined information within prescribed deadlines from counterparties to trades. Dodd-Frank and the European Market Infrastructure Regulation are acting as a blueprint as the commitment of the G20 countries is delivered, with other countries, such as Australia, China and South Africa, at earlier stages of the reform process.

### What capabilities are you looking to extend at DST?

**Harries:** The strategy that we are following will continue to execute in three main areas, focusing on investment vehicle coverage, reducing operational costs through increased operational efficiency and supporting our clients' service innovation. In support of this, we are specifically looking to deepen our unit pricing capabilities in the area of exception processing, develop accounting system requirements that spin out of the adoption of OTC reforms, and deliver to our clients corporate actions automation capabilities that are built on our newly announced alliance with XSP. We are also seeing a trend towards a greater need for data aggregation and visualisation across the middle office, combining investment, performance and risk information. AST

### HiPortfolio in the news

**November 2011:** DST Global Solutions launches the latest version of HiPortfolio 3v10, extending its depth of processing in areas such as derivatives processing, reconciliation and unit pricing.

**December 2011:** South African bank First National scraps its in-house system in favour of HiPortfolio.

**June 2012:** DST helps its Chinese asset management clients to prepare for participation in the recently launched RQFII scheme using HiPortfolio.

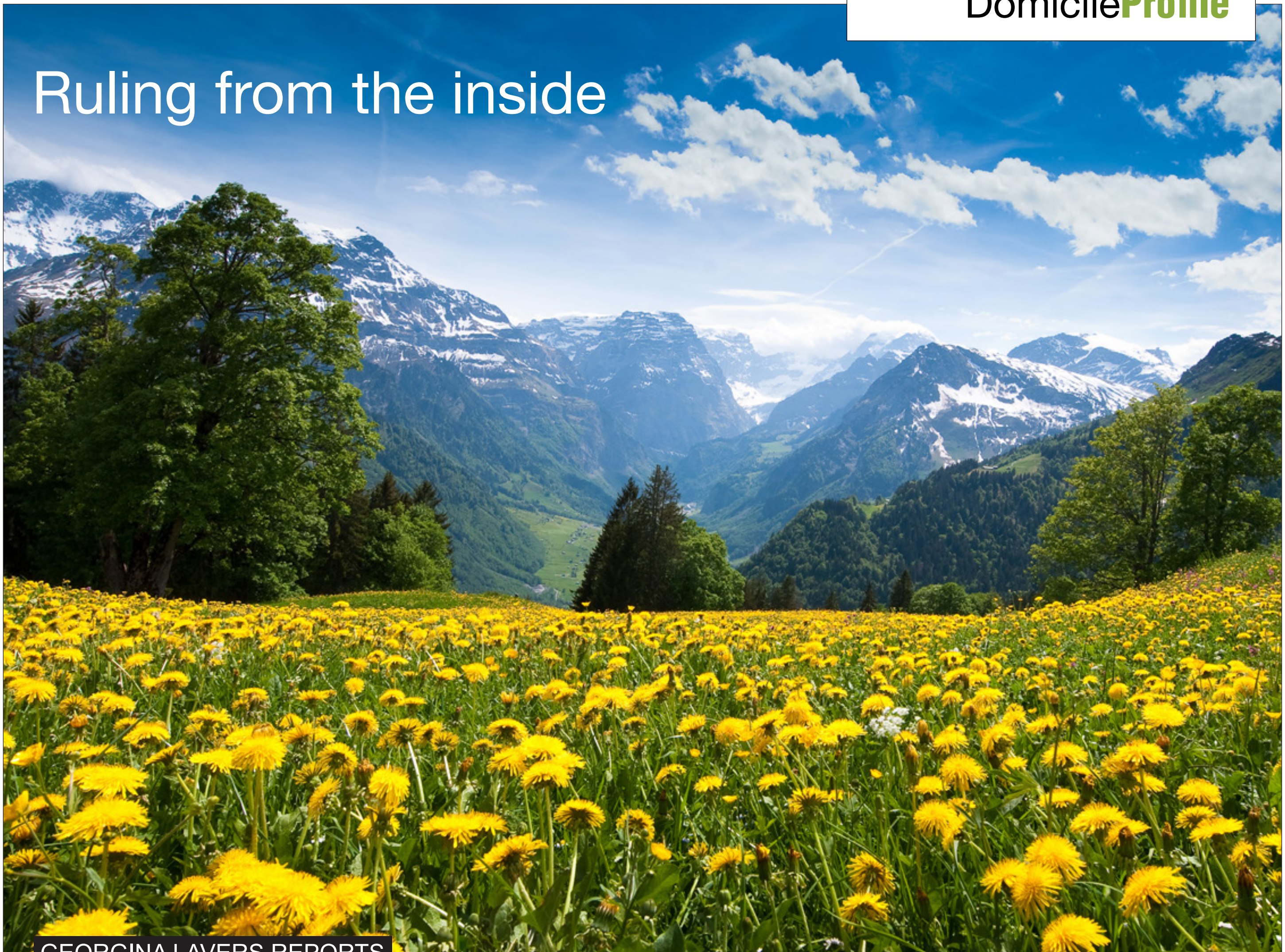
**July 2012:** DST teams up with XSP to develop a corporate actions solution for HiPortfolio that is SWIFT 15022 compliant and initially available in Australia and New Zealand.

**July 2012:** China Life Pension Co implements HiPortfolio.

**Geoff Harries**
Global head of asset servicing
DST Global Solutions

**Chris Lord**
Global head of technology
DST Global Solutions

# Ruling from the inside



GEORGINA LAVERS REPORTS

## Local players are still playing for keeps in the Swiss custody market, as AST finds out

Though it seems that big-name players are rapidly encroaching on all four corners of the globe, local custodians in Switzerland are holding steady. By law, a Swiss fund must have a custodian bank domiciled in Switzerland, and perceived complexity of Swiss accounting rules; namely Swiss GAAP FER 26—and potential legal disputes between America and Switzerland, mean that local players aren't going anywhere soon.

Swiss pension funds and insurance companies are enthusiastic buyers of Swiss franc-denominated bonds and Swiss property, both requiring local valuations and accounting standards that a homegrown custodian can offer.

Swiss trustees are also more reluctant to place shares with US custody banks, due to the possibility of legal disputes. In April of 2011, the private Swiss banks, Pictet & Cie and Banco J Safra (Suisse) were sued for a combined $216.5 million by the trustee Irving Picard, seeking to recover money for Bernard Madoff's victims.

The trustee said that the banks "knew or should have known of numerous irregularities concerning investing" through Madoff's firm, and Pictet responded predictably tersely.

A spokesperson said: "Pictet has never acted in the capacity of custodian bank to the assets of any Madoff feeder fund nor has Pictet ever established any vehicle (in particular the Asphalia Fund Limited) to invest directly or indirectly in Madoff-related funds."

Instead, Pictet acted as a custodian bank for an outside investor who had set up a special purpose vehicle that was used to invest in Madoff feeder funds.

### Cuckoo in the nest

Aside from legal worries, the main concern for Swiss custodians is the constant fear of losing a mandate. "The custody market in Switzerland is well-developed and more and more predatory competition is taking place," says Andreas Barbaric, business development head at Julius Baer's custodian service.

"Acquisition of new clients is therefore almost exclusively based on winning mandates from competitors. We have more than CHF 90 billion pure global custody assets as of March 2012. Our group's strong capital base has proven once again to be a key differentiating factor and business enabler. The BIS total capital ratio amounted to 23.9 percent and the BIS tier 1 ratio to 21.8 percent at the end of 2011, comfortably exceeding both current and expected future requirements."

Security, transparency, fulfilling regulatory requirements and risk management are still predominant topics in the industry, with Barbaric commenting: "The custody market in Switzerland is under supervision of FINMA (Swiss Financial Market Supervisory Authority). As a state regulatory body, FINMA is endowed with supreme authority over banks, insurance companies, stock exchanges, securities dealers and collective investment schemes.

Regarding regulation, the Swiss GAAP rules are different to the EU national and cross-border pension regulations that the global custodians are familiar with in other European countries.

GAAP FER 26 came into force on 1 April 2004, establishing principles of transparency and disclosure for pension assets and liabilities. Despite the similarities to other GAAPs, as well as other regulations such as the US IFRS, even PwC threw up its hands when outlining the difference between Swiss GAAP FER and US regulations.

It explained: "IFRS and US GAAP are globally acknowledged accounting standards for which a broad range of theoretical background, interpretations and literature is available. Swiss GAAP FER focuses on accounting for small- and medium-sized organisations and groups based in Switzerland; if there are questions that are not answered by a respective standard, the general principle of a true and fair view should be applied."

## Sizing it up

Major players in the market include Julius Baer, UBS, Credit Suisse, Pictet and J.P. Morgan; a healthy mix of local and international. However, permanent offices in Switzerland are rare in the case of many global custodians, as they prefer to cover the country from London or Frankfurt.

The market share of domestic custody providers UBS, Credit Suisse, Pictet and Julius Baer is not known, although it has previously been reported that they have well more than 50 percent of the market for custody services to Swiss pension funds, with some consultants estimating the figure to be more like 75 percent.

"Most of all, the custody market in Switzerland is well developed in the sense of a more and more demanding clientele," says Barbaric. And with domestic Swiss custody banks such as Pictet experiencing success with their global services, it appears that demanding clients have forced custodians into a bright future that extends far beyond the Swiss Alps. AST

## CISA concerns

Consultation on revision of the Collective Investment Schemes Act (CISA) took place from July to October 2011, with deliberations concerning the revised law taking place in parliament this year, and entering into force at the beginning of 2013.

"The law's revision is urgent with respect to time because Swiss institutions cannot operate foreign domiciled collective investment schemes in Europe without approval as asset managers of collective investment schemes following expiration of the two year implementation deadline of AIFMD in mid 2013," explains Armin Kühne, who is a partner at KPMG in Switzerland.

"Furthermore, the requirements on the safekeeping of collective investment schemes should be increased and brought in line with the international standards. The organization and activities of the custodian bank are only rudimentarily defined in the CISA. Now there is an explicit requirement that the custodian bank must have an appropriate organisation for its activities as a custodian bank of collective investment schemes."

He emphasises that regulatory clarifications do not only serve investor protection, but should also allow Swiss custodian banks to continue the safekeeping of fund assets of foreign collective investment schemes that has been delegated to them, adding that the liability of the Swiss custodian bank should be increased in line with international developments.

"In the future, the custodian banks should be liable for damages caused by third parties to whom they have transferred duties, provided they cannot prove that they exercised the necessary diligence in accordance with the circumstances during the appointment, instruction and monitoring."

# A road less travelled

## AST talks to Viraj Kulkarni of BNP Paribas about his path through custody, from India to Switzerland and back

GEORGINA LAVERS REPORTS

BNP Paribas Securities Services announced in May that Viraj Kulkarni would serve as head of securities services in India. It said that the former J.P. Morgan employee would drive its custody business activities in the Indian market.

On top of being responsible for custody, clearing, transfer agency and domestic fund services for buy- and sell-side institutions, Kulkarni's other duties include animating BNP Paribas Securities Services's strategy in the country as part of its wider Asia Pacific growth plan, a key region for the custodian where it has experienced double-digit growth in the past three years.

Kulkarni has more than two decades of experience in financial services, including a stint as head of Citibank Securities Services in India and Switzerland. AST talks to him about regional differences, the 'reanimation' strategy, and what's in the offing for BNP Paribas Securities Services.

### How would you compare custody out of India and Switzerland?

The business, though similar in service, is quite different. Switzerland has greater STP (straight through processing), and more products. It's a T+3 market with easy entry into market, and it also follows the gross settlement process. India is a T+2 market, follows the netting process and has multiple intermediaries (two exchanges, two clearing corporations, two depositories, and so on). The account set-up time is relatively longer, and the number of securities accounts in India is to be held at a beneficiary level, affording better investor protection. India ranks second in the world on the number of accounts.

### What are BNP Paribas Securities Services's primary business activities in the Indian market as a custodian?

BNP Paribas Securities Services is a full service provider offering securities clearing (cash equities, bonds as well as listed derivatives), asset servicing, FX services, banking facilities and tax support services to FIIs (foreign institutional investors) and others. For local market clients, we are presently the only custodian providing cash management, securities services, and fund accounting, registrar and transfer agency services, together with Sundaram BNP Paribas.

### Are you planning to make any changes to operations?

BNP Paribas Securities services in India follows the global model, ensuring that clients experience the same services as they get in other markets. Additionally, we're continually customising our services to ensure that they deliver best-in-class services to our clients investing in India. We have also increased our market advocacy by being the first to host an India roundtable for FII clients. We have also launched our local custody business for domestic clients, and we are among the first to release an FAQ for QFIs (qualified foreign investors). We plan to release many more initiatives in the near future.

### You have been charged with animating BNP Paribas Securities Services's strategy in India. What is the aim of this strategy?

Our aspirations are to enable our clients to leverage the presence of BNP Paribas Securities Services India to grow their footprints. We proactively support foreign institutions investing into India, as well as Indian institutions growing their business domestically or offshore. The combination of local expertise and a connection to our innovation capabilities allows our clients to convert complexity into growth (for example, account set-up, cross margining, and so on). AST

**Viraj Kulkarni**
Head of securities services, India
BNP Paribas Securities Services

### Indian optimism

Amid precariousness in equity markets, BNP Paribas Securities Services remains optimistic of growth on the Indian stock market, and the Asia Pacific region in general.

"I continue to see growth in the Asia Pacific region; India in particular remains among [one of] the fastest growing regions in the world," says Kulkarni. "This leads to both an increasing investment appetite in the zone, and an ideal framework for innovation and product development."

At a recent US-India Business Council event, India external affairs minister SM Krishna said that India will restore investor confidence and regain economic momentum, despite current scepticism over the current business environment.

"Over the past two decades of extraordinary change in the Indian economy, there have been periods when the growth seemed to lose its steam and the agenda of reform seemed to slow," Krishna asserted.

"But, time and again, our economy rebounded with new vigour, on the strength of strong fundamentals, and supported by sound policies and prudent economic management."

In an interview, Manishi Raychaudhuri, who is a BNP Paribas managing director in India, said that institutional investors currently have limited options, but he believes that India will be a 'stock picker's' market. Speaking on currency, he said that rupee depreciation is a negating impact of low oil price on inflation, adding that ways of improving capital flows need to be found to stabilise India's currency.

# Industry appointments

**Paul Bodart** will retire following a 17-year career with BNY Mellon, with **Wim Hautekiet** taking over as CEO of its European banking entity The Bank of New York Mellon SA/NV.

Hautekiet currently acts as deputy general counsel for BNY Mellon across the Europe, Middle East and Africa region.

Standard Chartered Bank has made **Richard Jaggard** its new head of transaction banking in Europe. The London-based role will see Jaggard responsible for the bank's cash management, trade finance and securities services in the region.

Before joining Standard Chartered, Jaggard worked for HSBC as head of sales for global payments and cash management in Asia Pacific for seven years and was located in Hong Kong.

The California Public Employees' Retirement System (CalPERS) has welcomed **Bill Slaton** to the pension fund's board of administration.

Slaton, a publicly elected director on the board of the Sacramento Municipal Utility District (SMUD), was appointed by California's governor, Jerry Brown, to serve on the CalPERS Board as the local government-elected official.

Cantor Fitzgerald & Co, a financial services firm, has recruited former Morgan Stanley employee **Saurav Chatterjee** as managing director in the equity capital markets division.

Based in Hong Kong, Chatterjee is responsible for leading the cash equity sales team and expanding the firm's equities trading business in Japan. He reports to Jarred Kessler, global head of equities for Cantor Fitzgerald.

Chatterjee served as executive director of client facilitation at Morgan Stanley, responsible for risk pricing and managing client portfolios, and as executive director and head of international sales and trading. Previously, he was associate director at Macquarie Securities in international sales and trading.

Northern Trust has stated it intends to grow its asset servicing business in Australia, with a significant increase in assets and the addition of new staff in its Melbourne office.

**Christopher Thomson** has joined as business development manager, a key role as Northern Trust aims to build on its base of 14 institutional clients with AU$137 billion in assets under custody in Australia and New Zealand.

With the addition of Thomson and other professionals, Northern Trust's team in Australia has grown by 54 percent in 2012.

Thomson comes to Northern Trust with three decades of financial industry experience, most recently as a sales and relationship manager with J.P. Morgan Treasury Services in Australia.

Lyxor Asset Management has appointed **Tim Soetens** as director of business development for the Netherlands.

Soetens will be based in Amsterdam and will report to Amber Kizilbash, the head of business development for Northern Europe and the Middle East at Lyxor. He joins from Schroders, where he was sales director of business development for the Benelux wholesale market.

**Bill Kelly** has joined HedgeServ as global head of sales and will be responsible for building relationships with hedge fund managers, funds of hedge funds, private equity funds, and institutional investment managers.

He will be based in HedgeServ's New York office and will report to Jim Kelly, HedgeServ chairman and co-founder. Prior to joining HedgeServ, Kelly was global head of sales at Paladyne.

Deutsche Bank's global transaction banking (GTB) division has made several key appointments in its trust and securities services and cash management for financial institutions (TSS/CMFI) business.

There will be four new TSS/CMFI region heads; **Gary Vaughan** will be head for the Americas, **Mrugank Paranjape** for Asia, **Jose Sicilia** for Western Europe, and **Sriram Iyer** for Central Eastern Europe, the Middle East and Africa.

**Mike Hughes** has been appointed to the newly created role of global head of funds services, Edwin Reyes will be responsible for the newly combined depositary receipts and transferable custody receipts offering, and Daire McCormack has been appointed to the newly created role of global head of escrow solutions.

Custom House Group's management structure has undergone an overhaul after direction from Dermot Butler, the chairman of the group's parent company, Custom House Global Fund Services.

**Mark Hedderman**, who has been acting as CEO for almost a year, has been formally appointed as CEO of the group following David Blair's resignation.

**Helen Breen** has been promoted to CFO, **Chris Rakers**, who is based in the Chicago office, has been appointed as COO, and **Scott Price** is now regional director and the head of sales for the Americas.

**David Barry**, who has been the head of business development and sales for Europe and MENA, has now also been made responsible for those same areas in Asia. **AST**

AST
ASSETSERVICINGTIMES

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

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

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

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