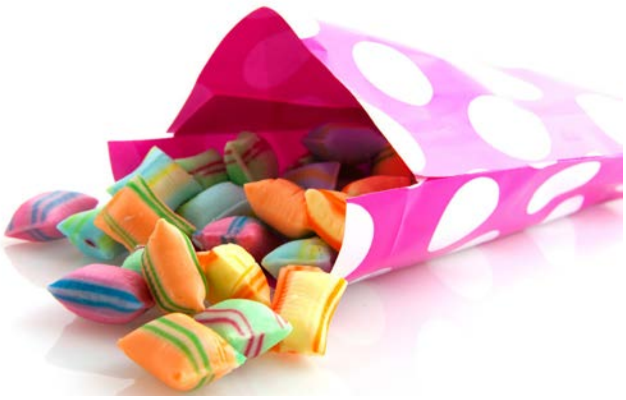
AST ASSETSERVICINGTIMES

ISSUE048
19.09.2012 WEDNESDAY
assetservicingtimes.com



UK FSA plans radical changes to protect client money

LONDON 17.09.2012

The UK Financial Services Authority (UK FSA) has proposed a set of rules that could "radically change" how financial institutions protect client money and custody assets.

The authority issued a consultation and discussion paper at the beginning of September as part of efforts to make the UK compliant with the European Market Infrastructure Regulation (EMIR).

In the event of a default of a member, EMIR requires central counterparties (CCPs) or clearinghouses to be able to transfer the positions and associated margin of that member's clients to another member of the clearinghouse or CPP.

"Pursuant to EMIR, when a clearing member firm becomes insolvent, the client transactions it holds in client accounts at a central counterparty and the margin supporting those transactions, may be transferred to another client account held by a back-up clearing member. This process is called 'porting'," said the UK FSA.

But the UK FSA has gone a step further than this. The collapse of Lehman Brothers in September 2008 and subsequent insolvencies "led to material delays and loss for clients".

As a result, the UK FSA is proposing changing the way that client money and assets are handled during insolvency. Currently, all client money is treated as part of a single pool during the insolvency of a financial institution.

The UK FSA wants to introduce 'multiple client money pools' enabling financial institutions to split client money into sub-pools, which would confine any losses to a particular sub-pool.

readmore p3

ASTINBRIEF

Hedge fund assets for prime custody services surge

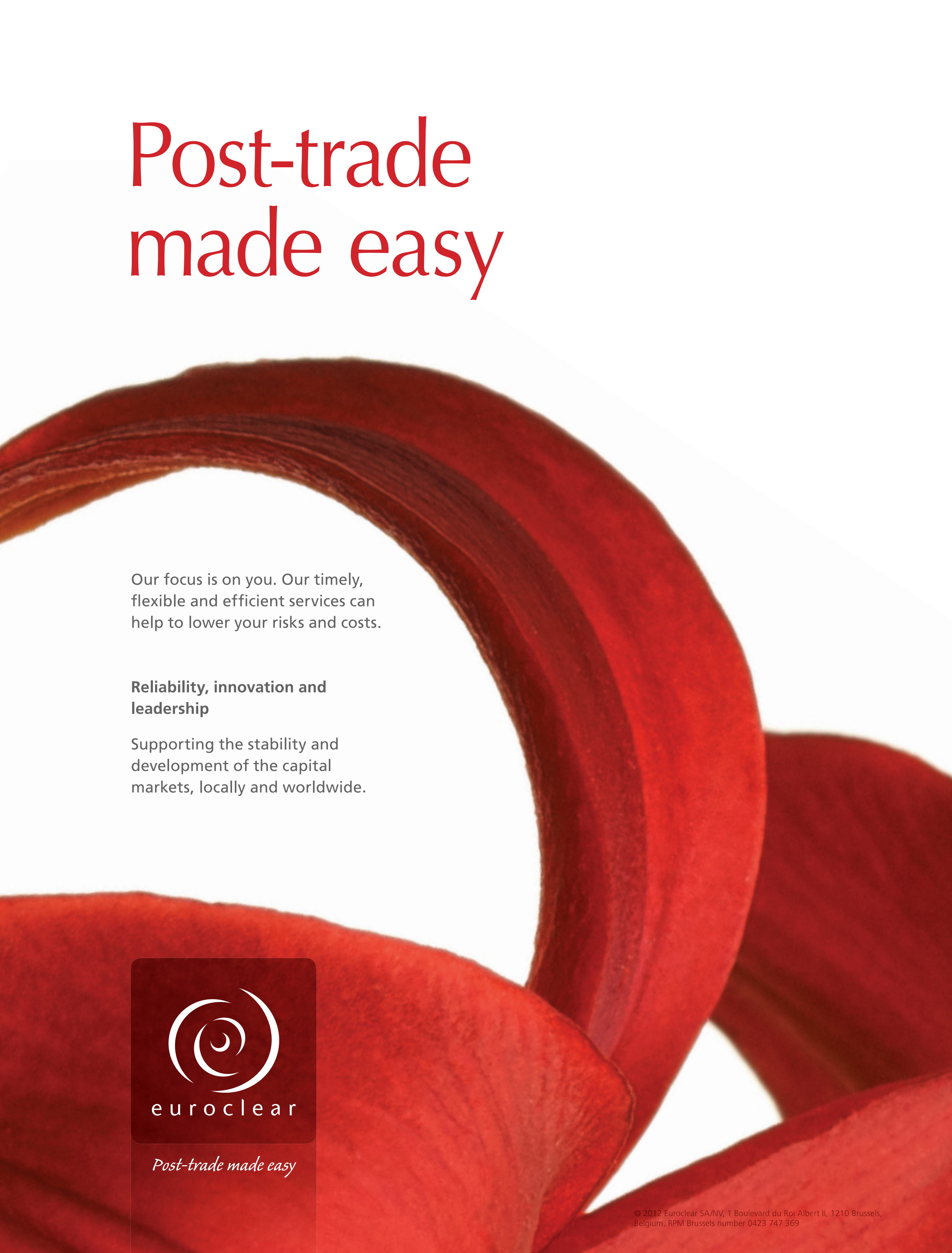
Hedge fund assets that are available for prime custody services stood at $684 billion in August 2012, increasing by 40 percent since 2010, according to a new report.

readmore p3

EBS, Thomson Reuters to use Traiana for OTC connectivity

Post-trade solutions provider Traiana has been chosen by EBS and Thomson Reuters for connectivity to OTC client clearing firms and central counterparties.

readmore p3


Post-trade
made easy
Our focus is on you. Our timely, flexible and efficient services can help to lower your risks and costs.
Reliability, innovation and leadership
Supporting the stability and development of the capital markets, locally and worldwide.
euroclear
Post-trade made easy
© 2012 Euroclear SA/NV, 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, RPM Brussels number 0423 747 369

UK FSA plans radical changes to protect client money

Continued from page 1

It said: "For example, a firm may wish to create a separate client money sub-pool for its prime brokerage business, separating it from other parts of business."

"This will allow clearing member firms to operate a discrete pool comprising the client money held by the clearing member for a particular net client transaction account."

"When the clearing member becomes insolvent, the insolvency practitioner can make the client money held for that sub-pool available as necessary to facilitate the porting of the client positions in the relevant net client transaction account."

Richard Sutcliffe, the UK FSA's client assets unit leader, said "The protection of client assets remains a key priority for the FSA and today's proposals will go a long way to ensure confidence in UK markets is maintained. In addition to the changes required by EMIR the FSA proposals will lead to the most radical change in the client assets regime in over 20 years."

The UK FSA will publish policy statements on the proposals at the end of 2012 and in the first half of 2013.

Hedge fund assets for prime custody services surge

Continued from page 1

The report from financial research and consulting firm Finadium—in conjunction with BNY Mellon—found that approximately half of all hedge funds with more than $1 billion in AUM have a prime custody agreement in place.

This is up from 15 percent in 2008, as funds increasingly seek to mitigate counterparty risk.

Prime custody refers to the servicing of unencumbered assets within alternative investment portfolios and is performed by prime brokers and custodians to provide greater transparency and risk mitigation.

But prime custody's definition has changed, and largely depends on the custodian servicing hedge fund assets.

In its report, Finadium said: "Most custodians now have dedicated service teams focused on their hedge fund clients. This is the new prime custody, with sales and service efforts that seek to recognise hedge funds as a distinct client base with a different set of needs than a pension plan or mutual fund."

The 40 percent increase in assets that could be a part of a prime custody service represents the assets of hedge funds—not including funds of hedge funds—"multiplied by an estimate of 38 percent of excess cash and securities in an average hedge fund's portfolio".

Assets that are available to prime custody services have "risen steadily over the years and are expected to grow further", according to Finadium.

The upsurge of hedge funds assets is the result of increasing hedge fund AUM and lower levels of borrowing from prime brokers.

Finadium said: "More than ever, hedge funds are establishing triparty relationships with both their prime custodian and prime brokers. While initially this may force some price renegotiation on the use of leverage and trading commissions, overall hedge funds reported financially that maintaining a proportion of assets in prime custody is much more beneficial than leaving all the assets with a prime broker."

In a statement, Marina Lewin, managing director in BNY Mellon's alternative investment services business, said: "Hedge funds are putting far more emphasis on how they manage custody of their assets and increasingly looking to adopt best practices to ensure their counterparty risk profiles are optimised and meet investor requirements."

"BNY Mellon works in partnership with its extensive network of prime brokers, so clients maintain their current prime broker relationship but have the added benefit of holding their assets with an independent third-party custodian."

EBS, Thomson Reuters to use Traiana for OTC connectivity

Continued from page 1

"By using Harmony CCP Connect, clients trading on their platforms will have a ready connection to submit their trades to clearing houses and clearing brokers without additional cost or infrastructure investments, automating the clearing of OTC FX Derivatives and delivering compliance with OTC clearing regulations," said a statement from the firm.

Jas Singh, global head of treasury at Thomson Reuters, said: "As the regulatory drive to impose clearing on the OTC derivative market continues, the market at large is already planning for new methods of workflow, including clearing. By connecting to Harmony CCP Connect our clients will have seamless access to the FX clearing organisations, the ability to better manage their bilateral exposures and their counterparty risk."

J.P Morgan releases custodial tool

J.P Morgan Worldwide Securities Services (WSS) has launched the Online Portfolio Analytics Lab (OPAL). It is the firm's first web-based portfolio analytics tool.

The new service uses portfolio analytics tools to help institutional investors assess risk across individual portfolios, and optimise asset allocation and investment manager selection.

OPAL targets Australian superannuation funds working to comply with Financial Services Council and the Association of Superannuation Funds of Australia guidance on the disclosure of investment risk, in the new Shorter Product Disclosure Statements (SPDS) regime, via the 'Standard Risk Measure' classification system.

Under the new classification system, which was launched on 22 June 2012, superannuation trustees must disclose a Standard Risk Measure for each investment option that is offered in a superannuation product covered by the SPDS regime, using a seven level classification system.

The seven level classification system runs from 1 to 7, where 1 is 'very low risk' of negative returns, and 7 is 'very high risk'.

David Braga, investor services product head for Australia and New Zealand, at J.P. Morgan WSS, said: "The OPAL tool gives superannuation trustees a powerful, web-based tool that enables them to analyse their underlying data and quickly assess their level of investment risk, as part of their wider responsibility in considering and disclosing investment and other risks for each investment strategy to comply with the new FSC/ASFA guidelines."

"Beyond its application to the Standard Risk Measure, OPAL has been designed to support institutional investors with their decision-making around investment manager selection and asset allocation. OPAL can help institutional clients make more informed decisions and optimise their portfolios through the creation of innovative and forward looking solutions that address both current and future needs."

Radin Capital chooses CIBC Mellon

Employee-owned investment management firm Radin Capital Partners has selected CIBC Mellon to provide asset servicing solutions for its new Radin Global Opportunities Fund.

The fund, which was launched on 31 August, is a value-focused global equity long-short investment portfolio of 30 to 50 small- to mid-capitalisation companies.

CIBC Mellon will provide it with custody services, fund accounting, unitholder recordkeeping and real-time access to investment information via CIBC Mellon's Workbench platform.

"We're very proud to empower the new Radin Global Opportunities Fund with Canada's leading asset servicing technology," said Tom Monahan, president and CEO of CIBC Mellon. "Radin's strong track record and history of outperformance make them a natural fit for our company."

Brad Radin, CEO and chief investment officer at Radin Capital Partners, said: "CIBC Mellon's team demonstrated an exceptional commitment to build a client-focused partnership. They worked with us to create a real solution and identified not only the services that fit our needs, but also those that didn't. Great service coupled with outstanding technology, Canadian-based expertise and global reach through the BNY Mellon global network made CIBC Mellon the clear choice for us."

Mantex Sicav recruits SGSS

Societe Generale Securitites Services (SGSS) has been hired by investment fund, Mantex Sicav to act as its local transfer agent in Italy.

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

Mantex Sicav has appointed SGSS due to its international transfer agent experience, tailored client services and wide network of placing agents.

SGSS in Italy will provide Mantex Sicav with paying agent and investor relations management services with reference to Italy-based investors.

Mantex Sicav is a Luxembourg-registered open-ended collective investment fund. It is a self-managed umbrella fund registered on the official list of undertakings for collective investment and was launched at the initiative of Nextam Partners, an independent Italian asset management company.

Jersey selects Northern Trust

The government of Jersey has appointed Northern Trust to provide data, analytics and consolidated reporting to £3.2 billion in assets.

Following a competitive tender, Northern Trust will now provide record master record keeping across the States of Jersey's Common Investment Fund, the Jersey Teachers' Superannuation Fund, and the States of Jersey Public Employees Contributory Retirement Scheme.

Laura Rowley, treasurer of the States of Jersey, said: "Northern Trust's customised solution, which included accounting, performance measurement, and compliance monitoring across all of our entities, is supported by their ability to look through to our underlying holdings within our pooled funds and provide better reporting and risk analysis."

"Our pension fund clients face increased challenges and regulatory pressures to provide a consistent and consolidated view of all their assets," said Douglas Gee, head of UK sales for the institutional investor group at Northern Trust.

"We continue to see demand for timely, accurate and independently valued data, in some cases regardless of their other existing custodian arrangements."

Union of long-only and hedge funds predicted

More than two thirds of fund administration industry participants that were questioned in a Multifonds survey believe that the Alternative Investment Fund Managers Directive (AIFMD) will accelerate the convergence of long-only and hedge funds.

Although the directive's implementation deadline of 22 July 2013 is looming, the research found that 20 percent of respondents felt they were behind schedule and would not be ready within the next 12 months.

The survey, which received more than 50 responses from senior participants across the global fund administration industry, also asked which elements of AIFMD will have the most significant impact on respondents. More than 50 percent see depositary liability as the most challenging element, followed by operational requirements and risk and liquidity management, both with 45 percent.

With funds having to conform to all the directive's rules to market to European investors when AIFMD comes into effect, 63 percent

agreed that AIFMD will make Europe a more attractive jurisdiction for alternative fund investors and 72 percent thought that non-EU managers would setup European operations to take advantage of AIFMD.

Aside from the effect of AIFMD, the survey highlights the other factors accelerating the convergence of mutual and hedge funds, a trend that more than 86 percent of respondents believe is set to continue.

The two other main factors driving the trend are institutional investors increasing allocations to hedge funds as well as retail investors increasingly looking for absolute returns.

Keith Hale, executive vice president for client and business development at Multifonds, said: "It is widely recognised that institutional investors, such as pension funds, are increasing their hedge fund allocations to diversify their asset class exposure, reduce the impact of market volatility and potentially boost returns."

"They expect higher risk management, transparency and liquidity resulting in alternative fund products that have more traditional, long-only fund characteristics. Similarly, retail orientated absolute return funds, such as alternative UCITS, are driving traditional funds to incorporate hedge fund characteristics such as performance fees. These drivers aligned with the AFIMD will accelerate the convergence between long-only and hedge funds."

"This convergence poses both opportunities and challenges for the fund administrators. Those who can bring together the efficiencies of traditional fund processing with the complexities of alternative structures stand to gain market share, whereas those retaining a silo mentality and operating model, or those purely focused on either traditional or alternatives, will be challenged in the medium term. As a result, the fund administration industry is already experiencing consolidation of long-only and hedge fund administrators, blurring the former distinction between the two types of service provider."

Broadridge enhances PROactive Matching solution

Functionality within Broadridge Financial Solutions's service-based trade confirmation solution, PROactive Matching, has been enhanced to help financial organisations to meet the new US Dodd-Frank Act disclosure requirements for FX trade repositories.

The regulation requires firms to identify individual FX transactions to new data repositories using a universal swap identifier (USI), which uniquely identifies each trade.

The new requirement, which is facilitated in PROactive Matching, means firms will be required to report USI's on transactions to a designated swap data repository.

"This regulation comes at a time when firms are under pressure to reduce operational risk and strengthen their business process controls in an environment of growing deal volumes and increasing trade complexity," said Robin Kneale, head of strategy and product management, securities processing solutions, at Broadridge.

"This PROactive Matching enhancement further advances a highly automated service that will help users to keep in step with forthcoming regulatory changes affecting their business operations."

Information Mosaic heads down under

Information Mosaic has opened up a sales and support office in Melbourne, Australia. The new location expands Information Mosaic's presence in the region, adding to its existing offices in India, Malaysia and Singapore.

Information Mosaic's director of APAC, James Wayne, said: "This expansion is a direct response to the number of Information Mosaic's global clients who are using our solutions in the Australia-New Zealand region.

"In addition, the increased demand for modern post-trade and asset servicing solutions from financial firms in the region make Australia-New Zealand a key market for Information Mosaic."

Information Mosaic's head of business development for Asia, Deirdre Jennings, added: "Information Mosaic is building on the success we have already established in Australia, and our commitment to the region is evidenced by the establishment of this office in Melbourne and the development of a local team."

Jennings will transfer from Information Mosaic's Singapore office and will be based in the new Melbourne location.

Kentucky Retirement seeks global custodian

Kentucky Retirement Systems (KRS) is looking for a new global custodian to provide custody services for its $13.7 billion pension fund.

Previous custodian Northern Trust is invited to rebid for the mandate.

KRS stated in a release that the firm that is hired will provide "global custodial services, record keeping, accounting services, performance measurement, analytics, support for an unbundled securities-lending programme and other services, according to the RFP."

Earlier this year, the company hired Deutsche Bank to manage its securities lending services.

Assisting in the search will be investment consultants R.V Kuhns. Applications are due on 28 September; a decision will be made in November.

Earlier this year, the board of trustees at KRS approved a recommendation made by the KRS retiree healthplan committee to provide Medicare Advantage plans to eligible retirees beginning 1 January 2013.

Northern Trust secures reduced tax rates for Swedish investors

Northern Trust has obtained reduced withholding tax rates for Swedish investors holding equities through a tax-transparent, cross-border asset pooling vehicle.

Investing in an Irish-domiciled common contractual fund (CCF) could potentially increase total return for Swedish investors via such vehicles by approximately 50 basis points a year, according to Northern Trust's proprietary calculations.

A statement from the custodian added that confirmation of tax-transparency by tax authorities is pivotal for cross-border pooling.

"It enables underlying investors in a pooled investment fund to obtain the same withholding tax rates as if they had invested directly in equities, with the added benefits of investing via a pooled fund—for example, tighter governance, better risk management, economies of scale and access to new asset classes."

"Removal of the tax drag is good news for investors and their investment managers," said Phillip Caldwell, asset servicing pooling product manager at Northern Trust.

"Investing in a tax-transparent asset pooling vehicle should result in greater returns for Swedish tax-exempt investors and may help investment managers to achieve better performance for their tax-exempt institutional investors."

Earlier this year, using a model that incorporates dividend taxation rates across a range of popular equity mandates, Northern Trust announced proprietary analysis which found that a tax-transparent asset pooling vehicle can enhance returns by as much as $81 million on a $1 billion portfolio invested in broad market indices over a 10-year period.

"As Swedish institutional investors, such as pension funds and insurance companies, continue to grapple with regulatory change and global economic uncertainty, they increasingly face demands to reduce bottom-line costs and improve top-line performance," said Belinda Burgess, country head of Northern Trust in the Nordics.

"Choosing the right investment vehicle is one way to achieve this, and we are pleased to provide asset servicing solutions for tax transparent-asset pooling vehicles that help our Swedish clients achieve enhanced performance."

MaplesFS new trustee for China Life Franklin Asset Management

China Life Franklin Asset Management (CLFAM), the Hong Kong-based joint venture between China Life and Franklin Templeton, has selected MaplesFS as trustee and administrator for the China Life Franklin Trust, a Cayman Islands-domiciled unit trust.

MaplesFS will act as the trustee for the China Life Franklin Trust, and will provide full administration services, including the fund accounting and registrar transfer agent services. In addition, MaplesFS's affiliated firm, Maples and Calder, has been appointed as legal counsel to advise on the establishment of the unit trust alongside CLFAM's Hong Kong legal advisers.

"CLFAM has a unique set of selection criterion for service providers. We are very pleased that the Maples Group's experience and expertise in fund administration, fiduciary and legal advisory made us the obvious choice for CLFAM," said Eastern Fong, regional head of fund services for Asia, Maples Fund Services.

"We expect to see more partnerships like the one between China Life and Franklin Templeton as Chinese firms look to tap into Western markets."

China Life Franklin Trust is an umbrella trust that was launched in December 2011. The trust serves as a global resource allocation platform for professional management by centralising overseas asset management and providing investment consultation to China Life and third party clients. Its first fund focusing on special events was launched in March 2012.

"We are very pleased to have selected Maples as our service providers. Although we have not been working together for very long, we are impressed by their pragmatic approach to issues and the 'whatever it takes' professionalism to deliver," said Eric Wang, portfolio manager at China Life Franklin Asset Management.

Nutmeg picks Pershing

BNY subsidiary Pershing will provide trading, custody, clearing and settlement services for online investment manager Nutmeg.

Nutmeg allows customers to invest money into a portfolio of assets, including equities, bonds and commodities. The firm invests customers' money based on personal profiles, risk and investment timeframes.

Pershing's wealth management custody solution will enable Nutmeg to provide investors with integrated access to global exchange markets.

Paul Bayliss, head of wealth and adviser solutions at Pershing, said: "Nutmeg offers a refreshingly original service to a broad range of UK investors, responding to a market gap which will expand further post-Retail Distribution Review."

"We are happy to support Nutmeg by giving investors the confidence that their assets and cash balances are held in a secure, cost-effective and transparent way."

Fitch urges managers to pick up flagship funds

Fitch Ratings has asserted the importance of owning large and established funds.

"Of the 12,000 cross border funds, only 430 funds (3.5 percent) have more than €1 billion of assets. UK and US players are far better positioned than those in mainland Europe in the €1 billion+ funds segment," said the ratings agency.

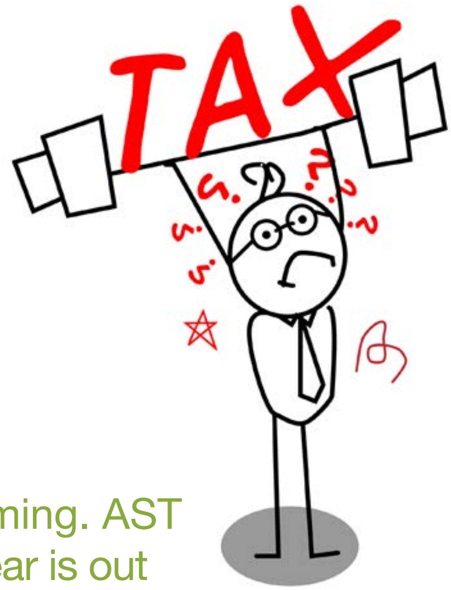
"Of the top 10 players with more than 25 cross border funds and highest proportion of flagships (more than €1 billion of assets), all but one are UK- or US -based."

Aymeric Poizot, managing director in Fitch Ratings's fund and asset manager rating group added that these managers have benefited from their expertise in global products, emerging markets and fixed income, where flows have concentrated in the recent years, as well as an active cross border distribution strategy.

By contrast, Fitch Ratings stated that mainland European players offer fragmented fund ranges with "few, if any, flagship funds", adding that having fewer but larger funds allows more efficient administration, reporting, controls, and related support functions.

"Portfolio managers can also focus on fewer funds and spend less time on administrative and commercial tasks, allowing them to spend more time on portfolio management."

"Commercially, flagship funds are also more visible, can accommodate bigger investor tickets and serve more easily as benchmarks when fund managers promote their portfolio management."



FATCA facts

Like a dreaded exam, the FATCA deadline is looming. AST finds out what funds should be doing before the year is out

GEORGINA LAVERS REPORTS

With a scope that is significantly broader than that of the current qualified intermediary regime, requirements that current fund industry systems will struggle to meet, and a deadline that is rapidly approaching, the US Foreign Account Tax Compliance Act (FATCA) represents a major global challenge.

"FATCA has been and will continue to be one of the major talking points and compliance areas that we will focus on for several years to come," says Michael Laveman, partner at US accounting firm EisnerAmper.

"Nearly every offshore hedge fund and private equity fund will need to register with the US Inland Revenue Service (US IRS). As we have moved closer to the rapidly approaching implementation date of 1 January we are now developing specific action plans for our clients."

"Although the US IRS needs to issue final tax regulations, as well as what the Foreign Financial Institutions (FFIs) agreement will look like, there is plenty of planning that can take place now. Ultimately FFIs will need to register by 30 June 2013 but before you can register you will need to conduct a review of your fund structures, fund investors characteristics, and decide who will act as a 'responsible officer', which is the person who actually signs the FFI agreement."

In the UK, many firms are closing their doors to US clients—a blow for Americans hoping that the industry would set up a system to help with FATCA reporting. Some British firms, such as Fidelity FundsNetwork, are continuing to accept business from US taxpayers that are based in the UK, while others, such as Cofunds, are refusing. Those refusing cite a lack of staff and resources, or doubt around the specifics of the rules. However, simply barring US investors will not help them to escape the reach of FATCA, because a +212 telephone number of a current client will force them into compliance.

There are also new rules presented under the regime that could force Swiss and other European banks to revise their fund management outsourcing policies, in a bid to control the increased compliance risk that is inherent in exposure to US clients or investments developing from the requirements. Response to this has become increasingly politicised. A Switzerland-based group of expatriate American organisations, calling itself the Americans in Switzerland Working Group, has sent every member of US Congress and the Obama Administration a report explaining FATCA's negative effects for expats.

Most recently, on 14 August, the US IRS issued a draft version of Form W-8IMY, 'Certificate of foreign intermediary, foreign flow-through entity, or certain US branches for United States tax withholding'.

"There are several existing forms that have been used for current non-FATCA US withholding purposes including a W-8IMY and W-8BEN," explains Laveman.

"A W-8IMY has been used in the past to document a foreign intermediary while a W-8BEN has been used to document the ultimate foreign beneficial owners. As an example, in a typical hedge fund master-feeder structure the master fund is usually structured as a pass through entity while the offshore fund is usually a corporation. Under this structure the master fund would provide a W-8IMY since it acts as a flow through to the offshore fund which would provide a W-8BEN since it is the ultimate owner."

The new version of the form has increased from a double page to a tricky seven pages, now identifying US persons or entities accepting US source income in foreign accounts, compared to the former version, which only identified foreign persons and entities receiving US source income.

"These forms are given to a US withholding agent to ensure that proper withholding is done," adds Laveman. "Typically these forms have been limited to withholding on US dividends but the FATCA regime will increase withholding to interest income and the gross proceeds on the sales of US securities. The new draft form W-8IMY was recently released in order to allow foreign intermediaries to be able to document themselves for purposes of the existing US withholding regime and also for FATCA purposes. The new form has seven pages and more than 20 parts."

The final blow is delivered at expats that have been lax in filing income tax returns. Laveman explains: "New procedures announced for streamlined filing compliance for non-resident US taxpayers to go into effect on 1 September 2012. These procedures are being implemented in recognition that some US taxpayers living abroad have failed to timely file US federal income tax returns or Reports of Foreign Bank and Financial Accounts, Form TD F 90-22.1, but have recently become aware of their filing obligations and now seek to come into compliance with the law. These new procedures are for non-residents including, but not limited to, dual citizens who have not filed US income tax and information returns."

FATCA may represent an increase in costs and effort, but there are partners out there developing solutions that could help to limit both.

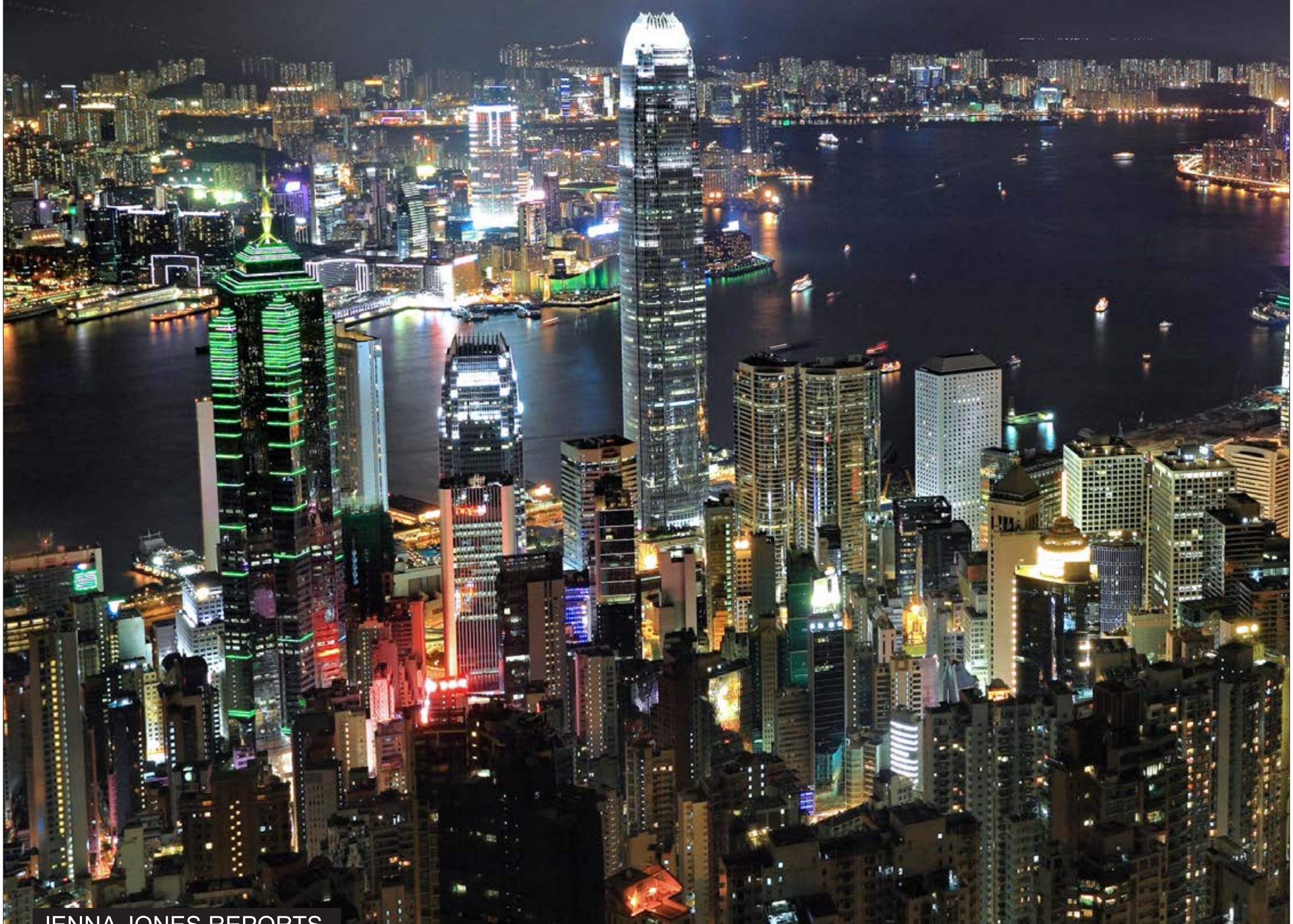
A good example is the International Swaps and Derivatives Association (ISDA)'s new protocol that allows market participants to efficiently amend ISDA Master Agreement tax provisions to address the effects of a FATCA withholding tax on payments under derivatives transactions.

FATCA imposes a 30 percent withholding tax on a list of payments to non-participating foreign financial institutions and others that are not compliant with the act.

The ISDA 2012 FATCA Protocol puts the FATCA withholding tax burden on the recipient of the payment and eliminates the tax from the definition of "Indemnifiable Tax" in the ISDA Master Agreement. **AST**

Custodians, put on your thinking caps

As Asian unlisted fund assets swell, custodians are thinking hard about balancing low costs with top-notch service. Phil Cook of Milestone Group gives AST the lowdown



JENNA JONES REPORTS

Why has there been a swell in Asian unlisted fund assets?

The upward trend that we're seeing at the moment is primarily the result of the changing demographic in the region. The figures tell the story: Asia's middle class has increased by 25 percent in the last 20 years, and that's been matched by rapid growth in GDP. Property has historically been a popular choice for those seeking a secure long-term investment, but now people are starting to look elsewhere.

What's particularly interesting in Asia is the value attached to brand. There are now a number of globally recognised names offering portable fund products (UCITS funds, for example) in the region, which are proving attractive to many.

Why are custodians so concerned about this rising volume?

The challenge (and by definition the opportunity) comes in managing these rising volumes in a way that allows custodians to maintain high levels of client service, while keeping headcount, and therefore costs, under control.

We should remember that large volumes are not a new phenomenon: a lot of custodians will remember pre-global financial crisis levels, which were higher than the levels we're seeing today. What's different now is that the cost of the labour that is required to complete these manually intensive processes is firmly on the up. This means that firms need to establish different models to achieve genuine scalability: the ability to reduce unit cost as the volume increases. Chasing low-cost labour is increasingly recognised as a quick fix, not a long-term solution.

What are the key factors in reducing operational risk in processing unlisted fund assets?

Complexity is a major risk factor. The challenge is that it is also a key characteristic of the current marketplace. From the different mechanisms that might be employed to place an order, to issues such as the different subscription periods that come into play with alternative and private equity pools, and the very different process and supervisory management requirements inherent in the mix of asset types. This complexity dominates the full fund lifecycle.

Where errors do occur, the ramifications can be considerable—reputational damage can be far-reaching.

Automation is the enemy of risk. Where functions can be automated, you eliminate the potential for human error. Given that offshoring is common in Asia, automated controls allowing clear visibility of remote operations have an even more important role to play.

It's also important to look to simplicity in your operating model. For example, operational risk is reduced when handling all fund transactions in a common set of processes, irrespective of fund type, placement mechanism and timezone.

It's the difference between focusing on optimising individual pieces of the puzzle versus bringing an operational perspective to bear.

What particular solutions does Milestone Group use for unlisted assets?

We have a number of products that support the end-to-end fund accounting processes for unlisted or unitised funds, all of which are delivered as part of our platform, pControl. This is specifically designed to overcome the challenges presented by the increasingly complex structure of fund products. This reduces both operational cost and risk, with inbuilt scalability.

Diving into some of the specific functionality, perhaps the best-known module is unitised order management. At the simplest level, this allows users from global custodians as well as smaller fund distributors to manage the routing of any fund order through the whole lifecycle. Whether it is a mutual fund, fund of fund, hedge fund or private equity, and irrespective of the placement and settlement mechanisms, it works in the same way.

We also have products that sit alongside that, such as fee calculation and rebate management, and tools for fund income processing and fund reconciliations.

What this means to Asian retail banks and private wealth managers is that they can have all back-office fund distribution activities on a single platform operating across multiple countries.

Why is Asia seemingly more reluctant to take up full automation?

Significant change typically requires a catalyst to start the process. As much as anything else, I think it's simply been the case that there has been no 'big bang' incentive to move away from the status quo of manual order processing in this instance. While it's true that volumes are rising, it's steady, but not explosive growth, and in many parts of Asia the cost of labour is not yet sufficiently high to necessitate a change of approach.

However, things are starting to change. That change is being driven by both domestic and international factors. The cost of labour is rising, and adding people to the payroll is not the path to sustainable and scalable growth.

Which country is making the greatest leaps in automation, and what can be done to encourage the regions that are being left behind?

It's very difficult to make a statement on a country-by-country basis. What we are seeing, though, is a trend towards a more centralised approach as firms recognise the efficiencies that this brings.

The growth of private wealth activity in Singapore means that in many cases this is becoming a natural location for a centralised order management hub. As a result, a lot of the automation is currently focused here, and is being rolled out across other countries.

What does this mean for custodian product offerings?

It provides a great opportunity for custodians that wish to differentiate themselves by offering highly transparent order management services to their clients. Particularly, for asset owners that invest in alternative funds, the complexity of the transaction demands higher levels of client service.

The challenge for custodians is to deliver this in a highly scalable manner given the current level of manual processing for the more complex fund products.

Having said that, fund distributors such as life companies and regional banks also have the same opportunity to differentiate themselves. Should they choose to retain their fund distribution functions in-house, this can also bring cost savings as well as time-to-market advantages, without losing the ability to handle the more complex fund products.

Some fund distributors would consider this to be an important competitive advantage.

Is it really possible to completely eliminate faxes?

Wind back 25 years, and people were asking whether it was really possible to eliminate telex, so we've certainly moved on! Every year there is a reduction in fax traffic, so there is progress, but it's not drying up that quickly.

Where we are looking at simple transactions, there is a lot that can be automated, but there are equally many placement mechanisms that need to be managed. That takes us back to my point before on operational risk: operational risk is reduced when handling all fund transactions in a common set of processes, irrespective of fund type, placement mechanism and timezone.

However, there's an ongoing demand in the market for more complex fund products, and this is where we get to the sticking point. These more complex order flows typically require a substantial amount of physically signed documentation. That does have to be delivered somehow, but it doesn't have to be via fax.

To automate this, we need to focus on managing the flow of documentation and paperwork in a more effective manner—not just replacing the fax.

What are the implications for clients of custodians such as retail banks, private wealth and life companies?

There will be the benefits that they can see, which will be felt in areas such as quality of service, reporting and the flexibility and responsiveness of their suppliers. Just as important, though, are the 'under the bonnet' benefits, such as the reduction in risk.

Where are the value added services?

Let's start from a point where we assume that automation of all aspects relating to the fund transaction is in place. At that point, firms can start to turn their attention to value-added services in areas such as revenue capture and the calculation of fees and rebates. Accurate daily revenue reporting for fund distributors should be a priority.

Looking to the market, it's clear that there's an increasing desire for real-time information—for example, clients might want to be able to see the status of orders at any given time. For custodians that have highly automated order management systems in place, this should be an opportunity. AST

Phil Cook
Responsible for market development activities in Hong Kong and Singapore
Milestone Group

White sands and golden opportunities

Despite reporting and process deficiencies, the Middle East is being primed for business, as AST finds out

GEORGINA LAVERS REPORTS

Dubai is a prime location for the second annual custody, clearing and settlement Middle East conference, which is being held in a swooping, glass-fronted hotel on the affluent Jumeirah beach. The November event will focus on new-found opportunities in the Qatar and Saudi Arabia securities markets, proving that rapidly growing markets in the Middle East leave little time for beach-lounging.

Like parts of Asia and Africa, processes in the Middle East still need to be systemised and streamlined to reduce human error and improve trade success rates. Reporting also needs to be improved, with a focus on the delivery versus payment (DVP) model.

But there are sunnier sides to the story. Upcoming changes in capital market regulations will increase security and market opportunities, and regional exchanges are both increasing trading volumes, and heightening investor security.

Like so many other markets in the region, custodial activities have also undergone significant change in the last five years.

"While the role of the custodian has been fairly well defined in countries like Egypt even in the 1990s, the same was not the case in the Gulf Cooperation Council (GCC) countries till the last five to seven years," says Arindam Das, regional head of HSBC Securities Services for the Middle East and North Africa.

"In most countries in the region, HSBC was the first international bank to offer custody, and as part of that, we had to engage very closely with the central securities depositories (CSDs) to introduce the concept of a custodian, and outline the rights, duties and operating models of the same."

He adds that in the last few years, custody has become a more formally regulated activity with eligibility and licensing requirements, as well as clearly defined roles and responsibilities.

The scope of custody activities in the region now covers the standard functions, ranging from account opening to settlements, corporate actions, reconciliation, reporting, client service and market advocacy.

Eyeing the competition

Qatar has been the fastest-growing economy among the rapid growth markets in the Middle East in the last 10 years, with an average growth of 13 percent a year.

Though, according to the International Monetary Fund, Qatar's economic growth will slow next year as well as face an increased risk of lower oil and gas pricing, custodians took note of rapid growth in Qatar and Saudi Arabia, leading to global custodian banks attempting to build critical mass in the region.

Das states that he has seen an increasing number of service providers, both international and local, setting up custody businesses in the various Middle East and North African countries, but their coverage of the region still remains fragmented. "HSBC remains the only institution that offers a comprehensive sub-custody proposition with local market presence in all the GCC and Levant markets."

"We have more than 100 employees in HSBC Securities Services locally in the Middle East and North Africa region, who are supported by teams in our various offshore locations."

Until recently, HSBC was the sole non-domestic custody provider and asset servicing company to hold and service its clients' assets in the region, with competitors exporting servicing of Middle Eastern client assets to offshore centres. HSBC "does carry out some back-end processing activities in our offshore service centres," states Das.

"However, we believe that a critical component of our service proposition is our physical proximity to the markets, that enables us to gain in-depth market knowledge, develop relationships with market participants, and drive change in the markets, and hence we have been very conscious not to dilute the strength of our local teams. In fact, by offshoring some of the back end processing, we have enabled our local teams to focus more on local market related and client service oriented activities, which is what we believe differentiates us from competition."

As a result, the custodian provides sub-custody to most of the large global custodians and international broker dealers that invest in or provide access to investments in the region, with a number of regional clients domiciled in the Middle East and North Africa region.

But both Citigroup and Deutsche Bank withdrew their sub-custody mandates from HSBC in favour of going in-house.

"While we cannot comment on decisions of specific clients or competitors," says Das. "We believe that this decision would depend on the size of one's portfolio in a particular country, and unless there is a critical minimum size of assets and transactions on a sustainable basis, there is certainly a case for outsourcing."

Citigroup is the main competitor of HSBC in the Gulf region, and offers three main services—depository receipt issuance, asset servicing for investors and local sub-custody. It signed a deal with the Bahrain Stock Exchange in 2010 to act as depository to local and international investors.

Standard Chartered is another rival, and it is well placed to provide custodial services in the region, seeing as its logo remains a familiar sight in the Middle East after 150 years of serving retail customers there. After launching its asset-servicing business in the region four years ago, in July of this year the bank announced the expansion of its regional custody coverage for investors and intermediaries from its Middle East and North Africa regional hub in the Dubai International Financial Centre.

The service now covers more than 40 markets across Asia, Africa and the Middle East, along with a few select countries from other regions, "making it the most comprehensive regional custody coverage offering of any service provider in the Middle East," said a statement that was released at the 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 in the world's fastest growing regions."

State Street, BNY Mellon, Northern Trust, Deutsche Bank, Standard Chartered and J.P. Morgan have all made the step to provide some form of custody in the Middle East. As global players put their faith in these developing economies, it would be remiss not to regard the region with the seriousness that it deserves. **AST**

Bottom line:

[Your securities services expert in Central and Eastern Europe]

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

www.ingcommercialbanking.com

ING

Innovative Asia

The financial markets in Asia are tricky but fruitful environments to do business in. AST's experts respond to some frank questions on that part of the world

Ludovic Blanquet
Regional director, Asia Pacific
SmartStream Technologies Asia Pacific

Adam Wilson
Director, securities markets, Asia Pacific
SWIFT

Since 2008, the global financial crisis has ushered in a new era of highly regulated and scrutinised banking culture. What have been the biggest changes in Asia?

Ludovic Blanquet: The biggest difference between Asia and the rest of the world is that the wave of de-regulation that led to the global financial crisis was not as deep or dramatic. Therefore, following the crisis, the requirement for new regulation was not as strong as the market was already fairly highly regulated.

This has given Asian regulators the opportunity to learn from their counterparts' mistakes and modernise the environment to make it more business friendly. They have decided that some changes did not require implementation or would be delayed until they have had chance to better assess the potential impacts on the market structure. Traditionally, Asia has been place of cautious innovation when it comes to regulation; this is now truer than ever.

Adam Wilson: The global financial crisis has ushered in a new era of transparency and investor protection. SWIFT is seeing some marked changes in 3 areas:

Increased reporting

Firstly, investors are demanding a higher level of reporting to understand their positions and exposures. SWIFT has seen a significant increase in holdings and statement messages particularly in the securities segments. Institutional investors such as global brokers and investment managers are fine-tuning their capital management in an environment of constrained funding and liquidity environments. Custodian banks servicing those customers domestically and cross border are responding to this demand, but they are supplying more information more frequently, enhancing their reporting functions, as well as integrating the management of collateral, cash and securities holdings movements more closely.

Investor information

Investor protection is now paramount for a market to maintain investor confidence levels. SWIFT is seeing a rapidly growing focus on initiatives that enhance the accuracy, speed and transparency of corporate (issuer) information. SWIFT now has five new services and six projects to implement ISO-based messaging of such information from Market Infrastructures (exchanges and central securities depositories, or CSDs) to the institutional market. This growth is more rapid in Asia than in any other part of the world, partly due to competition for capital raising being more aggressive.

Transparency of OTC derivatives trades and clearing

The imposition of the US Dodd-Frank Act and the recommendations from G20 are having a significant effect on flow in Asia. Six of the G20 countries are located in Asia. Consequently, the main thrusts of OTC derivative "Trade Repositories" and transparent centralised "Clearing Facilities" are now being established in the Asian region. SWIFT is involved in regional initiatives such as with Hong Kong authorities as well as the DTCC global initiative, which is being lead from the US.

With the deadline for FATCA implementation coming up in Jan 2013—what are the effects of this on banks in the region?

Wilson: The Foreign Account Tax Compliance Act (FATCA) will add to the already considerable regulatory burdens on banks. Uncertainty remains about some aspects of the implementation of FATCA, but it is clear that the US will go ahead on a phased basis starting in 2013. Banks will need to be certain that they can identify US clients that fall under the act, and that they can account appropriately to the US tax authorities or face the prospect of 30 percent withholdings on US-sourced income. Some countries are beginning to consider reciprocal tax arrangements with the US, and if this extends to Asia, then institutions in some markets will report the information that is required under FATCA to their local tax authorities rather than directly to the US, so that is another source of uncertainty. FATCA is most likely the start of a trend where more tax authorities over time adopt similar mechanisms in order to capture income from their citizens that is held oversees. FATCA can be regarded as adding to the know your customer obligations that are increasingly placed on financial institutions. SWIFT stands ready to help to help banks meet the operational challenges associated with FATCA.

Blanquet: Given the size of the commercial flows of goods and capital between the fast-growing Asian economies and the US, the effects will be felt across all institutions supporting this trade business. Financial institutions are facing an uphill battle to collect, gather and keep up-to-date the associated documents that are required to be FATCA compliant. It remains to be seen whether all institutions will be ready and how the US is going to enforce it within the deadline.

Sweeping reforms mandated by G20 affecting EMIR and Dodd-Frank are expected to be in place by end 2012. How will these affect business in Asia?

Wilson: Dodd-Frank and the recommendations of the G20 have a direct and indirect impact on business in Asia. Six of the G20 countries are located in Asia and consequently they will be required to align with the directives of OTC derivative "Trade Repositories" and transparent centralised "Clearing Facilities". This is the direct impact of regulation. Dodd-Frank is having an indirect impact through Asian-based companies with significant business in the US likely to fall within the US legislation for reporting purposes. Furthermore, Asian regulators are looking closely to align and in some cases follow the US model.

Blanquet: Beside the new transparency that these reforms are going to introduce, we can expect two fairly diverging business impacts. First of all, we could see an increase in the volume of OTC derivatives been traded here in Asia given that the regulatory framework won't be aligned with the European Market Infrastructure Regulation (EMIR) and Dodd-Frank requirements. This will trigger an additional workload on the operations teams across the region. I'm not sure that we will see a boom of European and US-denominated OTC contracts being booked in Asia, but it is certainly something that financial institutions are contemplating to work around the transatlantic rules.

Secondly, Asian regulators are consulting with their markets to assess appetite for an alignment of the regional rules with the global ones. Rightly so, they are in no rush to promote rules that could trigger unknown consequences into a fairly nascent market. OTC derivatives are small in Asia and there is no proof that moving them to a central exchange would increase liquidity and benefit the market overall. Moreover, given the number of markets in Asia, there is little incentive for any market to be the first one to move to a more regulated environment. From a business point of view, we have to continue to work with the regulators and remain ready to accommodate changes whenever it happens. Businesses have to remain agile and flexible.

As the global financial markets enter a 5th year of slow growth, are businesses bundling or unbundling services?

Blanquet: As financial institutions continue to deleverage and shrink their balance sheets, they are facing a constant challenge of keeping costs in line with the resulting adjusted volume of business. This is triggering a fundamental re-engineering of the processing infrastructure in a very tight cost control environment. Departing from the historical vertical silo approach, financial institutions are now developing shared service centres that concentrate the lower value-added but critically important tasks, such as reconciliation and reference data management. By doing so, they allow the front office to focus on competitive advantages and differentiating factors. These shared business services deliver multiple benefits: lower cost per transaction, increased staff motivation and the potential to be located in lower-cost countries. They function as individual cost centres whose costs can be clearly defined and help the creation of upfront product whose profitability is easier to track. They are the building blocks of an agile bank creating innovative products for its clients.

Wilson: SWIFT is focused on continuing to provide value to its customers in difficult times. As a global infrastructure, we enable our users to realise economies of scale in their use of SWIFT for financial transactions. We are adding services in response to client needs, and are particularly focused on ensuring that our services are adapted where necessary to assist customers in their operational compliance with regulatory changes. As volumes (particularly in securities) continue to flatline, we see customers looking closely at the bottom line and prioritising their activities accordingly. SWIFT offers a range of services which clients are able to package together as they require them.

How can the common platform model facilitate asset servicing and cross-border trading, integrate markets and harmonise market practices?

Blanquet: Any normalisation and standardisation exercise has to be designed with the objectives of decreasing the cost of trading and servicing assets for the end customer. With normalisation comes efficiency and liquidity, making it easier for all market participants to implement what they believe is the best investment platform. It remains to be seen whether the markets will truly become interoperable in the not so distant future.

How close is Asia to T+1 and real-time trade settlement?

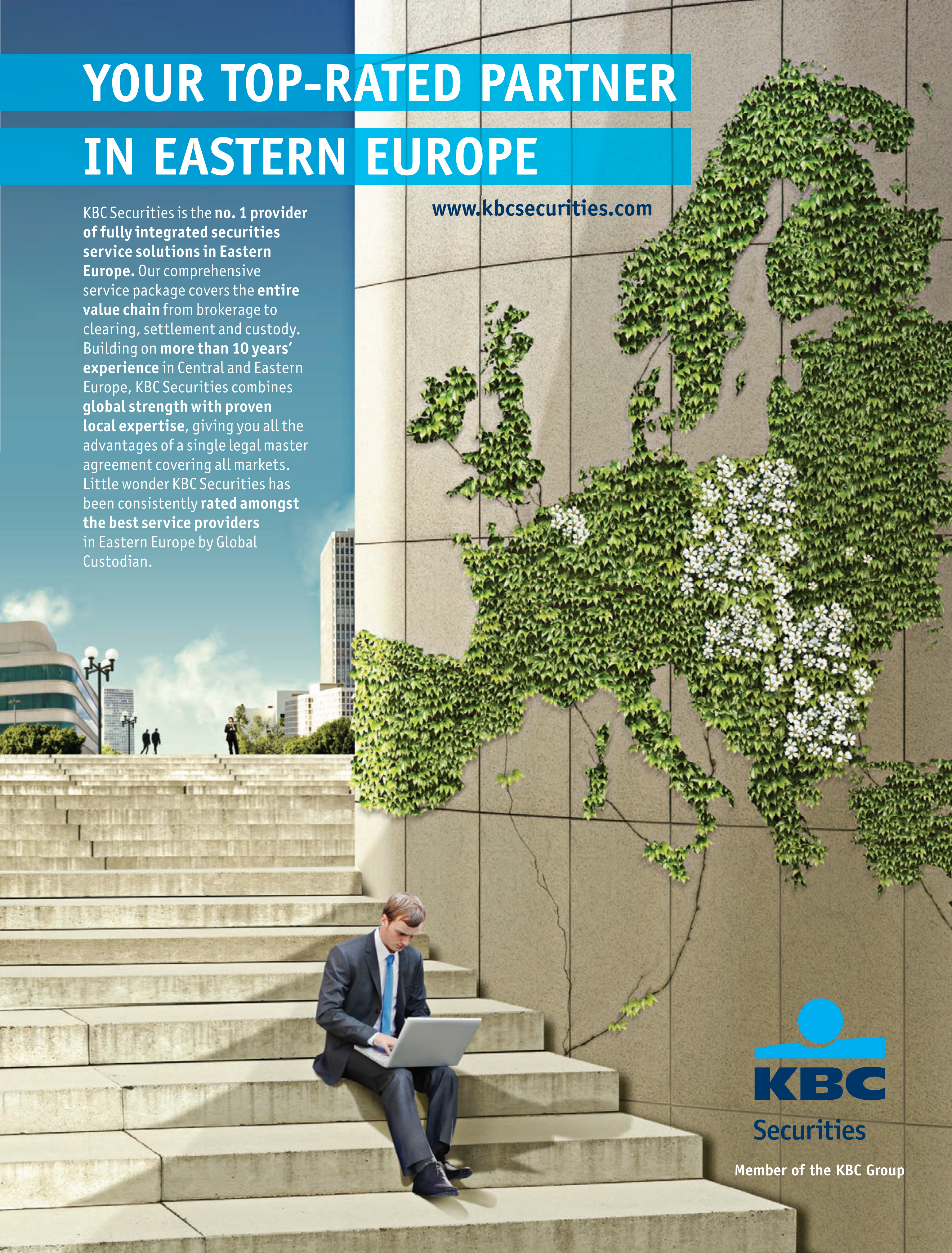
Wilson: Most markets with international investors recognise the dilemma that short securities settlement cycles mean a requirement for pre-funding of cash for settlement. So creating more efficiency on one side only creates less efficiency on the other. The more domestic a market is, the less they care about this dilemma. This may need to be revised over time and some countries have reversed their short settlement cycles to longer ones. The optimum T+X depends on many domestic and international factors that are mainly based around bond and cash market efficiency. What we have seen is that where there are international investment flows of significant volume, where international standards and SWIFT are used for cash, bonds and equities clearing and settlement, the shorter the cycles can be.

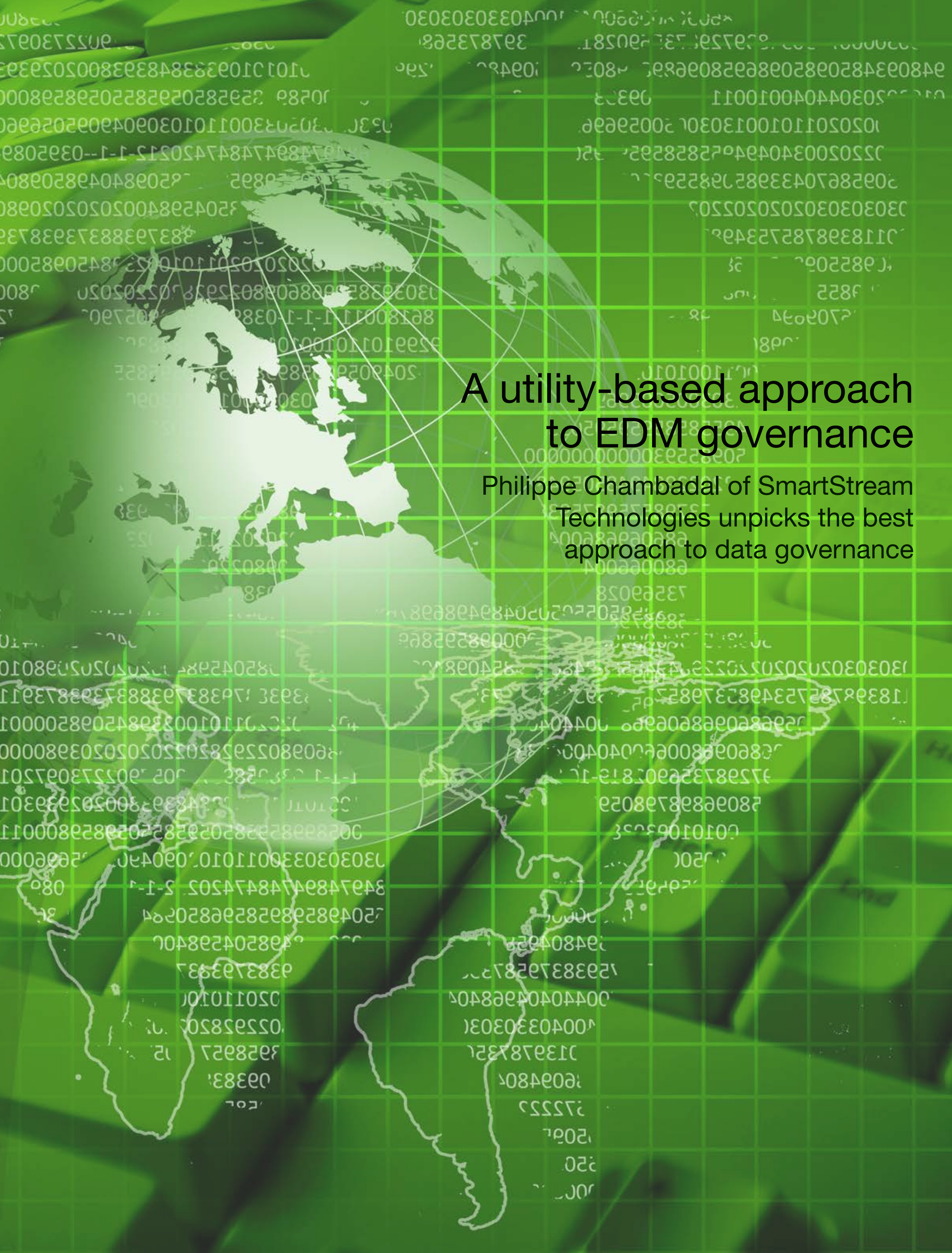
Blanquet: In Asia, I would say that it is not very high on the regulators' and market operators' agenda to shorten the settlement cycle, despite the obvious benefits it could bring to market by reducing delinquency and cash risks.

What do you see as the biggest growth markets and areas within Asia?

Wilson: Asia Pacific has some of the highest growth countries in terms of currency strength, GDP and asset accumulation. Australia from a resources perspective has a strong growth in GDP and currency, China remains the factory of the world with currency pressure and GDP growth still solid, and Singapore has become the private wealth capital of Asia including the de-facto home of hedge funds outside of US and European regulated zones. Those that have shown significant potential for ongoing growth include Thailand, Vietnam, Indonesia and India, due to large domestic populations, growing middle-class wealth and large, productive workforces.

Blanquet: By many aspects, Asia is still an under developed market with hundreds of millions of people still on the path to prosperity. The ones that are lucky enough to have already reached the middle-class are underserved. The healthcare, life, and even home insurance and pension markets are still nascent. As people become more affluent, they aspire to more security. Over the next couple of decades, they will fuel the growth for the regional securities and asset servicing industries to develop and catch-up in size with their European and American equivalents. If we had to single out a sub-region, the Southeast Asian nations, with their populations, business-minded governments and strong infrastructures, seem to be the places that on the up. **AST**


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



A utility-based approach to EDM governance

Philippe Chambadal of SmartStream Technologies unpicks the best approach to data governance

Poor data governance is costing firms tens and potentially hundreds of millions of dollars in opportunity costs as they struggle to channel the correct reference data to middle- and back-office applications in order to enable them to process trades and control risks. While many firms have focused on the direct costs of reference data management in running their businesses, they have too often overlooked the downstream impact of poor quality information and the opportunities that are going begging.

This has become critical as financial institutions increase their focus on cost savings; the costs of running post-trade operations has become so high that many financial institutions can no longer afford to sustain their historical approaches to reference data problems. In the current environment, institutions are attempting to undertake the same functions for less money and with fewer people.

At the same time, the global agenda for financial regulation is in large part based on transparency, and transparency means accurate data. Initiatives such as the US Dodd-Frank Act, Basel III, the Markets in Financial Instruments Directive (MiFID) Review and the Foreign Account Tax Compliance Act (FATCA) will put increased pressure on financial institutions' reference data management and governance strategies. For example, the MiFID Review requires data to be made accessible to financial regulators for at least five years and the quality of reporting from trading venues must be improved. In order to comply with FATCA, which comes into effect in the US on 1 January 2013, financial institutions will have to, among a number of tasks, ensure that know your client (KYC) information is centralised in order to more easily determine the status of individual account holders.

A practical need for data governance

Managing reference data costs firms huge sums of money, but offers no business differentiation. In many cases, firms have data management initiatives, but do not have data governance strategies. However, the impact of bad data on middle- and back-office applications creates a huge cost and with the regulatory environment becoming even more stringent, the overheads and IT lag that are associated with maintaining reference data will only continue to rise.

Data governance is emerging as a new discipline that encompasses data quality and its continuous measurement, data management, data policies, business process management and risk management. It is a set of processes that ensures data assets are formally managed throughout an enterprise. The aim is to deliver data that is complete, trusted and of high quality. Questions that must be asked include: do people understand the problem they are trying to solve? Is reference data governance an IT function or an operations function? Is data management and governance a centralised function or one that should be distributed? Can these functions be centralised while deviations are managed in a decentralised fashion?

A data governance strategy should combine four elements: coverage, timeliness of data, quality of data and the cost of data. Each element is interlinked and improvements in one will lead to improvements in the others. Data governance should be tangible and produce measureable results.

Data governance challenges

The challenges that are inherent in developing and implementing a data governance strategy have been building up in financial institutions for a number of years. Most institutions have a data governance policy and structure, but many fall down in their execution of a policy and are struggling to produce the coverage and accuracy that are required by the trading desks and operations.

Reference data is obtained from a number of external sources and distributed throughout the organisation. Every financial institution has implemented multiple data feeds in the pursuit of data quality; the perception is that the more data sources that are brought into the organisation, the greater the accuracy. But this is not necessarily true. In order to deliver data quality, data operations groups must ensure greater transparency of their processes and measurability results.

Without a clear definition of data quality, a firm can buy in more data feeds, rendering their processes more inefficient, particularly if feeds are not adequately integrated. Feeds are persisted into multiple formats and data stores, according to functional requirements and stored in multiple systems.

Moreover, corporate actions, issuer and counterparty data are typically managed independently of the databases holding instrument data, which adds a magnitude of complexity and creates added inconsistencies. This leads to discrepancies in the data, preventing firms from understanding simple information such as their total market exposure to a single counterparty or company, or resulting in the provision of incorrect information to either trading counterparties or end clients.

The multiple databases and securities master files that have mushroomed within financial institutions entail a significant cost in terms of software licences, maintenance of reference data and cost of IT staff, but these are dwarfed by the trade breaks that are caused by inaccurate reference data.

The cost of managing multiple securities master files, of hardware and of data is not insignificant; for tier one firms the costs can easily amount to $100 to $200 million per year. Depending on the type of institution, how global its operations are, how many departments are involved in reference data, and the number of individual applications and their requirements, the trade processing costs that are caused by inaccurate reference data can quickly mount to many hundreds of millions of dollars per year.

The solutions to date

Historically, the typical solution to these data governance challenges was two-pronged:

- Throw more resources in terms of investment and staff at each business silo, to the detriment of cost effectiveness and processing efficiency; and
- Build large and costly horizontal infrastructures to overlay a normalisation layer over vertical complexities.

This approach has resulted in the duplication of roles and poor data quality, which leads to further costs, as errors in data require manual correction in downstream trade processing systems. To a significant extent, financial institutions have been reactive—reference data strategies have been based on solving problems that could have been prevented. Large tier one institutions often employ many hundreds of staff managing data, correcting it and enriching content; staff levels that would not be necessary if reference data was managed and governed more effectively from the outset.

Without a clear definition of data quality, a firm can buy in more data feeds, rendering their processes more inefficient

There are myriad functions involved in the management of data, some of which are more highly automated than others. For example, research by the International Swaps and Derivatives Association (ISDA) indicates that an average of 80 percent of volume is automated across asset classes when it comes to transferring trade data from the front office to operations for processing. However, when it comes to affirming and confirming processes, only 19 percent of volume is automated. Automation figures are also low when it comes to settlement pre-matching (30 percent) and affirmation/checkout (25 percent). The research found that 91 percent of institutions planned to improve automation in equities, but other asset classes do not attract the same focus—only 30 percent of institutions planned to increase automation for interest rate products, for example, and 19 percent planned to upgrade currency automation.

The ISDA survey also revealed that figures were low when it came to outsourcing data functions or relocating full-time staff to low-cost locations. Reference data management staff tend to be located in-house, while back-office staff are often off-shored and outsourced.

The pain points

Data quality and coverage, rising costs and regulatory requirements are causing significant problems for financial institutions.

The 2011 AIM Software Global Reference Data and Risk Management Survey found that 53 percent of survey participants were dissatisfied with the high costs that are associated with reference data from commercial vendors. The reduction of costs was identified as a driver of investment in reference data management solutions by 77 percent of respondents and 44 percent expressed a desire to invest in automating static data. Of those surveyed, 39 percent planned to set up a proprietary solution for the management of reference data, while 27 percent are working on extending their existing reference data management systems.

The problems that are associated with reference data can be manifold: poor data quality, missing standards, delays in data delivery, bad data coverage and high costs are cited by financial institutions. The reduction of errors and the reduction of processing costs are typically cited as key drivers for reference data automation. Other drivers include the increase in data volumes, the desire to improve risk management and compliance with regulatory requirements.

Integration of reference data with corporate actions and counterparty data is a key challenge for firms. Reference data projects can be complex in themselves, but when time to market is crucial and multiple data governance projects are running at the same time, problems can mount. Linking projects is key—financial instrument data, indexes, exchange-traded funds (ETFs), legal entity identifiers and corporate actions data are connected and require an enterprise-wide approach to data integration. Middle-office requirements differ from those of the front and back offices. Each area will have its own securities master file and there is no underlying logic to how this is approached. This means that downstream processes are affected and often the data will have to be researched and corrected.

The principles and processes of data governance

The principles of data governance are straightforward: a strategy should be well defined, measureable and take into account the ongoing maintenance of reference data. It must be remembered that the onboarding of a reference data feed is just one component of the reference data strategy. At a senior executive level, financial institutions must have an understanding of how they use the reference data feeds and how much use they are getting from these feeds.

Data quality must be defined and standardised across the enterprise consistently. Governance must be flexible and adaptable, which is particularly significant given the rapidly changing nature of the financial services industry as new regulations come into effect.

These principles should be supported by operationally efficient trade processes. One of the first steps is to establish a clear definition of quality for every field and asset type. Once arrived at, this definition must be consistently applied to all of the data vendor feeds that are brought into the financial institution.

The process of onboarding a data vendor feed is not solely loading the feed; the business rules have to be in place in order to measure and improve the quality of the data. There also must be segregation between external processes and internal customisation of applications. Unless there is a clear definition of the differences between internal and external processes, measurement can become difficult.

The Reference Data Utility

Cost pressures are driving the trend towards greater standardisation of back-office systems and processes that offer no strategic differentiator for firms and a minimal competitive advantage, yet consume vast amounts of resources.

However, removing operational silos and rationalising systems is a huge undertaking. As a result, a new model, called a reference data utility (RDU), is required. Such a utility is based on shared, standardised delivery of commoditised functions of back-office processing and a centralised repository of standardised data, including reference data, corporate actions, issuers and counterparty data, settlement instructions, indexes, ETFs, and so on.

Operated as a centralised managed service, a RDU can address many of the issues that exist as a consequence of bad reference data. Without an industry utility organisations are left to solve data issues for themselves when many of the problems and associated costs occur once data crosses organisational or geographical boundaries.

An industry utility that takes a holistic approach—where all participants in the market can be both publishers and subscribers of the data—will result in a more transparent, consistent and higher quality data set. RDUs deliver three key benefits:

- Cost reduction—a single, shared common process delivers a lower cost model than outsourced operations; internal IT and operations processing for reference data management can be removed partly or wholly; consistent data across the infrastructure reduces operational costs and risks; and fewer trade breaks result in lower costs per trade;
- Increased processing and management efficiency—a reduction of trade breaks because the same reference data is used by most firms; users are not locked into obsolete technology or required to invest in new technologies and data quality processes; and the RDU operator will manage changes in data and formats, regulations and workflows; and
- Increased quality of data and processes—single shared operations among several firms result in better quality than could be achieved by individual firms; continuous feedback from users guarantees ongoing quality improvement; continuous investment is made in new technology and higher quality data production; and implementation and expertise is globally consistent.

Case study—RDU in action

Achieving successful data governance can involve a number of steps. A global financial services firm provides a typical example of how complex reference data projects can be. The firm had challenges in its listed derivatives activities, encountering poor quality data, less than optimal coverage and ongoing maintenance issues with the data.

Initially, the firm brought in a number of different data feeds in an attempt to improve data quality. However, it found that this approach did not result in improved quality and was also not ideal for its strategic direction of building an architecture that is based on centralised processes. In terms of coverage, delays were encountered when trades were made that were not covered by the data. Finally, maintenance issues mounted as new feeds were brought in to be integrated and rules and actions changed in what is a dynamic industry.

The firm found that it had spent time and resources on a reference data project that would not enable them to move to a new centralised structure. It approached SmartStream to leverage the company's abilities to deliver better data quality, coverage and a support structure for data governance via SmartStream's reference data utility.

By implementing the RDU, the firm gained an efficient, end-to-end process covering the entire transaction lifecycle, reducing transaction processing costs and eliminating the wasted resources previously devoted to correcting transaction fails and breaks that were caused by poor reference data.

Many firms are beginning to identify the serious knock-on effects of poor reference data and the burden that it places on processes throughout their businesses. At the very senior executive levels of financial institutions, data governance and data quality is recognised as an important issue that holds the key to reducing costs and risks. **AST**

Philippe Chambadal
CEO
SmartStream

Over 40 Buy Side Clients Already Booked On To Attend!

The 23rd International

GCF Global Custody Forum 2012

200+ Attendees In 2011

10% Discount Please Quote VIP Code:FKP2338ASTAD

Europe's Leading Global Investor Services Gathering

Tuesday 4th - Wednesday 5th December 2012, Paddington Hilton, London

Hear The Views Of Over 40 Outstanding Speakers This Year From These Companies:

- HSBC SECURITIES SERVICES
- BNP PARIBAS SECURITIES SERVICES
- ING COMMERCIAL BANKING SECURITIES SERVICES
- UNICREDIT GROUP
- FINANCIAL SERVICES RESEARCH
- BLACKROCK
- SCHRODERS PLC
- JP MORGAN ASSET MANAGEMENT
- MORGAN STANLEY
- BARCLAYS
- THOMAS MURRAY LTD
- EUROPEAN CENTRAL BANK
- RBS
- BRITISH BROADCASTING CORPORATION
- NOMURA
- DE NEDERLANDSCHE BANK
- SWIFT
- GLOBAL CUSTODIAN
- FRIED, FRANK, HARRIS, SHRIVER & JACOBSON (LONDON) LLP
- ISLA
- CLIFFORD CHANCE
- INSTITUTIONAL PROTECTION SERVICES
- IRWIN MITCHELL
- SPECTOR ROSEMAN KODROFF & WILLIS
- CLEARSTREAM
- LCH. CLEARNET
- KDPW
- LINKUP MARKETS
- HAMILTON ADVISORS
- LOUGHBOROUGH UNIVERSITY SCHOOL OF BUSINESS & ECONOMICS
- GLOBETAX
- SWISS REINSURANCE COMPANY LTD
- MAWER INVESTMENT MANAGEMENT LTD

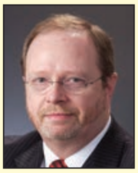
Key Speakers Confirmed This Year Include:

Danny Sullivan
Executive Director
JP MORGAN ASSET MANAGEMENT

Philip Brown
Head of Client Relations for Europe and the Americas
CLEARSTREAM

Lilla Juranyi
Global Head Investor Services
ING COMMERCIAL BANKING SERVICES

Markus Ruetimann
COO
SCHRODERS



Ross McGill
Managing Director
GLOBETAX

Alan Cameron
Head of Client Segment - Broker Dealers and Investment Banks
BNP PARIBAS SECURITIES SERVICES

Jaap Mauritz
Senior Policy Advisor
DE NEDERLANDSCHE BANK

Jürg Unger
Head Custody
SWISS REINSURANCE COMPANY LTD

Don't Miss This Year!

• The Global Custody Evening Reception

December 4th after Day One of the Conference
ICBI and Thomas Murray Ltd will be hosting the Global Custody Forum's inaugural evening party

• Interactive Electronic Polling Q & A Panel Sessions

Where the real-time views of the audience are polled and commented on by our high-profile panel members. These fantastic interactive sessions ensure the latest trends and developments are under the spotlight

• Lunchtime Q&A Roundtables

Each table will be hosted by an industry specialist and is your chance to really focus on the key issues that affect you directly in your day to day job. Choose from 1 of 4 focus groups

Plus Don't Miss These Essential Events In ICBI's Custody Week

Pre-Conference One Day Workshop
The Evaluation, Selection And Monitoring Of Your Global Custodian
Monday 3rd December 2012

And

Optional Two Day Training Course
A-Z Of Global Custody Law
Thursday 6th - Friday 7th December 2012

Endorsed By alfi

Associate Sponsor GLOBETAX

Follow Us On:
You Tube globalcustodyforumTV

Arranged by
ICBI
an informa business

THOMAS MURRAY

Scan with smartphone QR Reader App

Marketing Partner globalcustody.net

Media Partners AST ASSET SERVICING TIMES · Global Custodian

For latest programme & to register, please visit: www.icbi-events.com/globalcustodyforum
Email: info@icbi.co.uk Tel: +44 (0) 20 7017 7200 Fax: +44 (0) 20 7017 7807

Industry appointments

J.P. Morgan Chase has appointed **Carlos Hernandez** as head of investor services. In his new role, Hernandez, who previously ran equities, will be in charge of J.P. Morgan's new business that combines the prime brokerage, financing and securities services units.

Clearstream Banking has appointed **Martina Gruber** and **Berthold Kracke** to its executive board.

Gruber will lead the German central securities depository's (CSD's) sales and relationship management, customer service and marketing areas. Kracke will be responsible for risk management and compliance, finance and controls.

Global fund administration company Confluence has recruited **Frédéric Simon** as a global sales account executive, based in Luxembourg.

In his new role, Simon will be responsible for expanding Confluence's global market presence.

Fidelity Investments has named **Abigail Johnson** as president of Fidelity Financial Services, consolidating all of the company's core businesses under her leadership.

In her new role, Johnson will continue to report to her father Edward Johnson, Fidelity chairman and CEO.

Johnson most recently was president of the Personal, Workplace and Institutional Services organisation, which includes the retail and institutional brokerage divisions, as well as retirement and benefits services. In that role, she partnered with Ronald O'Hanley, president of asset management and corporate services.

O'Hanley will continue to oversee all of asset management and corporate services, but will now report to Abigail Johnson, rather than her father. The leaders of Fidelity's brokerage and mutual fund distribution businesses will continue to report to Abigail Johnson in her new role.

P.R.P. Performa has snapped up **Scott McIntyre** and **Jason Golder** as senior portfolio managers.

McIntyre and Golder will be based in Burlington, Vermont, and report to David Kilborn, chief investment officer and president of Performa US.

At Performa, McIntyre will be responsible for all investment grade corporate credit activity. McIntyre previously worked for Dwight Asset Management as the head of investment grade credit, and a member of the firm's fixed income strategy team.

In his new role, Golder will oversee the firm's structured product investments.

HSBC's global banking and markets division has recruited nine senior executives for its Asia Pacific equities and prime services units.

Jean-Paul Linschoten joins the bank as a director in prime services sales. The Hong-Kong based role sees Linschoten reporting to Matt Kiraly, head of prime services sales for Asia Pacific.

David Streatfield has been appointed as a director in equity finance delta one sales in Hong Kong. Streatfield was formerly a director in delta one, synthetics, swaps and stock lending sales at Deutsche bank in London.

Adrian Harrison will be joining HSBC as a director in prime services sales, and will also be based in Hong Kong. Harrsion was previously head of investor relations at Keywise Capital Management in Hong Kong.

Ted Langworthy joins as director in equity finance delta one sales. Langworthy will be based in New York, reporting to Warren McCornick, head of equity finance and delta one for the Americas. Langworthy previously worked as head of non-US equity financing at Deutsche Bank in New York.

In equities, the Asia Pacific team sees the appointment of five new senior executives.

Tim Franks has become head of hedge funds sales. Based in Hong Kong, Franks will be reporting to Brad Schwartz, head of equity sales, Hong Kong. Franks was formerly a managing director and head of hedge fund sales at Bank of China International.

Jeffrey Tan has been appointed as a director in equity sales, based in Hong Kong, also reporting to Brad Schwartz.

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

Editorial assistant: Jenna Jones
jennajones@assetservicingtimes.com
Tel: +44 (0)20 8289 6871

Commercial manager: Michael Brady
michaelbrady@assetservicingtimes.com
Tel: +44 (0)20 8289 5795

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

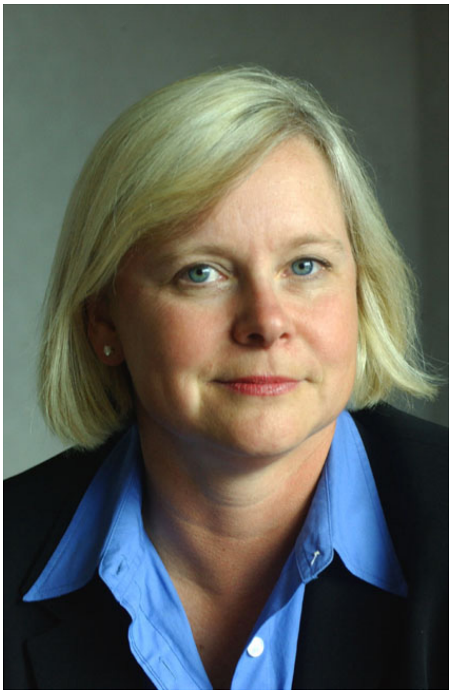
Company reg: 0719464

Eric Ang joins as director in equity sales trading, and will also be based in Hong Kong. In his new role, Ang will be reporting to Jefferson Saunders, head of sales trading and customised execution services for Asia Pacific. Ang previously worked at Samsung Securities, where he covered Hong Kong and China equity trading, as well as regional markets.

Russell Jacobsen has been recruited as director of equity sales trading. He will be based in Hong Kong, also reporting to Jefferson Saunders. Jacobsen joins from Samsung Securities where he was head of regional sales trading and execution.

Finally, **Edward Yen** has been appointed as a director in Taiwan equity sales. **AST**

Patricia Rosch



AST talks to Patricia Rosch, president, investor communication solutions international, at Broadridge Financial Solutions

What made you decide to work in the financial sector?

I started my career in management consulting. It was during that time that I was recruited to join a large Canadian bank in a strategic role, helping to re-align its retail banking network. Later, I had the opportunity to drive new initiatives; I worked to launch a mutual fund and was involved in setting up the bank's discount brokerage operations across Canada. I then joined another large Canadian bank to build and launch new electronic delivery channels—we developed telephone banking, internet banking and smart cards. Financial services are continually evolving. I have been fortunate to be a part of new, emerging businesses throughout my career, and it's that opportunity to innovate that makes the finance sector really exciting for me.

How did you get to where you are now?

I joined Broadridge 16 years ago. It was a really good fit, given my experience in banking, mutual funds and brokerage. These are among the client groups that Broadridge supports in the investor communication arena. Broadridge is a leader in building technology solutions to send proxy materials to institutional and retail investors and offers telephone, internet and mobile proxy voting. I have been responsible for managing the investor communication solutions (ICS) division in Canada since 2005, and more recently in 2011 I took an expanded mandate as president of ICS international, which includes our global proxy team. I now have the opportunity to be involved in established and emerging markets and support the needs of our custodian, institutional and issuer clients as they 'go global'.

What is a typical day in the office for you?

There is no 'typical' day at the office! Our business demands that we are incredibly client-focused. This means that we have to be able to anticipate and respond to our clients' needs in an incredibly time-sensitive environment. In addition to the delivery of our proxy and investor communication solutions, we spend a great deal of time ensuring that we understand evolving regulations in markets around the world. We understand how these changing regulations affect our clients, and it's our job to proactively build the communication solutions that will support the markets' evolving needs. A good example is the solution that we're building for the Retail Distribution Review in the UK. It's an exciting project; there's lot of good information available in a white paper on the subject on our website at www.broadridge.com/rdr

If you could go back in time, is there anything career-wise you would have done differently?

Looking back, I would have entered the financial services sector a couple of years earlier. As they say, 'timing is everything'. During my job search following graduate school, I received two job offers on the same day. I had already accepted the position at the consulting firm so I turned down the offer from the bank back in 1986. That said, I always take the positives in any situation, and the consulting experience has provided a strong foundation for multi-tasking and working in a fast-paced environment.

What's the worst thing about working in the finance industry?

As a P&L owner, growing our business is always a key objective. I don't assume that this is specific to the financial services business, but I recognise that growth will come through innovation, and in an environment where innovation demands a significant degree of synchronisation, it sometimes takes a little longer to see the results that you know are possible. Our global proxy business has been extremely successful. Today, we support many custodians globally, including nine of the top 10, with their proxy communications. Our growth in that area will come from new markets, new products and new partnerships and potential acquisitions. That doesn't happen overnight.

Whose career would you like to emulate?

I have been really fortunate to have strong mentors during my career, especially at Broadridge. One person who truly impresses me is Bob Schifellite. He is president of the ICS division for all of Broadridge. He has tremendous vision and has grown our business in terms of products and markets. He has also been a strong proponent for our global proxy business, and now Broadridge performs proxy processing services in more than 90 different markets around the world.

Where's the best place to go get office gossip?

While I'm not one to get involved in office gossip, I do place a very high value on having an effective internal network and informal communication. It's not unusual to discuss new innovations in one of our coffee areas. That's where a lot of great thinking around mobile ProxyVote was done. Another great way to stay connected is to attend industry events and join organisations such as the International Corporate Governance Network. I am really looking forward to this year's Sibos event in Osaka, Jaapan.

If you could live and work anywhere, where would it be?

My home base is Canada, and right now, that's where I'm very happy to live. That said, I really enjoy the international travel and managing remote teams. We have a great team of professionals in our offices in the UK, Japan, Australia, India, the US and Canada. This allows us to support our existing clients in Europe and Asia and our joint venture and alliance partners like the Tokyo Stock Exchange, Euroclear and Singapore Stock Exchange. This is a great job—it connects me with colleagues and clients around the world, in both established and emerging markets. I get to go where our clients are going—and in today's capital markets, there are no borders. Issuers, investors and custodians know no borders, so neither do we.