ASSETSERVICINGTIMES

ISSUE051
31.10.2012 WEDNESDAY
assetservicingtimes.com

Custodians pick up UK pension fund mandates

LIVERPOOL 30.10.2012

Northern Trust, HSBC Securities Services and BNP Paribas have all been selected to provide global custody services for major UK pension funds.

The Merseyside Pension Fund has appointed Northern Trust to provide global custody, investment accounting, securities lending and commission recapture services for approximately £4.5 billion in pension fund assets.

This latest appointment brings Northern Trust's total assets under custody for Local Government Pension Schemes (LGPS) to £65 billion.

"Northern Trust's ability to customise their asset servicing reporting capabilities to meet our requirements, combined with their proven track record in the LGPS market were key factors in their appointment," said Peter Wallach, head of Merseyside Pension Fund. "In particular the ability to provide a single platform for reporting and managing all our assets should enable us to save time and resources."

"We are delighted to be appointed by Merseyside," said Douglas Gee, head of business development for the UK and Ireland, Northern Trust's institutional investor group.

"We understand that local government pension schemes clients face a unique set of challenges and have developed a number of solutions to support them, through our institutional governance services group, which can provide a tailored and highly focused level of information to help pension funds meet their regulatory requirements."

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ASTINBRIEF

Asset servicing is State Street's golden egg for Q3

State Street released its Q3 2012 results, which revealed decreased revenue, but $211 billion in new asset servicing mandates.

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Cathay Conning selects speedy Citi

Cathay Conning Asset Management (CCAM) has outsourced its middle office to Citi after the firm guaranteed it would have operations running within five weeks.

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Custodians pick up UK pension fund mandates

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HSBC Securities Services has also secured an agreement with the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) to continue to provide it with global custody services.

The scheme is valued at more than £4 billion, making it Northern Ireland's largest pension scheme.

Pat Sharman, head of relationship management pensions within HSBC Securities Services's fund services business, said: "NILGOSC is a highly valued client of [ours] and one with whom we enjoy a successful and longstanding relationship and we are delighted to have been re-selected."

Nicola Todd, deputy secretary at NILGOSC, said: "Asset safety is our primary concern and we are very pleased to have reappointed HSBC as our global custodian. We look forward to receiving the excellent client service we have come to expect from HSBC."

Middlesbrough Council has selected BNP Paribas Securities Services to provide global custody, monthly valuation and foreign exchange services to the Teesside pension fund.

Teesside is a local government occupational pension scheme with £2.5 billion in assets. Middlesbrough Council's portfolio investment team manages the fund.

"Our most important considerations in appointing a new custodian were the safety of our assets, the strength of institution and their quality of service," said Paul Campbell, head of investments at the Teesside pension fund.

"We reviewed several custodians operating in the UK and found BNP Paribas to be the best fit based on our selection criteria. We were very impressed with their team, and look forward to working with them."

James McAleenan, head of BNP Paribas Securities Services UK, said: "We're delighted to have won this mandate and see it as a strategic milestone for our UK franchise. We already have a successful custody and fund administration business in the UK, and this win is an excellent example of our commitment to servicing pension funds in this location."

A guide to help pension fund managers and trustees understand global custody was released at the 2012 National Association of Pension Funds (NAPF) conference in Liverpool.

"The guide focuses on asset safety. It also provides practical insight into the key responsibilities of a global custodian; the core services that a pension fund should expect; and help in choosing a provider that serves the needs of a pension fund and its members," said a statement from the NAPF.

Joanne Segars, NAPF chief executive, said: "Pension funds are increasingly relying on global custodians to ensure that their assets are safe. This guide will help pension fund managers and trustees deal with custody issues. It provides key information about asset safety and the services that pension funds should expect from global custodians, as well as how they can choose a custodian that is appropriate to their needs."

Drew Douglas, co-head of HSBC Securities Services, said: "Global custodians play an important role in enabling pension funds to give members confidence that their assets are being kept safe. We are pleased to be sponsoring this guide which we hope will be helpful to both trustees and pension funds looking to understand the role of a global custodian in more detail."

Asset servicing is State Street's golden egg for Q3

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Revenue of $2.36 billion fell 3 percent from $2.42 billion seen in Q2, and net interest revenue, of $619 million, decreased 8 percent from $672 million in Q2 2012, and increased 7 percent from $578 million in Q3 2011.

GAAP results included a net post-tax benefit of $166 million, composed of a $362 million benefit related to claims associated with the 2008 Lehman Brothers bankruptcy; partially offset by a $60 million provision for previously disclosed litigation arising out of asset management and securities lending businesses.

As well as seeing $211 billion in new mandates, $78 billion of net new assets has been gained to be managed by State Street Global Advisors (SSgA).

A further coup for the firm was the completed acquisition of Goldman Sachs Administration Services, cementing State Street as a major player in hedge fund administration.

Joseph Hooley, State Street's chairman, president and CEO, said that the results reflected continued resilience across both asset servicing and asset management, which was partially offset by weakness in trading services.

"Although equity markets have improved, clients remain conservative in their investment allocations which adversely affects our revenue. We continue to see demand for our solutions as evidenced by new asset servicing wins, and net new assets of $78 billion to be managed by State Street Global Advisors and a strong pipeline."

"We look forward to integrating the recently closed acquisition of the Goldman Sachs Administration Services business and introducing these clients to our broad range of products and services. While acquisitions are consistent with our long-term growth strategy, one of our highest priorities in the current environment is returning capital to our shareholders."

Cathay Conning selects speedy Citi

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CCAM is a joint venture between Taiwan's Cathay Financial and Conning, a leading US asset manager.

Citi OpenInvestor middle office provides investment managers with daily operations, data management and technology solutions for investment administration to optimise trade support and client management.

"We have been delighted with the sizable effort made by Citi to set up our administration in only five weeks after we came to terms in our agreement and support our business launch," said Mark Konyn, CEO of CCAM.

"The excellent achievement was the result of the outstanding co-operation between our teams to create a direct link to Conning's US platform to support middle office operations in Hong Kong and enabled us to start trading immediately. With Citi's extensive resource pool and global expertise, we have a trusted partner for the long term that is flexible and willing to our business as we grow."

David Russell, regional head for securities and fund services for Citi Transaction Services in Asia Pacific, said: "Close collaboration between our teams in Asia and the US enabled Citi to leverage existing relationships with both parties to the joint venture. Our technology edge enabled us to connect CCAM to their order management system within a very tight time frame. Now that CCAM is already live and working well, we are optimistic that this will lead to a deeper partnership between CCAM and Citi in the future."

Euroclear Bank and SmartStream join forces

Euroclear Bank and SmartStream are launching Central Data Utility (CDU), a centralised reference data utility service.

"Powered by SmartStream technology, securities data processed in the CDU will first be validated, cleansed of inaccuracies and then enriched before being relayed to clients in the precise format that the client has chosen, on an intra-day basis," said a joint statement from the firms.

Euroclear Bank service will source securities data from data vendors as well as from data originators, such as central securities depositories and stock exchanges. CDU will start with Eurobond data and expand to other asset types as the service develops.

Yves Poullet, CEO of Euroclear Bank, said: "Through our unique partnership with SmartStream, we aim to drastically reduce the number of mismatches by providing the highest quality of data accuracy, including the use of in-house information and a comprehensive network of other data providers. Firms no longer need to bear the enormous costs and risks of scrubbing securities information themselves."

Oslo Børs does Swedish exchange deal

Securities trading firm Oslo Børs is set to acquire full ownership of Swedish exchange company Burgundy.

Oslo Børs is purchasing Burgundy from a group of Nordic banks and brokers.

Burgundy and Oslo Børs hope to become "a strong and viable competitor both for other Nordic exchanges and for foreign trading platforms that offer trading in Nordic securities," said a statement from Oslo Børs.

Oslo Børs intends to expand Burgundy's

product range, including a new customer-based advisory board. Burgundy will also be able to list and market listed instruments, including exchange-traded funds, structured notes and warrants.

Burgundy's CEO, Olof Neiglick, will continue in his role following the takeover.

The acquisition of Burgundy is subject to approval from the relevant authorities in Norway and Sweden.

RBC Investor Services to take care of Airlie Funds

Australian fund management company Airlie Funds Management has mandated RBC Investor Services to provide it with custody, unit registry and fund administration.

Former head of equities at Perpetual, John Sevior, and former Treasury Group managing director, David Cooper, lead Airlie Funds Management.

"We have chosen RBC Investor Services because we have a strong working knowledge of their processes and a good relationship with the key executives. It was our intention from day one to ensure the custody, unit registry and fund administration was industry best practice," said Cooper, who is managing director of Airlie Funds Management.

"We want to hit the ground running with the launch of our new fund and with the service and support RBCIS provides, we can focus on providing solid returns for our clients."

David Travers, managing director, Australia, for RBC Investor Services said: "We were able to provide a complete end-to-end solution flexible for Airlie's immediate needs and we look forward to working with them as their funds gains traction in the Australian marketplace."

BMO picks Milestone Group for NAV control

The Bank of Montreal has selected Milestone Group's pControl platform to automate the management and control of its NAV production and validation processes, as well as distribution processing.

BMO will also be using pControl's Distribution Processing solution, which automates the capture, calculation, allocation, accrual and settlement of income distributions for individual funds and across inter-funded investment structures.

Kimberly-Clark joins Broadridge's SWIFT messaging service

Personal care company Kimberly-Clark has selected Broadridge to be its global service provider for international banking communications across the SWIFT financial messaging network.

Jay Pila, general manager of Americas securities processing solutions international at Broadridge, said: "Kimberly-Clark's global operations naturally generate a complex requirement, and therefore a tremendous opportunity in how to best architect its SWIFT message flows."

"Through our team's highly-skilled domain experts across Asia, Europe and the Americas—together with our software solutions—Broadridge has a proven track record of successfully enabling companies like Kimberly-Clark with the ability to benefit from well-practiced, low-risk conversion methodologies and optimised process management for SWIFT deployment."

SS&C launches middle-office service for complex portfolios

SS&C Technologies has launched GoTrade+, an advanced, flexible middle-office service for complex investment portfolios.

GoTrade+ supports post-trade activities of complex traded transactions including bilateral and cleared OTC derivatives, listed derivatives, loans and other securities.

The technology receives trade data from front office systems and delivers post trade life cycle support, valuations, collateral management, cash services, accounting, reporting and data delivery all wrapped in a personalised relationship management framework.

Bottom line:

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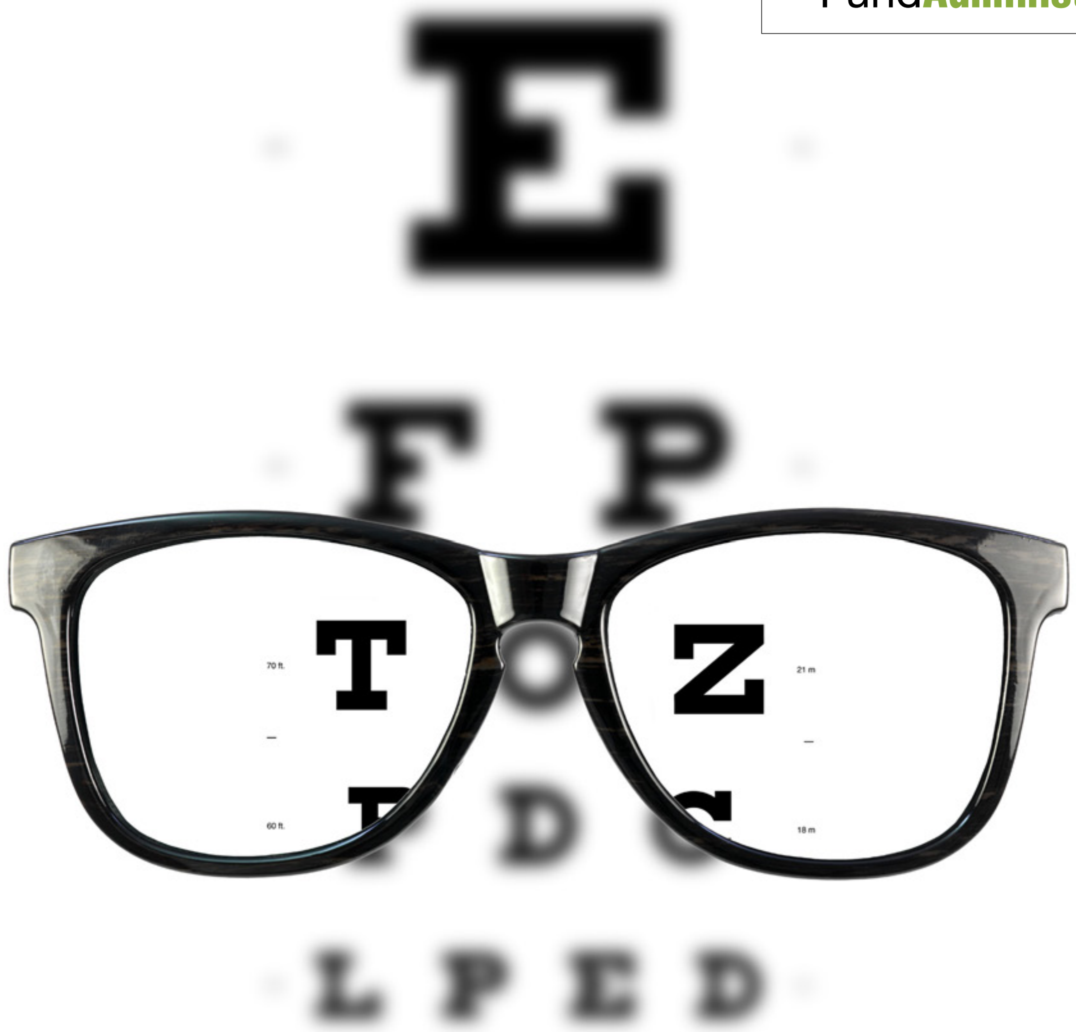

Double, triple, quadruple vision

AST speaks to Philip Dempsey of software solutions company Koger about replicating a business model, transfer agency systems and growing diversity in complex legal structures

JENNA JONES REPORTS

What is Koger's NTAS?

NTAS is a shareholder register and transfer agency system. NTAS offers sophisticated incentive fee calculation methods, as well as a multitude of customisable modules, such as anti-money laundering, compliance monitoring, cash flow management, dividend processing, document tracking, fee management and processing, taxation, SWIFT processing and much more.

NTAS also supports a broad range of fund structures including master-feeder, fund of funds, series of shares, equalisation funds, limited partnerships, private equity, money market and side pockets. Reports are customisable and worldwide data replication is available. We also have GRID, which is a middleware product that enables seamless NTAS integration with most third-party systems such as fund or partnership accounting applications. ETAS is the front-end web portal of NTAS for investors, fund managers and other interested parties to provide real-time access to shareholder information reporting and balances.

How do you customise your offerings for hedge funds, private equity and the like, and which would you consider to be the most complex to service?

Koger has a multitude of offerings for hedge funds, private equity, funds of funds and pension funds. We have spent many years developing and enhancing our product offerings. To that end, we have created a sophisticated rule-based engine to support and give each client the ability to customise the systems for their individual needs. This rules-based engine within NTAS enables total control over the day-to-day functions such as the investor record keeping and shareholder registration processes. This provides the user full flexibility of rule definition at the fund, investor, related-party, account, and transaction levels. Rules-based processes include but are not limited to robust AML, KYC, PEP and CFT compliance, trade capture, dividend, commission, tax and fee processing, and a four-eyes/maker-checker functionality, along with a complete audit trail.

In terms of complexity, we are seeing greater diversity in terms of complex legal structures for funds. Traditionally, these have created issues for clients in terms of cash flows between the various entity levels within the investment structure. This has led administrators having to implement cumbersome and time consuming workarounds. We have designed and developed a new rule-based investment structure that not only automates this manual process, but can also take third-party ledger balances and import them into our systems to allocate profit and loss balances without any manual intervention.

How would you say levels of automation across transfer agency differ depending on location, with particular reference to Asia?

Automation levels will always vary across geographical locations. Europe, the US and other offshore locations have traditionally been the main centres where transfer agency administrators have based their operations. Over time, each of these centres have grown up and matured, not only in terms of the expertise of the industry professionals, but also with regards to technology. As a result, technology, innovation, automation and STP rates are ahead of those in up-and-coming regions. But this is changing, especially where Asia is concerned.

In terms of Asia, this region is experiencing very significant growth in its fund administration industry, specifically in the transfer agency space. Financial centres such as Hong Kong and Singapore have a significant role to play in the automation stakes. Investor reassurance, risk mitigation, cost and operational efficiencies will play a central role as to how far Asia goes down the automation route.

Technologies such as the SWIFT platform are already seeing both their presence and importance in this region growing. There are still many areas where transfer agents in this region will need to develop their offerings to keep pace with the competition and satisfy client demands. This change and innovation has gained significant momentum in recent years. There is a client demand for increasingly sophisticated fund administration services. As a result, technology needs to keep pace with this demand. Big ideas, technology and innovation are the key to automation. The end result of automation will mean that the range of service providers will be better positioned to service their clients. This will enhance the overall client experience, and the ability to adapt and grow their business operations.

How will Asia increase automation?

Asia is already investing in technology such as SWIFT. This is a huge growing market in Asia and the desire to attract new business has seen significant appetite to embrace technology and automation. The aim is to achieve critical mass. A structure such as SWIFT will provide fund managers with ready-made access to a significant investor base. But access to a network such as SWIFT will have outlay costs that could prove to be an entry barrier at the initial stages of an operation's lifecycle. At present, service providers are dealing with a whole raft of legislation coming into force at the moment, such as the Foreign Account Tax Compliance Act (FATCA), for example. These regulatory obligations, especially from a technological point of view, will consume a significant proportion of their budgets. Despite wanting to embrace networks such as SWIFT, this may prove to be beyond them at this moment, so they may delay their participation.

Is lack of incentive for distributors a challenge?

Distributors will always look at ways to enhance their product offerings, and automation is one such area that can provide significant efficiencies. Distributors will look at areas such as the error rate for order automation, the risk levels that are associated with manual processes, and how much it will cost to maintain multiple processing standards, both manual and automatic, with their clients and other service providers. In addition to the benefits of automation for distributors manifesting themselves on the client side, internal operations, through commission management, price reporting and cashflow forecasting can all be improved through automation. But local market conditions will normally dictate the level of automation, as well as quality processes, regulatory compliance, trade volumes and desired business growth. These factors can be applied both to Europe and Asia, the difference being that automation will, for the most part, depend on the maturity of each market location.

Has variation among clients made it more difficult to achieve higher levels of automation around transfer agency?

In our experience, I would say that the goal of many of our clients is to achieve higher levels of automation. There may be differing objectives among our clients, but automation is seen very much as a key driver for achieving a better business model. Any improvements that can create efficiencies, mitigate risk, and allow clients to engage in additional areas of business, are extremely desirable.

As a result of the financial crisis over the past number of years, there has been a whole range of new legislation to tighten the controls governing the industry and to try to eliminate undesirable practices. One such example that springs to mind is FATCA. As a result of this proposal, we have engaged heavily with all of our clients to design new functionality that will streamline and automate the entire FATCA compliance piece. In addition, it will also be powerful enough to fully automate future pending regulatory changes. Our clients no longer need to worry about manually monitoring these requirements for future activity. The system will do this automatically. As a result, reporting and monitoring becomes very easy and most importantly, cost effective.

Access to a network such as SWIFT will have outlay costs that could prove to be an entry barrier at the initial stages of an operation's lifecycle

Moving away from compliance, the whole question around efficient trade processing and STP rates arises. Naturally, automation, although desired, is very much dependent on a number of factors. These include local market conditions, the infrastructure that is in place in these locations, the efficiency gains of implementing new technologies and the desire to move away from the traditional, more manual methods. Each client in each location is different.

But for some of our larger clients, we are seeing a move to a more global business model. This involves replication of the business model across multiple geographies and centralising their local practices. The expectation is that this will lead to greater efficiency across the entire business operating model. **AST**

Philip Dempsey
Head of operations
Koger (Dublin)

Pointing South

North Africa may be struck off for now, but South Africa and Malta are still very much on the cards for Investment Data Services, as Andrew Frankish of IDS Fund Services tells AST

GEORGINA LAVERS REPORTS

How has IDS progressed from South Africa to Malta?

We opened the IDS South Africa office in March 2002 with a very different focus to the direction that we have ended up heading in. It was always one of financial services administration, but started as a linked product administration offering. We moved into the industry at about the same time as the South African alternate fund space was taking off, and through a joint venture with the Bank of Bermuda's global fund services arm, we were squarely placed to take advantage of the growth as it happened. That particular joint venture has long been dissolved, but it did assist with us getting to where we are now, being the largest fund administrator in Africa.

Through our IDS South Africa office, we are able to offer all services that are associated with fund administration, through NAV calculations and transfer agency, to fund of fund custody. This covers the alternate fund space, as well as the traditional long only space.

The move to Malta was a strategic one to have a presence in the EU. We looked at the South African market, and in talking to clients, the need for a presence on shore in the EU was a thread that came through strongly. We looked at other leading jurisdictions, but in the end decided on Malta for our setup.

How has IDS's reputation in South Africa helped when setting up the Malta offices?

In Malta, we have been relatively lucky, as we had a number of South African clients that either had funds outside of South Africa already, or were looking at setting up structures. What this meant was we were able to hit the ground running and have had a steady stream of funds coming on board from African managers that are our clients in South Africa. It was always our intention to service these managers first, as it allowed us to get comfortable in Malta while working with clients that knew us well already. So it has essentially been the reputation of the IDS Group in South Africa and the quality of service that we are known to provide that has led to us getting a lot of the business through the door in Malta.

Are local fund managers still outsourcing funds to independent fund administrators in South Africa?

Yes, very much so. Although the South African alternate fund industry is currently not regulated at a fund level, as an industry we have always looked to implement best practices, and the contracting of an independent valuations expert is a vital part of this. We have also always had the situation where institutional investors have insisted on funds using independent administrators prior to assigning investments, which has in itself ensured compliance with this way of operating.

Are there any similarities between African and European funds?

There are no particular characteristics that differentiate African-focused funds from others that we deal with. We are however seeing some very strong performance from the single funds targeting African returns.

The European funds that we mostly deal with at the moment are those registered as professional investor funds in Malta. When looking at these compared to the fund vehicles that we encounter in South Africa, there are not many similarities, apart from the fact that they trade. As mentioned above, the South African fund structures (on the alternate fund side) are not currently regulated—although this is something that is being dealt with actively at the moment—meaning that the structures for funds have taken the form of limited partnerships and debenture structures. With the advent of regulations in the South African market, these structures will start to resemble more the structures that we see in Europe at the moment.

Is there still interest in the North African region? What has been preventing your entrance there?

North Africa has always been on our radar, but it is not something that we have investigated with a view to committing to opening offices. Although all the way to the south, we have a presence in Africa service through our South African office, and feel that from Malta we have easy access to North Africa. One of the big barriers to entry is the development of infrastructure and other items that one must rely on when setting up in a location. At this stage, it is not something that we are actively considering, but we are always open to moves like this if there is an opportunity, or a need from one of our clients to have us setup in a North Africa territory.

Is the regulatory regime in Africa affecting business?

One needs to realise that financial markets are not usually the first to develop in a country, and as the developing continent the African financial regulatory regime is one that is still developing. South Africa has recently published the first straw paper on its regulations, which has seen a large number of hours of collaboration between parties in the industry.

The biggest impact for us is on the side of 'recognised jurisdictions', and with many African countries not being seen in this way, it can affect the flow of information and the due diligence requirements. This is particularly evident with our clients running African-focused fund of funds, and the level of information that they require when looking at new opportunities for investment. AST

Andrew Frankish
Director
IDS Fund Services Malta


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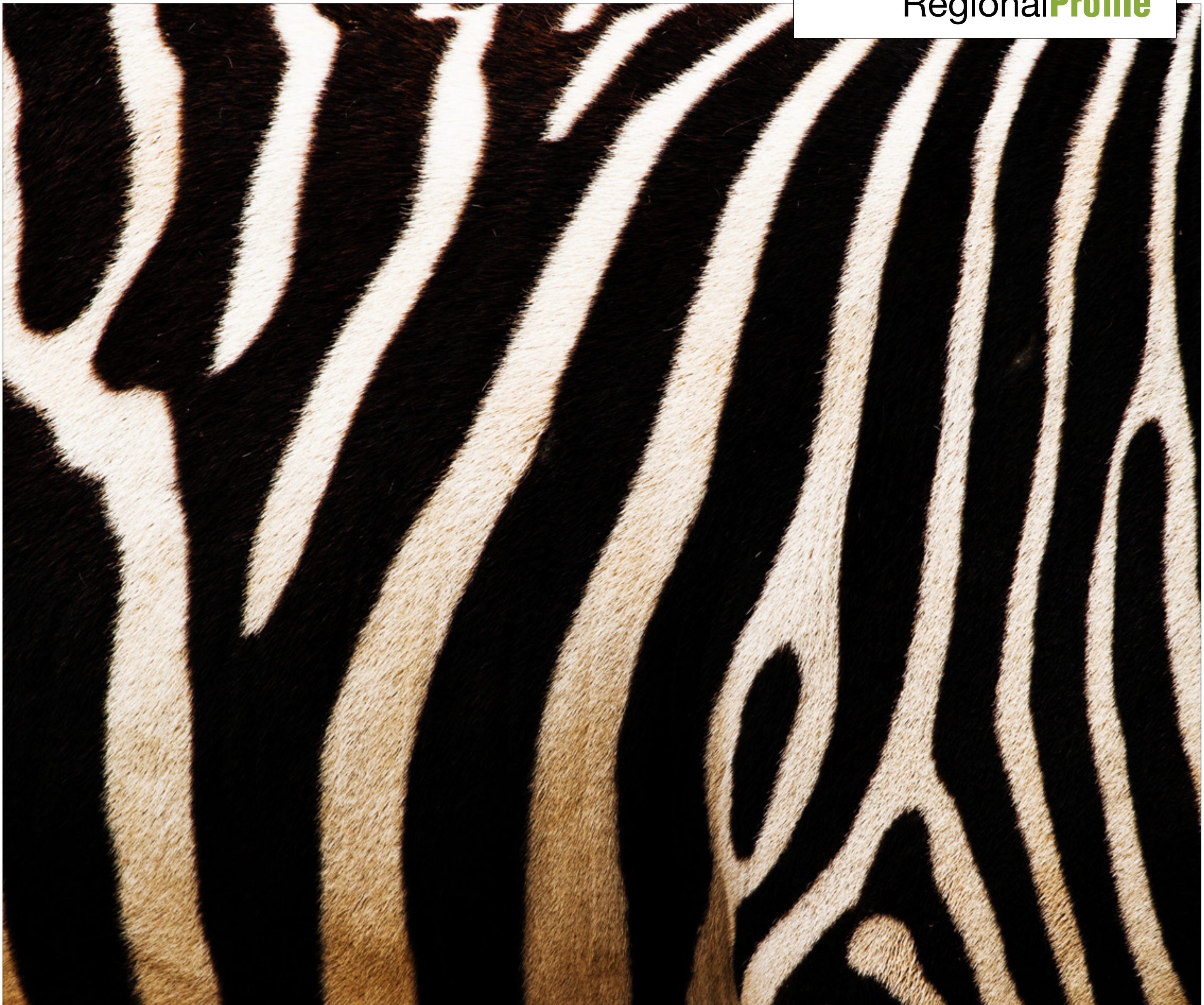


Playing a different part

A move to Strate changed the South African post-trade landscape. Are other countries on the continent learning from its success? AST finds out

GEORGINA LAVERS REPORTS

Strate, the licensed central securities depository (CSD) in South Africa, has cemented its position as an African CSD that sought to break barriers beyond its continent.

The depository settles close to 30 million transactions per year, with assets under custody in excess of 6.4 trillion South African rand (€6.4 billion), and provides settlement for securities and derivative products such as exchange-traded funds and retail notes.

All fairly typical for a CSD, but Strate has sought to move beyond its continent. It is the first non-European member of Link Up Markets, which is a joint venture between CSDs that was created in 2008 to improve efficiency and reduce costs of post-trade processing of cross-border securities transactions.

With the incorporation of South Africa, Link Up Markets expanded its geographical reach to encompass nine CSDs: Clearstream (Germany), the Cyprus Stock Exchange (Cyprus), the Hellenic Exchanges (Greece), Iberclear (Spain), Oesterreichische Kontrollbank (Austria), SIX (Switzerland), VP Securities (Denmark), VPS (Norway), and Strate.

At the time, Strate's CEO, Monica Singer, said that the opportunity would provide both local and international investors with a unified basis for post trade processing that will facilitate cross-border settlement between South African members and the members of Link Up Markets.

Two years later, in November 2011, Citigroup announced that its global transaction services business had begun providing direct custody and clearing to its clients in South Africa, and applied to operate as a participant in Strate. The move was approved, particularly as Citi was a founding shareholder of Strate in 1998.

Over a year later, Standard Chartered Bank caught on, launching in Joannesburg—its fifth new market since the acquisition of the Barclay's Africa custody business in 2010. The purchase was particularly important for Asian investors looking for returns in the African market, and an expansion into South Africa aligned with the bank's ambition to be the preferred provider for investors and intermediaries across Africa.

The move met with Strate's approval too, with Singer commenting that Standard Chartered would provide investors with a "further reputable service provider in the securities arena".

Most recently, automated payments clearing house BankservAfrica, through its BSVA Integrated Services business, is to use Strate's SWIFT infrastructure to allow it to send and receive messages over the SWIFT network.

In a speech detailing the changing role of the South African custodian, Adam Bateman, director of business development, Standard Bank South Africa Investor Services, explained that pre-Strate, the operating environment was an entirely different beast. Physical certificates, Tuesday settlements, an average 40 percent failure rate, lots of paper and reconciliation nightmares, and significant staffing requirements, were all par for the course.

After Strate was introduced, everything looked a little sunnier, with Bateman pointing to a dematerialised environment, irrevocable settlement on T+5, trade fails becoming non-existent and significant technology spends as proof that efficiency was being enhanced and greater scalability was in reach.

"With the introduction of Strate, for the first time ever South African custodians were in a position to expand their product offerings to develop service solutions for pension funds. These new solutions moved the South African custodians well beyond the traditional roles of settlement and safekeeping," said Bateman.

Following Strate's success, Uganda sat up and took notice, launching its SCD (securities central depository) on the Uganda Securities Exchange (USE). The move was intended to prepare the USE for electronic trading of shares, and was another step towards link-up in the regional markets, including the more advanced Nairobi Stock Exchange. But the SCD was not a full transformation, and it was stated that both new paper certificates and electronic accounts will be issued until the USE adopts electronic record keeping and trading.

Peter Okoed, a senior portfolio planner at stockbroker Dyer & Blair, said that the SCD will make the exchange attractive to foreign investors that are usually put off by the communication that it takes for them to receive their share certificates. With the new system, investors will only trade their shares after getting electronic accounts.

There is room for African CSDs to play a bigger role in African securities markets. Dynamic growth in the industry, alongside intensified capital flows and progress towards regionalisation, is coming from increasing demands of international and domestic client bases.

New technologies and global operating standards are seeing rapid adoption due to a lack of legacy systems, and global regulatory change in G10 nations is limiting foreign competition of global custodians creating a footpath for participants such as CSDs to enter as securities markets service providers.

While there may be chatter around the expanding role of the CSD, regulatory and market forces may limit their ambitions. It is likely that they will begin to offer additional services such as administration, reporting, corporate actions, and other registrar and transfer responsibilities, but as far as Africa is concerned, there is a long road to travel **AST**

The American factor

Stephen Everard, CEO of Goal Group, discusses why Africa should step up to the plate when it comes to class action participation

Many African nations are going through a period of rapid growth—as much as 6 to 7 percent per annum in certain instances. However, in contrast, the growth miracle that was South Africa has stalled, and major political change has taken place in Egypt.

This illustrates the variety of motivations that African investors have for putting their funds into foreign stocks and shares—new wealth generation and/or a search for safe haven for that wealth. Of all the available foreign investment locations where this wealth could be placed, it will come as no surprise that the US is the African investor's favourite. Egypt has 42 percent of its foreign equities investment in the US, Botswana 35 percent, and South Africa a massive 58 percent, according to International Monetary Fund data.

This balance of overseas investment highlights why African investors (or rather, their fund managers and custodians) should be protecting returns on those investments by paying attention to and, where relevant, participating in US class actions that seek restitution for investors where corporate misdemeanours have taken place. The issue not only affects class actions against US companies, but also non-US firms where US investors are affected (a ruling in the US courts has disbarred actions where only non-US investors in non-US companies are affected).

This will be of interest for two reasons. Firstly, returns from class actions participation in the US could affect more than the US portion of a foreign securities portfolio. Secondly, there have been also been class actions against domestic African companies that have been successfully pursued in the US courts.

An analysis conducted here at Goal Group, utilising our expertise as class action specialists, shows institutional investors' non-participation in US securities class actions litigation has resulted in billions of dollars being left on the table. Moreover, the opportunity to recoup losses through class actions is not simply a historical matter. The volume of securities class actions that are filed annually has remained steady over the last 15 years, and so we expect the future sums pro-rata to be of a similar scale.

It is increasingly recognised that helping clients to reclaim their due returns through class action is a fundamental duty of African custodians and fund managers. The average value of a settlement in the first half of 2012 was $71 million, considerably up on the previous average value of $46 million that was recorded between 2005 and 2011. When US investors control the litigation, there is an increasing possibility that foreign investors may not automatically be included, because the fewer the claimants, the greater the cut of any settlement. This is inspiring African shareholders to become active litigants in US courts (in cases against US and foreign companies alike).

Because the process of participation is complex, it would appear that many institutional investors believe that the cost and time involved is likely to outweigh the benefits. This impression is a false one, in that there are several services that are now available that identify the opportunity to participate, process the applications, and then handle all of the complicated processing procedures of a successful claim.

Nevertheless, worldwide, more than 25 percent of claims that could be filed by entitled parties are left unprocessed. This is an untenable situation, as these unclaimed sums are there for the taking, with very little effort on the part of investor, fund manager and custodian alike.

Needs must: what to look for locally

Jaroslav Záruba of European bank CSOB discusses the need for local providers in most Central and Eastern European markets

Despite the fact that the Central and Eastern European region is, in some aspects, incomparable with the most developed regions in the world, recent years have shown that significant and positive improvements are on the way.

It is almost impossible to make a single definition for the region since it consists of a wide range of contrasts, with large economics such as Poland or Ukraine on one side, and small countries such as Slovenia, Czech Republic or Slovakia on the other. There are emerging Baltic countries in the north, a well-developed Austrian market in central Europe, and Balkan countries in the south. No matter how significant these differences are, excellent service and reliablity are demanded everywhere.

The diversity and heterogenic environment of the CEE region might be seen as a systemic drawback. It means that expectations still rely on local providers. A perfect knowledge of the local market, direct access to the central securities depository (CSD), and accurate up-to-date information make local players an indispensable part of the whole asset servicing chain.

The Czech Republic is an emerging CEE market that deserves attention. Thanks to the Velvet revolution, which dismantled the single-party state, there was a smooth transition that opened the door to quick recovery after the Communist era, making this country a vital part of the region. Its capital market has been developing well since the revolution in the early 1990s, and the focus has been clearly re-directed towards the West. Although the Czech capital market has not reached such Western parameters yet, the Central European location and a strong EU-based partnership have helped to do a lot of the work.

The Czech financial market is viewed as a relatively stable environment. It has its own monetary policy, respected regulatory bodies, major banks are well capitalised, and their exposure to selected peripheral European countries is generally marginal. Regular stress tests of the central bank declare the strength and readiness of the banking sector even if severely adverse scenarios do take place. The continual profitability of the largest Czech banks, and high capital adequacy and liquidity in post-crisis times, serve as the best evidence of good health and sustainable performance of the whole banking industry.

A local sub-custodian of a global brand has benefits, but it tends to have a relatively short track record in terms of providing Czech custody services. Czech investors tend to prefer 'local' institutions with strong historical roots, long-term experience and significant domestic and foreign customer bases. A good example of this is Československá obchodni banka (CSOB), which was the first provider of custody services to emerge in the Czech Republic after the political upheaval and liberalisation of the market in the previous decade.

After the establishment of a CSD, the settlement of securities traded at the Prague Stock Exchange were finally centralised under one roof. Yet there is also a secondary 'T-bills depository', which is run by the central bank. Last year´s introduction of the MTS market, Europe's fixed income trading market, brought new challenges to local sub-custodians, and other developments are expected in the near future. The Prague Stock Exchange will adopt the Xetra platform, which puts higher demands on local entities in terms of clearing, settlement and other post-trade processing. After creating this Central European platform, the introduction of a central counterparty will be another feature that will keep sub-custodians rather busy.

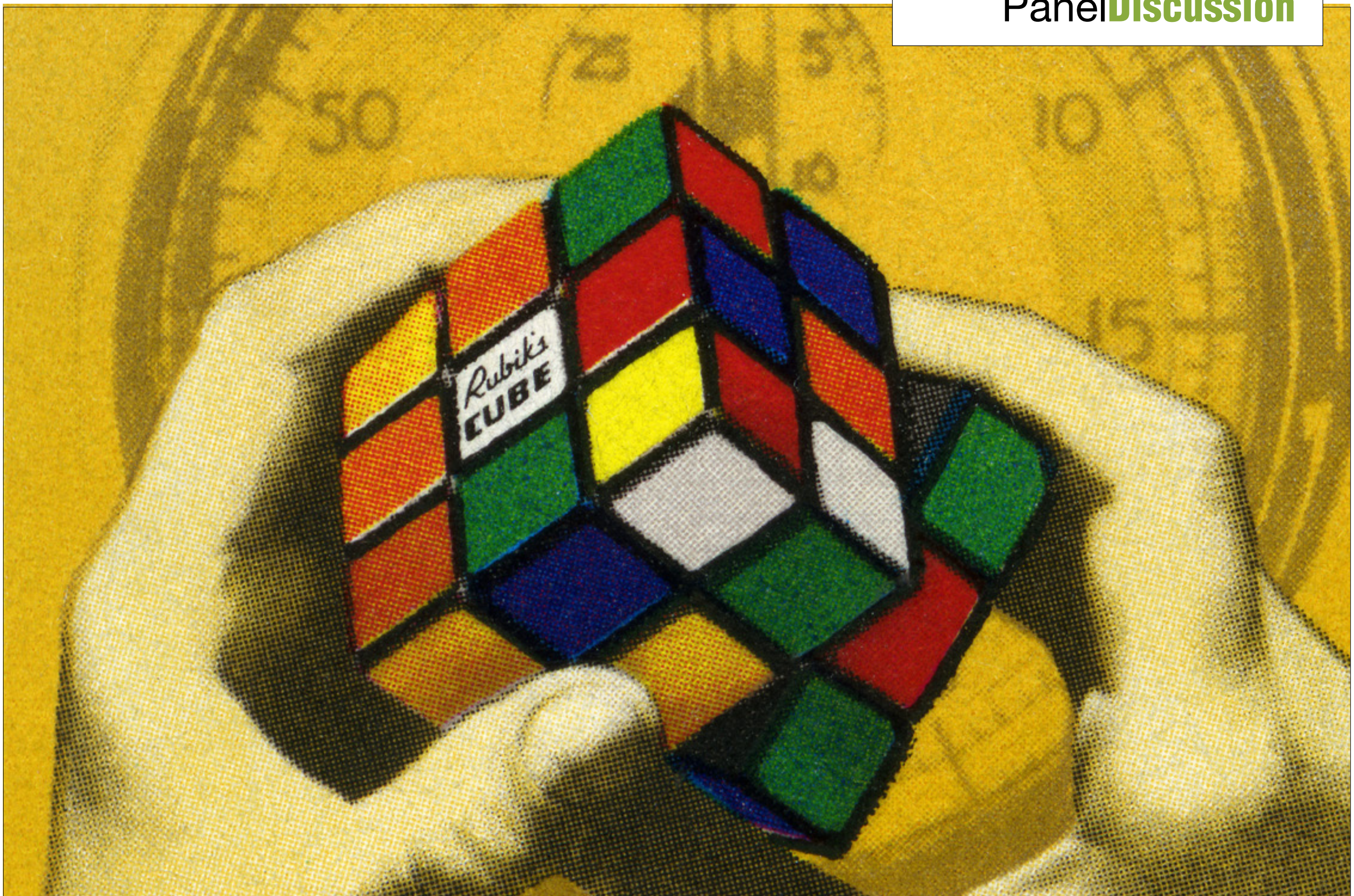
Another structural change arising from participation in T2S can also be expected in the Czech Republic. Due to cash clearing in Czech currency and other capital market specifics, the signing of the T2S Framework agreement by the local CSD has been postponed.

By introducing a membership principle, the CSD created an even more competitive environment among member custodian banks, which ensures that custodial services are provided with the highest professionalism and maximum effectiveness. A relationship with a reliable provider that knows the local market, responds accurately to clients needs and constantly assesses regulatory and technological challenges is crucial.

In spite of this, several challenges in the Czech market are still on the table. For example, the absence of a full nominee concept in the Czech CSD is perhaps the mostly frequented debate between local providers and foreign investors. Another is the absence of a SWIFT connection between the CSD and local providers, even though local providers are familiar with using SWIFT communication with their clients. Also, a wide range of regulatory requirements have been adopted by local, EU and other regulatory bodies that have proved challenging.

What is making a custody provider stand out in such a complex and innovating market environment is a mixture of traditionalism, long-lasting experience, and responsiveness to upcoming changes. Apart from commonly available services, such as efficient account management, accurate settlement or proxy voting procedures, there are specific details that make the best custodian unique. This provider must bring a market expertise and be one of the leading players defining new standards. Above-standard reporting, professional assistance with a corporate actions agenda, constant readiness to technological changes, and financial stability are some of the biggest assets from which CSOB clients benefit; not only in the Czech market—but also in the entire CEE region. **AST**

Jaroslav Záruba
Head of custody and network management
CSOB



Craving complexity

Experts from banks to software companies discuss transfer agents and their role in the mutual funds lifecycle in Asia

Marco Attilio
Head of funds marketing
SWIFT

Neil Richards
Product manager GTAS
Bravura Solutions

Paul O'Neil
Head of Asian operations
International Financial Data Services

Philip Dempsey
Head of operations
Koger (Dublin)

Keith Hale
Executive vice president client and business development
Multifonds

Jonathan Willis
Head of transfer agency EMEA & APAC
BNY Mellon Asset Servicing

Is Asia continuing to be a challenging market for all transfer agents?

Paul O'Neil: Asia is developing into an interesting marketplace for asset servicing groups and transfer agency providers; we are seeing some subtle changes in the region, not least with an influx of international asset managers looking to capture assets. We are not just seeing growth of UCITS products distributed into the region, but also in domestic product as well. At the same time, the local markets are evolving and opening up, with the likes of Hong Kong, Singapore and Taiwan being at the forefront and other key markets such as China, South Korea and Thailand becoming key longer-term opportunities.

With all this change across multiple markets, transfer agents are going to be challenged, as no two markets are the same. It will take organisations with a depth of experience, specific skills in transfer agency and a long-term commitment to the region to be able to rise to these challenges and deliver tailored services on behalf of their clients.

Philip Dempsey: Asia is still a developing market for transfer agents. Automation is the key to success for them in this challenging and expanding environment. By way of automation, one area that I refer to is the access to the various distribution networks. The key to accessing such networks is to achieve a critical mass when tapping into investor base so that fund's AUM can grow, delivering great revenue to the transfer agents. In addition, manual processing promotes risk and increases operational cost, despite the lower per unit labour costs in Asia. An under-developed and under-resourced operational model, despite the lower costs to do business compared to European centres, is a recipe for ultimate failure.

Fund structures, such as the emergence of the exchange-traded fund (ETF) product are also creating a significant challenge. From Koger's perspective as a technology provider, we are working closely with all our Asian clients to develop functionality to meet these demands and help prepare transfer agents to increase their service offering, enabling them build their operations for the future.

Neil Richards: The region is still reliant on faxed trade instructions and this can pose problems in terms of order execution and where issues arise, in resolving them in time to meet deadlines for value dates.

However, transfer agents that continue to invest in STP capability and actively work with their distributors to adopt the relevant technology can achieve significant improvements. There are also challenges in terms of the lack of a common fund passport and in those cases where Asian investors invest in products based in Europe, (for example, UCITS funds) timing issues relating to query resolution, pricing and settlement (in particular if next day settlement is ever required). Both of the latter challenges are likely to be around for the foreseeable future.

Keith Hale: Asia is comprised of many non-homogenous markets, each having their own jurisdictions, regulations and languages, which present a number of challenges for transfer agents.

For domestic transfer agency, outsourcing has been limited so far, mainly due to either local regulatory restrictions or local reporting requirements, for example, Taiwan requiring traditional Chinese characters. This makes it more difficult for service providers that cannot always easily leverage their global systems directly into Taiwan for example because of the bespoke and diverging local requirements.

For cross-border transfer agency, various Asian markets still prohibit offshore funds being sold directly in their market. Currently direct distribution of foreign-domiciled funds (UCITS or Cayman Islands funds) is only allowed in some countries such as Taiwan, Hong Kong and Singapore.

Some regulators are also promoting locally regulated funds as in Taiwan and South Korea, resulting in a trend from large global asset managers to develop a hybrid model with local funds in specific local markets and a cross-border distribution strategy using a hub.

Besides UCITS, there are some specific funds, such as Islamic. Malaysia for example allows the distribution of authorised Sharia funds under agreements with the Dubai International Financial Centre and Hong Kong's Securities and Futures Commission. For the rest of Asia, manufacturing local products or at least local feeders is still the only option to distribute in the domestic market

All of this presents challenges in terms of local expertise, time zones and skill sets to support region-wide transfer agency and fund distribution across Asia as a region for domestic and cross border products.

Marco Attilio: As an industry cooperative, SWIFT has been engaged by the funds industry to automate and standardise operational flows. As shown in the recent mid-year EFAMA SWIFT survey, automation and standardisation rates are growing, reaching new heights. Regional data, however, shows very gradual progress in this direction. SWIFT has responded to demand for standardisation of the Asian cross-border flows and have acted accordingly. The main challenge, however, is that Asia is composed of a multitude of countries that each have their own specificities and requirements.

From an operational perspective, Asia has been at the forefront of 'manual processing excellence', rendering most efforts to automate and standardise very difficult to address. This has led transfer agents to shape their ways of working around this challenge, finding alternatives to lower costs by leveraging local transfer agency teams and in certain instances implementing whole regional operational hubs.

Unfortunately, this does not take away the risk component that is inherent to manual processing; no matter how many manual controls an organisation puts in place, the risk of human error is still present. It is well known in the industry that one mistake can cause a loss that is much bigger than the investment to automate and standardise.

Jonathan Willis: Transfer agency is an important service. It is an integral component of the complete solution of the mutual funds life cycle. Demand for this service is tied very closely to the development of the mutual funds market—although has grown over the last couple of decades in the region, some countries have embraced it while others have yet to begin.

There is also a fundamental difference between domestic transfer agents that is often provided by the distributors and/or fund managers in house and the export market. For those domestic markets where mutual funds have taken hold, there are providers that can offer a pretty good product for their domestic unit holders (ie, Australia, China, Taiwan and Japan). In each of these cases, the providers work in sync within their country's distinct 'ecosystem' of local investors primarily investing into the local market, single currency, single time zone, one tax system, one language, and so on, where the cycle can go from manufacturing, distribution, subscription/collection and redemption/disbursement. The solutions are bespoke and with limited need for scaling up, they often lack STP and have in most cases special terms that would not fit commercial STP models.

The challenge is when you try to offer a single offering across all the Asian countries. Just imagine the permutation of languages, currencies, and probably the most complex, the different tax requirements of each country. This is where the large scale transfer agency providers would normally consolidate, as they have done across Europe.

How demanding are clients in the region? Are they requiring more information and data from you?

Attilio: We are living through changing and challenging times; regulatory requirements are weighing on operational processes by demanding more information and controls in place. From a business perspective, clients are requesting to receive timely and accurate information, making access to correct and timely information is essential.

The other question to ask, however, is whether distributors or fund managers are able to process the amount of data that is provided efficiently. Can this information be integrated seamlessly in the operational flows? From the transfer agent perspective, having to deal with a multitude of actors from disparate jurisdictions and using different types of formats/ protocols to communicate, one of the most common answers has been to try not only to automate the flows with clients, but also standardise processes beyond the mere order processing, in an attempt to harmonise interactions, leverage infrastructures, and reduce the cost of maintaining multiple protocols.

Dempsey: Over the last number of years, our Asian-based clients are catching up with our traditional and established European-based clients in terms of their day-to-day visibility. This is as a direct result of the growth in AUA for our Asian transfer agents. These clients need to have the capabilities to administer more complex fund structures and performance fee methodologies. This is where Koger comes in, as it necessitates the need for us to actively develop both new and bespoke functionality for these and all our clients. Despite the seven-hour time difference between centres such as Hong Kong and Dublin, we still have very regular contact, scheduling several calls per week with our Asian based clients. Our Dublin support teams understand their business requirements, both culturally and from an operations perspective through daily and weekly contact. This in turn, better enables us to work closely with them and provide a quality, value-added service.

Hale: Investors and regulators globally across the region are strengthening investors' protection and requesting strict separation of deposits and investment products through banking channel and tougher risk profiling requirements. In addition, there is a greater scrutiny or disclosure requirements for products using derivatives, such as capital protected structured products or hedge fund like offerings.

Post the financial crisis, there has been a significant regulatory push and an increasing demand from investors for more transparency, particularly for alternative funds. Traditional funds typically already have reasonable levels of transparency incorporated in the structures by the regulation imposed on them. The continued need to increase transparency as well as independent oversight is contributing to the outsourcing trend.

Asset managers face significant challenges to build and support these operational and technology capabilities in-house, due to the cost of a one-off build out. This drives outsourcing if the economies of scale of the service provider can be delivered namely though project delivery and on-going service provision.

Willis: I would not say clients are any more demanding than other regions. The market expectations are higher in some areas such as accuracy so the entry level is different. The general levels of MI are on par with other regions, with matured countries (with a mature mutual fund market) having well defined reporting requirements, which actually helps to harmonise the offerings.

But in the emerging markets, requirements are not as established, which can make it a moving target for service providers. We are also seeing significant increase on more real-time reporting to help cut across time zone differences and it is almost a must to have web access to all unit holders. There are also some more specialist reporting in specific regions such as CPF in Singapore, which has its own set of reports that have to be met.

The other challenge that we see is the bespoke reporting granted by fund managers to the more powerful distributors as they try to ensure fund flows through their products. This will only be overcome with automation of trade, settlement and reporting through recognised platforms such as Calastone.

O'Neil: Easily accessible and timely data is a key requirement not just in Asia, but across all markets. We are seeing an evolution across all markets in the frequency, types and granularity of data required. Clients are looking to understand in detail an array of metrics and measures across their business and operations. The ability to view both at a macro level across a series of key areas and the ability to dive deep into the detailed level of data efficiently is an absolute requirement.

Information and data needs to encompass anything from real time, to intraday and end of day, covering trading activity, cash flow, performance, profitability, persistency, segmentation, distribution and operational areas delivered in the local time zone.

Additionally, clients are looking for detailed knowledge and insight and look to leverage transfer agents expertise and local knowledge to support them. The relationship between the client and transfer agent has evolved from a client and supplier role to a new operating paradigm that we call 'outsourcing 2.0', where transfer agents work on a collaborative and consultative basis with clients and their distributors.

What challenges does the convergence of traditional and alternative investments pose in the region?

O'Neil: Asia has seen a steady growth of alternative investment products. Convergence with more traditional investment products is part of the evolutionary process, and with market returns reducing, asset managers are looking at ways to boost performance over the long term. The vast majority of the challenges sit at the fund level with fund accounting and custodial operations.

But we are seeing a number of the product and operational features that are historically associated with the alternatives markets transition, including lot level equalisation, performance fees, limited issue and redemption, and varied pricing points. Transfer agency platforms require functional richness as well as flexibility to support this evolution in an automated manner to ensure compliance and operational rigidity.

Hale: Without doubt there is a convergence of traditional and mutual funds. Institutional investors have an increased appetite for hedge funds and increasingly we are seeing institutional asset gatherers adding alternative assets into their portfolio mix. This includes insurance companies and sovereign wealth funds, such as KIC expecting to increase its current 15 percent portfolio exposure to alternatives to 20 to 25 percent over the next few years and AXA Asia's plans for an eightfold increase to alternatives.

The Franklin Templeton acquisition of $10 billion fund of hedge fund manager K2 Advisors Holding is evidence of a clear focus on expansion into alternative segments. Other asset management goliaths such as BlackRock, PIMCO and J.P. Morgan have acquired and/or built out alternative assets en masse, and others such as Schroders, Eaton Vance and Oppenheimer Funds have all made investments as well, in an attempt to alter their brand and message.

All of this is causing hedge funds to become more traditional in terms of their liquidity, risk and transparency characteristics. Similarly, retail investors looking for better returns in the form of absolute return funds are making mutual funds become more alternative in nature. As a result, the service providers such as traditional and hedge fund administrators are converging in the services they offer to support hybrid structures. The fund administrator that covers long only and alternatives together is very likely to be a service provider model of the future, whereas niche hedge fund administrators or specialist long only administrators will struggle and are likely to be acquired.

The challenges for service providers are:

- Ability to implement a common and consistent operating model that supports both traditional and alternative investment funds;
- Ability to respond to regulator and investor demands for transparency and disclosure, including customised reporting;
- Flexible system platform(s) to support increased frequency valuation, independent asset valuation (illiquid assets), performance fee calculations;
- Consolidation of fund administrators, resulting in larger hybrid team with the associated need for highly efficient global cross asset class software platforms.

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INTERNATIONAL FINANCIAL DATA SERVICES

Willis: Is there real convergence or are we just seeing an adoption of a few alternatives like attributes in traditional funds? The export market is certainly buying UCITS funds as it is a recognised and trusted brand. The regulators in the region are showing more oversight on the suitability of the funds that they approve and the time taken to get these approvals is taking longer. It is clear that with investors looking at regulators to protect them more from complex fund structures that may not be suitable for general retail consumers, we may see more of a push back.

But any convergence (along with any convergence such as regulatory requirements) actually helps to standardise the delivery of services. This creates scalability, driving lower cost and ultimately benefiting the unit holders.

Dempsey: In the past, traditional and alternative investment types have occupied very different spaces in the world. They catered for different investor bases, were subject to different regulatory regimes, and were a chasm apart when it came to investment strategies. But this is all changing, especially in light of the regulatory changes that are borne out of the ongoing financial crisis. There is a critical need to strengthen investor protection, transparency, and mitigate risk in the investment funds industry.

Over the last few years there has been a sizeable shift towards a hybrid structure containing elements of the each investment type. The challenges that these investments pose in Asia are the same as in other regions around the world. Mangers wanting to launch hybrid products need to be aligned with the regulatory and logistical environments of each, have knowledge of the differences and similarities between alternative and traditional investments, and recognise the factors that are causing an-ever increasing convergence. As mentioned, legislation such as the US Dodd-Frank Act has accelerated this process. The meshing of strategies historically with each investment type is another factor. The challenges come in many forms, but regulatory, distribution and marketing, and strategic are the most obvious ones.

Attilio: What is interesting in today's environment is the challenge posed by ever-evolving fund strategies in response to customer appetite and regulatory requirements. This is certainly true in the case of convergence of mutual and hedge funds in an attempt to attract investors. This convergence leads to regulatory and operational considerations that are inherent to each type of instrument.

The regulatory framework surrounding these instruments is different: registration, reporting, compliance as well as corporate governance considerations have been so far monitored differently. Operationally speaking, requirements differ substantially ranging from portfolio compliance, liquidity and valuation, custody, notwithstanding that these instruments have different distribution, marketing and advertising patterns. Actors in the industry need to be very familiar and understand both worlds in order to effectively service clients in the region.

From a fund order processing perspective, SWIFT has deployed ISO20022 standards to process mutual funds, and these standards are capable to cater for hedge fund additional orders and reporting too. This is a great opportunity for transfer agents and distributors to lower operational costs by leveraging one set of standards for both instruments and greatly reduce operational risks.

What challenges do transfer agents face when it comes to cross-border fund distribution in Asia?

Richards: Ironically, bearing in mind the plethora of regulation that is currently coming out of Europe, the main challenge relates to the fact that there is no common regulatory approach across the APAC region along the lines of the UCITS initiative. As a consequence, a transfer agent needs to be to able cater for the differing regulatory requirements for each country. The fact that there is also no common currency also adds to the complexity when selling a product across multiple jurisdictions, especially if the product in question is not denominated in a local currency. Transfer agents that use a multi-domicile, multi-currency system (such as Bravura's GFAS system) will have an advantage over others when it comes to achieving economies of scale across jurisdictions. Until this core issue is resolved, it's likely that the UCITS product will continue to be a popular choice.

Attilio: Whoever is trying to service Asia needs to be in-tune with regional country specificities. Asia is not one country but a multitude of different countries. Servicing clients locally requires local presence and language support within the same time zone. Players wanting to make inroads into these markets must be ready to change or at least adapt their business models to reflect high price-sensitivity in one country and extra value-added services that are requested in another. Flexibility of the business model and pricing mechanics is key.

From a fund processing perspective, the high volume of manual transactions might present scalability issues in case of market volatility and be another challenge to tackle. In that optic, SWIFT has been working very closely with the Asian Fund Automation Consortium (AFAC) to build ISO standards that reflect the needs of the funds industry in the region, providing opportunities to bring additional business clarity on commission and charges information, as well as implementing the appropriate pricing-scheme to make these messages interesting for distributors in the region.

Hale: In long only terms, the closer asset managers are to their distributors, the better position they are in. For cross-border funds such as UCITS, distributors want to speak to someone locally, who not only has the right knowledge, but also speaks their language and in the same time zone. This doesn't mean that the whole administration team has to be in the same country, but it requires a model where the service provider partners with their client to build a regional, multi-cultural team based in a central location to support global funds distribution in key markets in Asia.

In Asia, Multifonds works closely with its fund accounting and increasingly, its transfer agency clients such as Brown Brothers Harriman, BNP Paribas Security Services, Citi, HSBC, SocGen and Standard Chartered Bank. It supports accounting and /or distribution operations not only for UCITS funds, but increasingly for domestic fund administration across the region with fund domiciles in countries such as Australia, Hong Kong, India, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam, with South Korea and China being added this year.

Dempsey: European UCITS funds are the dominant force in Asia when it comes to cross-border sales. Their success over the traditional US mutual funds and locally domiciled funds is clear. However, over the past few years, local domestic pressures are making it difficult for foreign institutions to tap into Asia's potential investor markets. Much of this is created by regulatory authorities putting up barriers to entry such as delaying the issue of distribution licences to foreign firms over local firms. This is affecting the ability to grow the AUM for the UCITS product in Asia despite the fact that UCITS are still so well regarded in Asia.

O'Neil: Cross-border distribution is increasing dramatically as asset managers are looking to an ever-increasing range of markets to help grow their assets. With Europe and the US still emerging from the financial crisis, the Asian markets along with Latin America are important areas for growth. We have seen an array of asset managers begin to enter these markets and look for transfer agency providers to support their new distribution and operational needs.

Transfer agents have become the new 'front of house' business and have evolved and moved up the value chain from a historic role of register maintenance and deal capture to support and enable distribution. This has presented challenges that require our operations to fully understand the expanding levels of regulation and supervision in a multi jurisdictional environment at the same time deliver the specific service and cultural experiences each location requires to support our clients.

Willis: The challenge is when you try to offer a single offering across all the Asian countries. Just imagine the permutation of languages, currencies and probably the most complex, the different tax requirements of each country. There is a lack of standards in each country, even in things that you would normally say would be standard, such as ISO20022 messages. Each country uses them slightly differently, so you still need a country adaptor. The market is still awaiting the emergence of a STP provider to really take hold of the region. Name formats alone can be a challenge. The preponderance of certain surnames in China and South Korea, multiple surnames, with no surnames, and lengthy first and surnames, can all be a challenge to ensure unique identifiers for each unit holder. The other challenge is on currencies; some are restricted so even though you take them in domestically, they need converting locally before the cross-boarder settlement can take place. This adds additional risk and overhead.

What are the difficulties in increasing automation in the region?

Willis: There is no STP platform in a dominant position yet, so there is no standard. Fax is still seen as STP from the distributors in certain countries. Also, time zone differences (processing challenges), multiple base currencies, in time zone movement of certain currencies (non-Asian currencies) for red / sub / distributions creating potential overdrafts or delay in payments. Add to the above KYC requirements being different, the vast distribution networks needed in certain countries (China, India) just to collect the funds and aging distribution system platforms in each country develop specifically for each local market needs shows the scale of the challenge.

O'Neil: Automation presents a number of opportunities for transfer agents. For a long time, there was a definite lack of impetus on automation within the region, but we are now seeing this change quite dramatically. The growth in North America and Europe is now starting to be replicated in Asia.

Initiatives such as Taiwan TDCC will be the catalysts of change in Asia, given the large transaction volumes that are received for both cross border and local funds via this distribution channel. Accuracy of transactions is vitally important with automation being a key element of the solution. We have seen in the Asian markets a much higher level of automation for banks, insurance and securities / brokerage groups using a plethora of solutions, with a more limited level from investor and intermediated community.

Richards: There is already automation in the region, but compared to Europe and the US, Asia is still lagging behind in terms of overall percentage of transactions processed. For there to be a change, active buy in from a sufficient number of parties is required to overcome any remaining inertia and resistance (passive or active)

The slow take up of automation isn't just confined to Asia. For example, in the UK, EMX only gained traction when major distributors and fund managers / third-party administrators committed to it. Today it is a mainstay of the deal process and in June 2012 handled around 3 million messages and more than €9.6 billion of orders in June. A tipping point might be reached in Asia when the use of the STP trading mechanism becomes the norm and fund managers and transfer agents feel comfortable about applying pressure to recalcitrant distributors to use it.

The second challenge is financial in respect as to who actually pays the costs, both of implementing the change and then its day-to-day operational costs. Arguments can be made on both sides, but the bottom line is that automation benefits both parties equally from a cost and risk reduction perspective. It also opens the door to other benefits such as real time management information and automated deal settlement.

As manual dealing is so entrenched, it will require consistent and concerted effort and leadership by the major participants in the region to promote and increase the take up of automation.

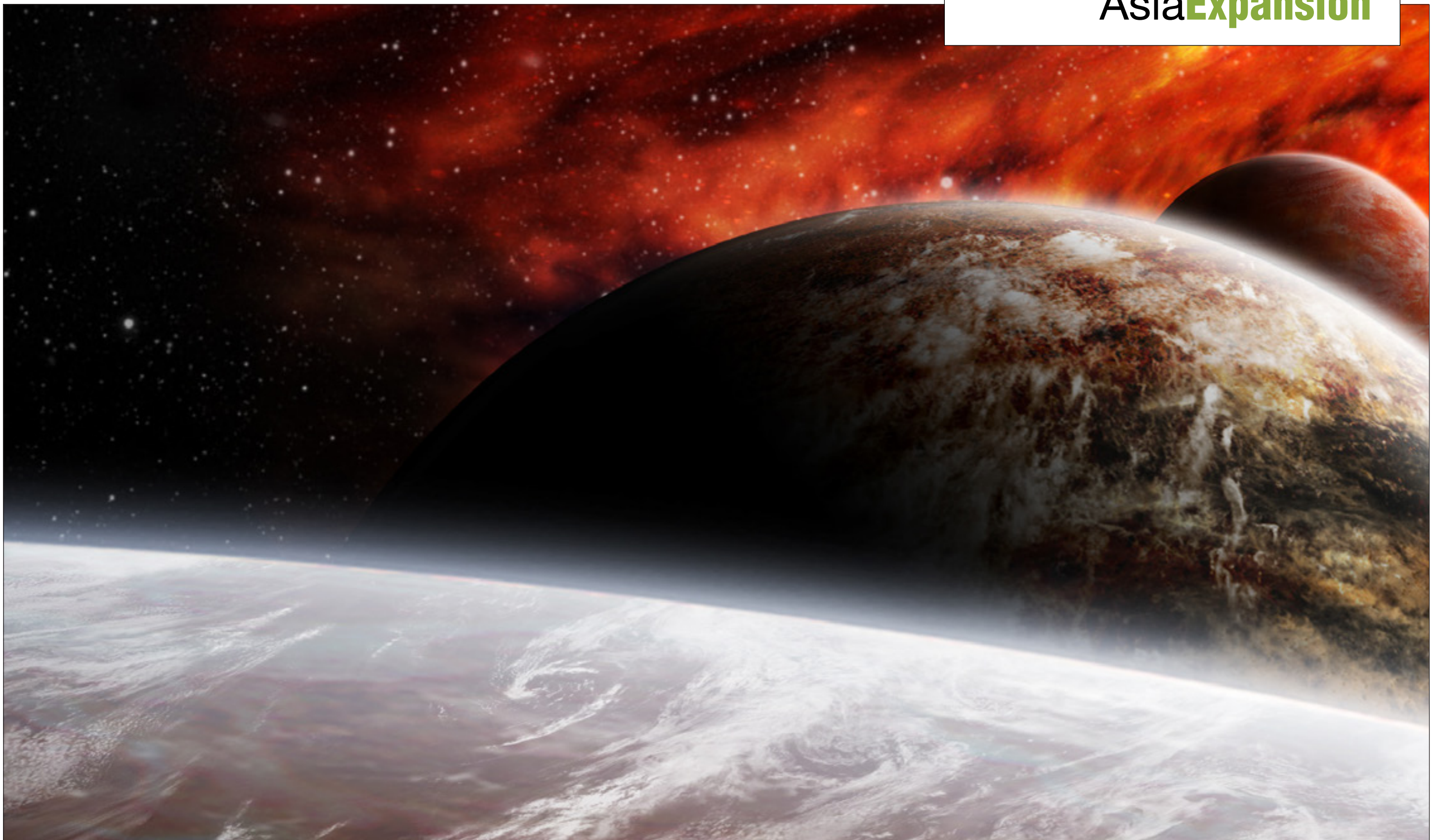
Dempsey: Asia is experiencing very significant growth in its fund administration industry. One of the main difficulties is that the growth of the industry far outstrips the ability of technology to keep pace with industry requirements. While it is always necessary to evolve technology to strengthen the industry's product offerings, there is a fine line between introducing technology to enhance operations and managing the risks that are associated with introducing too much technological change too quickly. Specifically, the Asian administration industry is in its relative infancy compared to its European counterparts. It has not had the same time as European locations to learn from lessons and mistakes made in the past. There may be a knowledge gap in certain areas of the industry, but certainly Asia is catching up very quickly.

The cost of technology is another vital factor when considering automation. Initially, investment in technology requires significant capital outlays that squeeze already tight margins. While it is undesirable to resource service provider operations with high levels of staff, it is important for businesses to carefully consider the upfront and long-term costs and benefits of technology. In the long term, levels of automation will be heavily influenced by local market conditions, operational turn-around times, labour costs, which will ultimately look to add value to the overall client experience.

Hale: There is a huge focus by the industry toward more STP and automation. Obviously, this is driven by cost consideration, but this is not the only driver. The risk factor and the speed are key and now considered as a priority by market players. Fund managers, solutions providers (such as Omgeo or SWIFT) and securities service houses are working together to achieve more STP in the market. The tools and processes already exist. With the growing volumes in Asian markets, this will without doubt be accelerated in the coming years with the growth of the Asian middle classes across the region.

That said, as far as distribution is concerned, trade processing is still dominated by fax due to the lack of common communication infrastructure in the region. There are again different industry initiatives to achieve better STP rates among asset mangers, distributors and transfer agents.

It appears that distributors give little consideration to the operational risk, efficiency and processing cost involved through non-automated channels and are not incentivised to transmit instruction electronically. Transfer agents appear to be keen to promote automation in order to reduce operational overheads, but conversely this drive for automation can erode revenue stream sometimes gained from processing non-automated transactions due to increased rates. As a result, the cost of lack of STP is borne by fund promoters that ultimately pass it onto investors. AST



Not the final frontier

Sebastien Chaker of Calastone outlines his expectations for Asia in light of his company's corporate expansion into the region

In October, we announced our collaboration with the Taiwan Depository & Clearing Corporation (TDCC) ahead of the launch of its innovative fund order routing service in Taiwan. From early discussions at the end of 2011, we have fully supported TDCC in its progressive and decisive action to pave the way for greater efficiencies for the Taiwan fund market. Its efforts to enable Taiwan fund distributors, master agents and offshore fund managers to benefit from the global trend towards automated order flow processing have been pioneering in realising the opportunities that this can offer the country.

In anticipation of this fund market evolution, recognition of the importance of Asia as a region and in response to demand from our global client base, Calastone made an early commitment to the region.

First launched in London in 2007, Calastone has been building a global funds transaction network to help the fund industry reduce cost and risk through increased electronic transactions. The founders realised that transaction communications in the fund industry between fund providers, distributors and their transfer agents was scattered, prone to error and typically conducted by phone, fax and email.

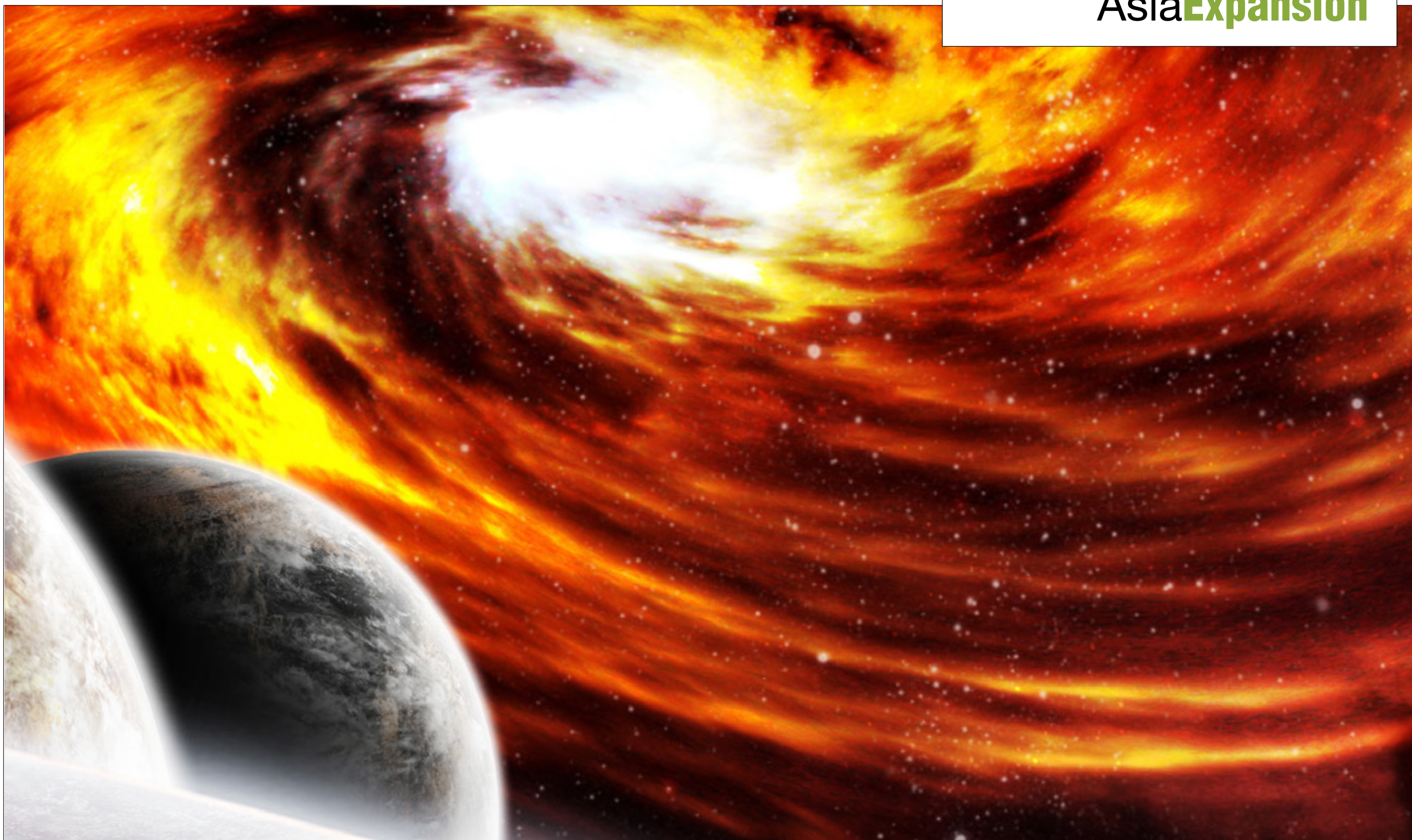
Calastone introduced its transaction network for the funds industry so that participants could send and receive instructions securely in any way that they prefer. Today, more than one million fund messages per month are processed over the Calastone transaction network through 2000 active trading links between Calastone's counterparties. With more than 100 fund distributors live in 16 countries and more than 200 fund management companies transacting through Calastone, we offer automated connectivity to all major transfer agents globally.

Our goal is to remove all of the technical barriers from the automation of fund order processing. We enable any party involved in the production, distribution or transaction of mutual funds, of any size, located anywhere around the world to process their transactions electronically without changing any of their existing processes or having to invest in new technology.

Approximately half of all manual orders with cross-border fund managers originate from Taiwan, representing approximately three million faxed orders per year. Calastone is the first service provider to have successfully completed and tested its fund messaging communication interface with TDCC. In our rigorous testing process, we worked with leading independent asset manager Aberdeen Asia. We are proud and delighted to have been approved by the TDCC and FSC (Financial Supervisory Commission) as an official service provider for the TDCC for its fund order routing service in Taiwan.

Approximately half of all manual orders with cross-border fund managers originate from Taiwan

The TDCC collaboration is by no means our first step in working with the Taiwan market. Calastone first launched a live messaging service in Taiwan in 2010 with four Taiwan Bank fund distributors currently processing daily offshore fund orders via Calastone on the SWIFT network. Since then, our participation has grown to include connectivity to the main offshore fund managers and transfer agents that cover approximately 70 percent of offshore fund ranges



that are registered for sale in Taiwan, and 21 leading offshore fund managers that are active in Taiwan, including Aberdeen, Barings, BNP Paribas Investment Partners, Invesco, Pictet, Robecco, Threadneedle and Schroders. We continue to be encouraged by local support and demand for processing efficiencies. In September, we hosted a seminar in Taipei. A full-capacity audience debated and examined the mounting evidence for order handling automation in Taiwan and the benefit automation offers to offshore trades.

Fund transaction data indicates that of the 25 million orders into cross-border UCITS in 2011, 38 percent were automated via the ISO standard, 38 percent were semi-automated via bespoke and bilateral file transfer processes, and the remaining 6.3 million trades were still processed manually via fax and telephone. Combined, Singapore, Taiwan and Hong Kong fund distributors account for approximately 60 percent of these manual orders. Therefore, there is considerable scope for processing efficiencies for the region.

Automation offers considerable benefit for customers. As well as reducing inefficiency by removing human error, electronic transactions also lower costs. The typical cost to a fund manager of a manual fund transaction is estimated at $25. Yet this falls to about $10 when fund orders are processed electronically. As well as lowering costs, electronic trades will also make transactions more scalable and insensitive to rapid volume growth. When partnering recently this year with iFAST in Singapore to help it to automate its fund transaction processing, it became clear that as well as cross-border funds there was also a great deal of business into local Singapore domestic funds. In response, Calastone has quickly extended its fund coverage to include a growing number of domestic funds such as Aberdeen and Schroders, allowing Singaporean distributors to enjoy a single channel for processing both their onshore and offshore fund orders. Although about 25 percent of Calastone's global business currently involves providing automation for cross-border fund trades, the remainder are domestic fund transactions in Europe, Singapore and Australia and this looks set to grow in the Asian region, with—for example—the addition of Thailand domestic funds in the near future.

Of the 25 million orders into cross-border UCITS in 2011, 38 percent were automated via the ISO standard

Calastone has invested in the region and plans to continue. We have established a Mandarin-speaking team, our operations and support services have been extended to cover full Asian business hours, and we have added a Mandarin interface to our online execution management system. We have invested in a wide range of products and services that are all designed to deliver further efficiencies to funds, including payments, settlement matching, statements of holdings and re-registration.

We are excited and fully committed to continuing to work with funds across Asia. Response from our customers and the industry has been nothing short of encouraging and we are confident that we can offer substantial benefits to all our participants. **AST**

Sebastien Chaker
Head of Asia
Calastone

Going global

David Miller of eFront discusses technology and operations for international private equity funds

The increasingly global nature of the private equity sector has led general partners of private equity funds to consider the adoption of a more international investment strategy. There are two distinct approaches to scaling a private equity business in order to support a global reach. Both are dependent on a firm's back-office capability, technology systems and operations, and both require careful consideration to ensure that the tools and processes that are needed to support the proposed expansion are in place.

The first approach is to establish deal teams in the regions where investments will occur. Since the primary role of these teams is to source local deals, it is a relatively straightforward move that allows back-office operations to remain centralised at the firm's principal site.

General partners adopting this operational structure should ensure that individuals in regional offices retain easy access to the central systems supported at the firm's headquarters. Conversely, firms should also ensure that a reliable means of transferring data from regional teams to the central team is in place. A sensible option is to leverage web-based applications since they can be accessed when individuals are not connected to the corporate network or infrastructure and typically do not require installations, maintenance or any other local support.

The accounting considerations that are associated with supporting local deal teams are not onerous. Back-office systems need to be able to handle foreign exchange and multiple fund denominations, but since these functions are already fairly commonplace in current solutions, it is unlikely that this will be a significant hurdle. On a related issue, the firm should ensure that its systems offer multi-currency support in order that both the amounts and spot rates of various instruments or investment vehicles within a fund can be tracked and valued. As an example, firms may need to convert amortisation expenses across an investment throughout its lifecycle.

Finally, firms should have the ability to accommodate different valuation methodologies. Local teams will analyse investments under whichever local accounting structures apply. These will need to be put into a format that fits the firm's regular accounting standard.

The second approach to international expansion is to establish a truly global infrastructure that supports the operations of independent offices managing their own independent funds, while being able to centrally collect and report on investment activity across all of a firm's worldwide operations. For example, a fund that has historically operated in Europe but wishes to raise and manage a separate fund targeting the US market can choose to establish the new fund as a separate entity with the means to manage all aspects of its business. The considerations for this approach are more complex than those that are related to supporting local deal teams.

Firstly, the technology, support and back-office operations will require more significant adjustments. For this business model to succeed, the general partner will need to be able to report in local GAAP. Because the accounting standards followed at headquarters will no longer be the guideline for a regional office, strong local teams will be necessary to implement and manage the solutions. But the time and effort that are needed to establish local teams can be reduced by leveraging the operational processes, such as workflows, alerts and analysis, which are already in place at the head office.

The ability to model and support various fund and investment structures is also critical. If debt-to-equity is employed at different ratios in the new region, the firm's back-office system will need to be able to accommodate these differences.

Reporting is also a key factor. The ultimate goal is to maintain and recognise 'one version of the truth' across a firm's disparate systems. Both the format and content of reports need to meet the requirements of the local offices, but they must also be compatible with reporting structures at the central office to ensure accurate, firm-wide consolidation and to be able to compare performance across the different locales. Reconciling reports in various formats generated by regional offices can prove to be a significant challenge for the main office.

Defining and enforcing standardised processes is critical when multiple back-office systems are already in use within a firm. In this case, a top priority must be to establish technical interfaces, which may need to be custom-built, to ensure that regionally-sourced reporting can be automatically reconciled.

Technical support is also an important consideration. Regional offices with their own systems will require local support both internally and from their chosen vendor, which is likely to be available only during business hours. On the other hand, a truly centralised approach can typically be supported by a home office's IT function, helping to lower regional costs. Additionally, a system that can be managed by business users has additional cost advantages compared to one requiring in-depth technical knowledge.

End-to-end solutions that are centrally-deployed, web-based and offer the required amount of flexibility and functionality will prove to be the most attractive option for supporting the needs of a truly global private equity organisation. In addition to reducing support overheads, this approach can minimise hardware costs while aiding the centralisation of the firm's administrative and operational tasks. **AST**

Industry appointments

BNY Mellon has appointed **Marina Lewin** as head of sales for its asset servicing business in the Americas.

Lewin will be based in New York and report to Samir Pandiri, CEO of Americas asset servicing and alternative investment services.

In addition to managing teams in the US, Dublin, London and Hong Kong, Lewin will continue to lead global sales for BNY Mellon's alternatives investment services group.

HSBC Securities Services has named **Clive Triance** as head of broker-dealer middle office insourcing and **Lloyd Ushe** as director of broker-dealer middle office infrastructure.

They have joined the broker-dealer outsourcing team, which is a part of HSBC Securities Services' sub-custody and clearing business, from execution, clearing, middle-office outsourcing and settlement services provider Penson Europe, where Triance was CEO and Ushe was chief technology officer.

Former Instinet Europe, Citi and Cantor Fitzgerald executive Triance will be based in London, while Ushe, who previously worked as a consultant at Société Générale, will be based in Hong Kong.

Paladyne Systems has hired **Paul Cucurullo** as its senior director of sales.

Cucurullo joins Paladyne from BNY Mellon asset servicing sunsidary, Eagle Investment Systems, where he was regional sales director.

BNP Paribas Securities Services has bagged **Katharine Seymour** as its new head of relationship management for its asset owner clients in Australia.

Seymour most recently ran the institutional relationship management team for Blackrock Investment Management.

In her new role, Seymour will be in charge of managing relationships and service delivery for BNP Paribas' clients. Seymour will report to Ken Shaw, head of sales and relationship management.

Standard Chartered has named **Sridhar Kanthadai** as its new regional head of transaction banking for North East Asia.

Sridhar is based in Hong Kong and formally assumed his new position on 15 October 2012, reporting to Jiten Arora, global head of sales, transaction banking, and to Darcy Lai, regional head of origination and client coverage for North East Asia.

Sridhar joins Standard Chartered from Citi where he held a number of senior positions, most recently as managing director of head of treasury and trade solutions, Asia Pacific.

UniCredit's head of global transaction banking, **Marco Bolgiani**, is stepping down from his role at the end of November.

Olivier Khayat, deputy head of corporate and investment banking, will temporarily take over the role, in addition to his current responsibilities.

Andrew Knowles has moved to RIMES Technologies to head up business development for its compliance services division.

In his new role, Knowles will be responsible for further developing the firm's data management solutions for the buy side through use of RIMES Benchmark Data Service (RIMES BDS).

Based in London, Knowles will report to Christian Fauvelais, CEO and co-founder of RIMES.

BNY Mellon has appointed **Navin Suri** as Asia-Pacific (APAC) head of intermediary distribution.

Suri joins BNY Mellon from ING Investment Management, where he was managing director and CEO for the firm's business in India.

The newly created position highlights BNY Mellon's expansion of distribution partnerships in the region.

Based in Hong Kong, Suri will report to Alan Harden, CEO for BNY Mellon's APAC investment management business, and London-based PeterPaul Pardi, who is BNY Mellon's head of global distribution.

Suri will be responsible for developing and managing the APAC intermediary sales strategy and distribution channel network and relationships. In addition Suri will focus on building new partnerships with consumer banks, private banks, securities companies and other financial intermediaries. **AST**

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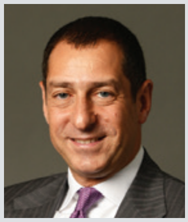

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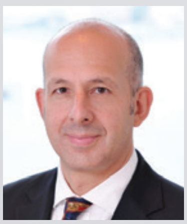

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