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Fund administration feels the squeeze

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Fund administrator acquisitions are snowballing as Maitland, IFG Trust and Corporate Group and US Bancorp Fund Services all do deals to increase their reach.

Maitland's acquisition of hedge fund administrator Admiral Administration will create an entity with a collective total of $145 billion in AUA.

The combined group will also boast 700 employees in 15 offices across 13 countries. It will support Maitland's strategy of targeting growth and expanding its global reach.

Maitland CEO, Steve Georgala, explained the reasons for acquisition, which were twofold; growth potential and system requirements.

Georgala said that in order for Maitland to grow its share of the international fund administration market the company needed to establish a "substantial service offering outside of South Africa".

"We are always on the lookout for opportunities where our combination of skills and services can provide our clients with an edge," said Georgala.

He explained that to become a noteworthy provider of administration services to hedge funds, Maitland needed to acquire a fund administration system that investors universally recognise.

Georgala said: "The acquisition of Admiral Administration will provide both a substantial presence in new markets as well as an installed and operational hedge fund administration platform in the form of the market-leading Advent Geneva system."

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Fund administrators feel the squeeze

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"The deal offers strategically attractive and financially compelling synergies. Admiral's hedge fund services expertise and award winning technology will enhance Maitland's fund services capabilities."

Canover Watson, managing director of Admiral Administration, will remain the global head of hedge fund administration for the group.

The terms of the deal are bound by a confidentiality clause in the acquisition agreement.

US Bancorp Fund Services's acquisition of AIS Fund Administration will add approximately $25 billion in hedge fund AUA to its existing alternative investment business.

The firm currently provides single-source solutions to support investment strategies and products, including mutual funds, alternative investments, open-end, closed-end, and exchange traded funds, and it services 349 fund families comprised of 2240 portfolios, 2427 fund classes, and 4.1 million shareholder accounts with $680 billion in client assets.

With its purchase of the AIS Fund Administration, which provides fund administration and middle- and back-office services to hedge funds, US Bancorp Fund Services will service $50 billion in alternative investment assets. The transaction will also add 176 employees in New Jersey, the UK and the Cayman Islands to its staff.

The terms of the deal were not disclosed.

Joe Redwine, president of US Bancorp Fund Services, said: "This is an important acquisition for [the company] as it demonstrates our long term commitment to becoming an alternative investment services leader."

"We are pleased that the AIS organisation will become part of our team and continue the tradition of innovation and superior service that both organisations are known for in the industry."

IFG Trust and Corporate Group has acquired Jersey-based Moore Group, adding more than $145 billion AUA to its existing business.

The transaction remains subject to regulatory approval.

The Moore Group takeover is IFG Trust and Corporate Group's first since it separated from IFG Group following a management buy-out in July. The company is due to reveal its new corporate name shortly.

The company is currently undergoing a rebrand to establish itself as a corporate service provider independent of the IFG Group name, with growth as one of its main priorities.

Ian Moore—who established Moore Group in 1996—will continue to work with the company assuming the role of executive chairman.

Moore said: "This is a wonderful milestone in our history. Culturally, it's a perfect fit. IFG Trust and Corporate Group is an international player in the industry and I am very excited at the prospect of working together and becoming part of such an innovative multi-jurisdictional business."

Declan Kenny, chief executive of IFG Trust and Corporate Group, said: "I could not be more pleased. Mergers and acquisitions are cited as vital in achieving growth and accessing new markets and we have ambitious targets in this respect."

"The Moore Group is an ideal addition to our organisation, well established and very well respected. This has been a very exciting year for our business and its employees and 2013 looks set to continue in the same vein," added Kenny.

Mike Jewell, partner of Cavendish Corporate Finance, which advised Moore Group on the acquisition, commented: "The deal is a great fit for both parties and illustrates the strong consolidation trend that is sweeping international fund administration."

"Bigger players continue to hunt for more specialist operators, which have particular skills sets and dedicated client bases, to bolster their revenues and expand their geographic and service offerings as well as benefit from economies of scale in areas such as technology infrastructure and compliance," concluded Jewell.

Power purchases

Earlier this year, State Street bought hedge fund administrator Goldman Sachs Administration Services from the Goldman Sachs group in a deal worth up to $550 million, making it the top hedge fund administrator in the world based on industry data.

In 2011, Apex Fund Services also expanded with the acquisition of Lazorne Fund Administration Service from Lanzorne Group in Australia.

Bill Stone, CEO and chairman of SS&C Technologies, said that administrators are consolidating due to the costs that are associated with improving technology infrastructures, regulatory burdens and large banks exiting the administration business.

Smaller firms risk being swallowed up by their larger counterparts, Stone said: "Administrators without the size and expertise to manage people and technology assets will be consolidated."

Georgala agreed that the industry has entered a phase of consolidation. "Administration is now a highly sophisticated industry, with significant investment required in world-class technology platforms that offer economies of scale."

"While the systems have increased in complexity and cost, the skills required to provide these services has also increased dramatically, and the exponential increase in the use of OTC derivatives and illiquid assets has increased the complexity of middle- and back-office processes."

Deutsche Börse and Moscow Exchange join forces

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The exchanges signed a letter of intent in the presence of Russia's president, Vladimir Putin, and Germany's chancellor, Angela Merkel.

The letter of intent explains that the two exchanges are to "support each other in the further development of their markets in terms of volume, liquidity and global reach of issuers, intermediaries and investors", according to a recent statement.

Deutsche Börse and Moscow Exchange have also agreed to cooperate on exchange infrastructure, product development, IT and rules and regulations regarding trading, clearing settlement and custody, collateral management, market data and indices. The partnership also plans to extend the connection between the financial centres of Moscow and Frankfurt.

Reto Francioni, CEO of Deutsche Börse, said: "Already a couple of years ago Deutsche Börse started a close co-operation with Moscow Exchange. Both exchange groups are joined by a common understanding how to further develop equities and derivatives trading as well as clearing and settlement. The deepening of our relationship agreed today is a welcomed step and is also part of our growth strategy."

Alexander Afanasiev, CEO of Moscow Exchange, said: "This agreement will give a further impetus to Moscow Exchange international development. Deutsche Börse is a trusted partner and we look forward to working together to apply best international practices and to exchange experience."

"The peer-to-peer partnership between Moscow Exchange and Deutsche Börse will deepen Russia's integration into the global financial system, create favourable terms for foreign investors to access the Russian market, strengthen our economy and aid in the creation of an international financial center in Moscow."

Dion's Nova written in the stars for Omgeo

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The announcement means that Dion can now offer clients access to CTM, which centrally matches cross-border and non-US domestic equities, fixed income, exchange traded derivatives and CFD transactions.

"We are pleased to have received certification on our link between Omgeo CTM and NOVA and to be supporting Omgeo's goal to bring increased efficiency to the post-trade process, said Colin Camp, managing director of products and strategy at Dion.

"This represents just one example of the ongoing development work across our business as we strive to provide the highest quality solutions to our clients. We are looking forward to working with our Nova users to ensure they capitalise on the benefits of moving to CTM."

Overboarding is an issue for Institutional Shareholder Services

Institutional Shareholder Services (ISS) has released its 2013 policy updates for the US, Canada, Europe and Asia and other international markets.

Each year, ISS's global policy board formulates guidelines to be used in its proxy voting research for the upcoming year. Highlights and key 2013 policy changes for the US market relate to pay for performance evaluation (including peer group construction and realisable pay), board responsiveness to majority supported proposals and pledging of company stock.

ISS Canada will also update its policy on pay for performance evaluation. Policy updates regarding Voto di Lista in Italy and overboarding and board tenure in the Hong Kong and Singapore markets are also notable.

"Transparency and inclusiveness is a hallmark of ISS' policy development," said Martha Carter, ISS' head of global research and policy. "We firmly believe that our commitment to this approach enhances the value of the research we deliver to clients, and it informs our vote recommendations."

ISS will apply the updated policies to all publicly-traded company shareholder meetings as of 1 February 2013.

eVestment expands with two new takeovers

In a bid to expand expertise, scale and capabilities and offer improved portfolio solutions across asset classes that are available to institutional investors, eVestment has acquired PerTrac and Fundspire.

The double purchase sees eVestment acquire PerTrac, a hedge fund analysis software and workflow solutions provider, and Fundspire, a cloud-based technology provider of hedge fund analytics.

Jim Minnick, co-founder and CEO of eVestment, said: "Over the past several years, we have seen increasing movement towards a more hybrid model of investing, where alternative and traditional investments stand on equal footing."

"The united company allows us to broaden our footprint in this increasingly combined and singular marketplace, while maintaining our commitments to provide market-leading software and data solutions to both the traditional and alternative investment communities around the world." The terms of the deal were not disclosed.

In 2011, the firm made a commitment to the alternatives space with the purchase of

Channel Capital Group, which owns HedgeFund.net, a hedge fund data, research and news company.

This acquisition enabled eVestment to provide a single, global database serving institutional investment professionals who focus on either alternative or traditional investments, as well as 'hybrid' investors who seek solutions to help them select and manage investments across both investment categories.

Thomson Reuters aids asset servicing providers

A new equity and fixed income index solution could help custodian banks with investment decision-making and measurement of performance.

Thomson Reuters's new solution will provide asset servicing providers with "performance measured analytics that are cost effective and highly correlated with other major global market indices," said a statement from the firm.

Northern Trust is the first asset servicing provider to offer the new solution to institutional fund clients for benchmarking purposes.

"Thomson Reuters is delighted to be working with Northern Trust, a market leading name in the asset servicing space," said Steven Carroll, head of indices at Thomson Reuters.

"We believe that our new offering will allow custodians to provide options with more flexibility to their customers while maintaining the same level of quality as comparable products."

Joe Nardulli, head of the investment risk and analytical services index product at Northern Trust, said: "We welcome this opportunity to be the first to work with Thomson Reuters on this initiative to provide our clients with more quality options for their evaluation needs."

"Across the retirement and fund servicing industries we have seen increased restrictions and costs added to operating models. This new solution helps Northern Trust begin to offer more options for our clients," added Nardulli.

Broadridge and Archive release records management solution

Broadridge Financial Solutions and Archive Systems are working in partnership to create a complete records management solution.

The new solution, which is supported by Archive Systems' records management software suite, OmniRIM, will offer greater control, retrieval and analysis of all records for banks, broker-dealers and mutual organisations.

The alliance will also complement Broadridge's existing electronic document delivery and archival solution, PostEdge.

Archive Systems CEO Gordon Rapkin said: "With our unique approach to records management and Broadridge's extensive experience in investor communications, we believe we will change the way the financial services industry manages documents."

Andrew Besheer, vice president of customer communications at Broadridge, said: "Increased regulatory compliance demands are driving the need for an efficient end-to-end physical and digital document management solution that provides intelligent storage capabilities. We anticipate that our alliance will reduce the risk of lost documents and improve retrieval efficiency."

Clearstream's assets under custody increase

Clearstream has released its October 2012 figures, which reveal an increase in assets under custody, but a dip in global securities financing services.

The value of customer assets under custody has increased to €11.1 trillion, a year-on-year increase of 3 percent, and securities held under custody in international business rose by 1 percent above October 2011 figures to €5.9 trillion.

For global securities financing (GSF) services, the monthly average outstanding reached €551.3 billion. The combined services including triparty repo, securities lending and collateral management, collectively experienced a drop of 16 percent over October 2011.

The investment funds services saw a 65 percent rise from October 2011, with 0.59 million transactions processed.

BNY Mellon gets Brazilian banking licence

BNY Mellon will enhance its securities capabilities in Brazil after the Brazilian Central Bank issued it with a commercial banking licence.

The licence, which was granted to the bank's Brazilian subsidiary BNY Mellon Banco, will initially offer custody services for non-resident investors and private equity funds, as well as deposit taking, collateral and agency services through its corporate trust business.

Gerald Hassell, chairman, president and CEO of BNY Mellon, said: "Brazil represents one of our most important strategic markets globally and our new banking license will significantly enhance our ability to meet the securities servicing needs of our clients."

"We are confident that our commitment to Brazil will provide meaningful benefits to our clients, who value our financial strength, wide range of global services, and local expertise and experience," added Hassell.

Zeca Oliveira, BNY Mellon's country executive in Brazil and CEO of BNY Mellon Banco, said: "We have experienced outstanding growth in Brazil over the last decade and the new license reinforces our plans to continue to grow and invest in the country."

Third party administrator SLPE chooses SunGard

Third party administrator SL Private Equity Fund Administration Services (SLPE) has selected SunGard's Investran to help with administration and reporting.

SunGard's Investran aims to assist private equity and alternative investment firms in automating front-, middle- and back-office processes.

Lauren Iaslovits, COO for SunGard's Investran business unit, said that SLPE joins a growing number of third-party administrators looking to improve their fund administration and reporting practices. "We look forward to supporting its evolving business by helping improve firm-wide efficiencies, reduce operational risks and streamline operations."

CIMB leverages Fidessa after RBS acquisition

Fidessa is deepening business ties with CIMB Securities to enable its regional growth plans, with Fidessa's software to be extended to cover Thailand, Indonesia, Taiwan, South Korea and India.

Following CIMB's recent acquisition of Royal Bank of Scotland's (RBS) Asia Pacific investment banking and cash equities operations, it is now looking for Fidessa to support its operations in new markets with cross-border order management and visibility for domestic and regional order flow.

CIMB will also take advantage of Fidessa's advanced trading tools for IOI management, basket and execution management and program trading, as well as algorithmic trading.

CEO of CIMB Securities Carol Fong said: "This move is of significant strategic importance to CIMB as we build on our acquisition of RBS's assets and look to advance our position in our core markets and new forays."

The mandate mangle

Citi and BNY Mellon clean up

Baylor College of Medicine has appointed BNY Mellon to a variety of trustee and agent roles to aid the restructuring of its $462 million debt, which comprises four bond issues.

BNY Mellon has been named master trustee, bond trustee, paying agent and registrar, index rate calculation agent and tender agent.

Kimberly David, senior vice president and CFO at Baylor College of Medicine, said: "We chose to work with BNY Mellon on this restructuring because of its ability to help the college position itself for stability and growth through a complex series of transactions."

Antonio Portuondo, head of public / not-for-profit client and business development for BNY Mellon Corporate Trust, said: "Many healthcare and higher education institutions are finding that they need to restructure their debt because of changing capital market conditions."

Citi has implemented the Man Umbrella Sicav, a Luxembourg fund business of the Man Group.

Citi will provide an integrated range of services that includes custody, depository bank, fund administration and transfer agency services.

Man Umbrella Sicav is an alternative investment management business with more than $52.7 billion under management. It appointed Citi to provide its global shareholder services in March 2011.

"Citi's deep understanding of Man's business as well as its proven track record of service delivery were decisive factors in our decision to select Citi for this mandate," said Simon White, global operations head of Man Group. "We are confident that the end-to-end solution provided by Citi will bring the optimal level of efficiency and transparency to our investors."

BNY Mellon has extended its contract to provide custody banking services to the Virginia Retirement System (VRS). The renewed contract will last for five years with an option of extending for another five-year period.
Custody banking services provided to VRS include, custody, performance and risk, securities lending and FX services.

"BNY Mellon has been a partner with us for many years and we look forward to working with them to continue to provide a variety of custody banking services on terms favorable to our members," said VRS director, Bob Schultze.

Citi will provide Australian annuity provider and fund manager Challenger with custody and collateral management services.

Challenger will be using Citi's OpenInvestor custody solution. The network allows clients to respond faster to market events, enhance risk management and connect directly to local experts.

The single platform also helps clients to optimise the use of collateral and streamline the administrative and operational challenges of managing all types of collateral assets across multiple counterparties.

Chapman's Eye on the market

Heading East

I'm often asked which areas are 'hot', ie, hiring is either taking place or expected to increase in the short term. The usual answer, as per most things in life, depends on timing—at present, collateral, derivatives (OTC and listed) and buy-side sales are all in favour, while operations are currently not. But this only applies to Western Europe; while we're not experiencing the peaks of the last decade, Asia remains buoyant across all areas and is the number one destination of senior candidates looking to experience a better quality of life than is generally the case in the UK.

Over here in sunny old England, we suffer high direct tax, high indirect tax, ageing infrastructure, poor weather and the public vilification of anyone even remotely related to financial services. Asia, speaking generally, benefits from low tax, reliable—if a little steamy—weather, and has an air of positivity that was last experienced in the UK many moons ago.

While our American cousins don't have any significant taxable benefits by virtue of having to pay Uncle Sam wherever in the world they are working, invariably Western Europeans moving to Asia are experiencing higher income levels that are only partially offset by increased housing and schooling costs.

The recent study showing that by 2017, there will be more jobs in Hong Kong than London, with Singapore snapping closely at its heels, adds weight to the evidence of a professional diaspora of financial services professionals heading East, either to the Middle East (great for income, slightly fewer benefits culturally), Asia or even to Australia. It is worth noting that that same survey said that New York would have the greatest amount of financial services jobs, but they are generally servicing the domestic market.

Getting all political for a moment, should a Labour / Liberal government be elected next time, with UKIP splitting the Conservative vote, this Eastwards march is only going to continue. This is a topic that warrants much more discussion and I shall return to it in the near future, but if anyone wishes to drop me a line about it, I'd be delighted to hear from you at paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

Take the best bits and leave the rest

AST talks to Ulf Norén and Martin Axelsson of SEB about differering regional responses to legislation

MARK DUGDALE REPORTS

How is the European Securities Law Directive affecting business and what you have to do for clients?

Martin Axelsson: When it comes to the European securities law legislation, there have been a number of papers produced covering different topics and we feel concerned in certain relations and issues. However, in general we welcome this initiative and the increased legal certainty that it will bring across Europe in a number of instances. Great achievements in this area have already been made through the work of the Legal Certainty Group and UNIDROIT (International Institute for the Unification of Private Law), which have been moving things forward. From a *de lege lata* perspective, the situation has not always been optimal in terms of being as effective and homogenised as one could wish, and one very important fundamental issue here is the actual rules relating to governing law, which should clear and cover the entire area—not like today, where we have three different directives implemented in Europe and member states having their own national laws to take into consideration.

Ulf Norén: Then there are of course a number of 'buts' and worries. For example, when it comes to the approach, and also whether there will be a functional approach or positive view of ownership of proprietary rights, we do not see that it would be possible to accomplish full homogenisation of those fundamental legal concepts all over Europe.

The differences are too great, and everyone will be very much concerned in protecting their own legal system and views. I believe that the functional approach that has been used should still be the way forward when it comes to this directive. Another issue is the applicable law rules, which we believe were unclear and need clarification and to be more precise so that we are comfortable in the basics of which law applies in a certain situation.

Then there are a number of issues when it comes to account providers and account holders, but in a general sense I would say that we are optimistic about achieving clarity on this. This initiative was very hot to start with, then the securities law directive slept for a while and didn't really pick up speed again in my book until there was a new working document in October this year, and after that things have certainly sped up.

I have particularly looked into re-use pledges, and on this one I have a lot of question marks. I also have a few question marks in the area of account segregation, which are mainly concerns of a practical nature, on how and under what sort of operational tactical perspective you set up your operation. Then there is also the issue of the ultimate account holder or beneficial owner, and whether that is really relevant or not in relationship between an account holder and the account provider, and the different effects there might prove to cause issues or problems if it is not done in a balanced way.

How easy to work with and respectful of custodians have European rulemakers (at an EU level) been when you've talked to them? Are they keen to get custodians involved in this rulemaking?

Norén: The lawmakers are generally seeking the expertise of the finance industry, but we need to understand that a lot of the actions that are happening now emanate from the general publics' opinion that society needs to do anything in its power to protect the public against the financial sector. The general realisation among the legislators is that the financial sector and the custody industry's input is very important, but there is also a growing realisation that other priorities take precedence.

What we see is that a lot of things are done with a very noble purpose to reduce risk, for example, directing a lot of securities traffic to be centrally cleared in central counterparties (CCPs) by high use of collateral. It was probably easier a couple of years ago to make your opinions heard and acted upon than what it is today, and I think the key point here from the financial industry is to demonstrate that we are producing something of value to society. The intermediary world needs to be very clear on differences between custodians and other infrastructure intermediaries, and what sort of contribution the custodian is supplying to the whole value chain. Provided that we are good at illustrating that, then I think the dialogue is still good. It needs to become much more detailed and much more intense than it has been for the past four years, but I am fairly optimistic that at least in some instances, we will manage to reshape that level. We will not return to a situation where we are more or less self regulated; at least not during the rest of my career.

Axelsson: The final drafting of level two, and how the coming legislation will be interpreted and applied, will of course be very important. In certain matters there has been good dialogue with representatives from the financial markets, whereas in other parts it seems that other arguments have taken place.

One example is of course the CSD (central securities depostories) regulation, not being finalised, but we believe that there has been acknowledgment and draftings related to the direct holding systems, which is very important from the Scandinavian perspective. One should be aware of, when it comes to direct holding systems, that as in Sweden as an example, there is also an indirect holding system in the same CSD-system, based on an act, which basically implies that you as an investor has the possibility to choose and thus access to the benefits of both the indirect holding system and the direct holding.

It's the best of both worlds, being that they are integrated in the same system and under the same act and, as I perceive it, under the drafting of the CSD regulation that will be acknowledged as well. That seems to be one example of when this dialogue works.

What regulations are you most optimistic about at the moment? And what sorts of changes are they going to make and how are you planning for them?

Norén: It is not very easy, and we are not analysing every piece of legislation or initiative. T2S is not legislation, but it is a bit of an earth-shaker. We do leave some 3500 legislations aside on a global basis, and concentrate on the 20 to 25 hot ones that will dramatically reshape our business model. Among them is the upcoming CSD regulation, which will—depending on a few items—dramatically reshape the exact extent to which a CSD can operate as a bank. Will they be governed by exactly the same banking regulations as banks do, or a separate regulation? Will they have mandatory use of central bank money, or can they use commercial bank money? Will they be able to engage in securities lending transactions, and can they act as both an agent and as principal as well?

AIFMD (Alternative Investment Fund Managers Directive) is probably the one, along with UCITS V, that could most dramatically change both the global custody business line and the sub-custody business line. It will change sub-custody as an effect of the client base being forced to change their business models. So what is the future for hedge funds or prime brokerage? If you listen to legislators in Europe, they don't seem to particularly like the prime brokerage business models at all. Will global custodians try to push liabilities onto sub-custodians as the next layer or will they completely stop using sub-custodians and instead establish their own operations to achieve acceptable risk levels in the markets in which they are active?

Axelsson: One interesting point would be the differences in business models when comparing different member states. Let's take the prime brokerage business as an example, where the general right of re-use of assets in London does not correspond to the Swedish model of prime broker services, where there is no such thing as a general right of re-use of the funds' assets. This creates a situation where the funds have a proprietary interest to securities and thus a right to segregation in case of the default of the prime broker. When we have a background in different member states and different legal systems and business models, we must take examples like these into consideration. Some things that we believe are basic might very well be quite different in other member states, and I think everyone should try to learn as much as they can about other systems. One should not cling to one's own system 100 percent, but try to see the advantages in other states, and incorporate their good ideas in order to achieve a better and more efficient situation. **AST**

Ulf Norén
Global head of sub-custody
SEB

Martin Axelsson
Legal counsel
SEB

Game of global custodians

Custodians are picking up UK pension fund mandates—and trying to dodge lawsuits, as AST finds out

GEORGINA LAVERS REPORTS

Back in 2009, an attempt was made to examine the "significant" cost of administering pension schemes, and point the finger at the guilty party that was scooping up money at the expense of scheme members' pensions.

An article for the UK Department of Work and Pensions, which was co-authored by Matthew Chatterton, Emma Smyth and Kirk Darby, made the valid point that very little quantitative data has been collected from schemes to examine these costs in detail.

Somewhat ominously for the administrators, the trio cheerily explained that the research aimed to allow for a more informed discussion about action that could be taken by government or by schemes themselves to minimise administrative overheads, "without undermining protection for scheme members".

The research proved its own hypothesis, as it was found that over half of respondents said that their own organisation had no idea of the annual cost of accountants, custodians, independent financial advisers or pension fund managers.

Though trustee boards were more likely to employ auditors and investment managers than other types of professionals (95 and 89 percent respectively), 51 percent of trustee boards said that they employed custodians, with 73 percent paid by the scheme only, rather than the employer. An annual average cost of employing a custodian is £172,000; small change compared to an investment manager, which will take home on average £1 million for a year's work.

Upping the ante

UK custodians have recently been gaining ground. October proved a fruitful month, with Middlesbrough Council choosing BNP Paribas for its pension fund, and the Merseyside Pension Fund picking Northern Trust.

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

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

Douglas Gee, head of business development for the UK and Ireland for Northern Trust's institutional investor group, said that he understood that local government pension schemes' clients face a unique set of challenges.

"[We] 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."

Just six days later, Middlesbrough Council announced that it had 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, and Middlesbrough Council's portfolio investment team manages it.

Paul Campbell, head of investments at the Teesside Pension Fund, said at the time that his most important considerations in appointing a new custodian were safety of assets, strength of institution and quality of service.

James McAleenan, head of BNP Paribas Securities Services UK, agrees that strength is a key issue for the typical pension fund, which has different priorities from a hedge or private equity fund.

"Pension funds have a longer view on their investments than for example, hedge funds. Similarly they take a longer view on their custodial relationships and look for longer term partnerships," he says. "Asset security is of paramount importance to them, but they also prioritise client service, and the ability to effectively and efficiently manage multiple asset manager relationships."

"They look for complete service provision, global custody naturally being the basic service that is enhanced by financial reporting, treasury and cash management, securities lending, among others. However this must be provided under the umbrella of service quality."

Litigation and consolidation

The UK custodian arena seems to be following a global trend of consolidation down to the big players. But as independent audits of FX transactions have increased, so too has negative press surrounding these big custodians, which are fending off claims that they have mismanaged currency transactions on behalf of clients, falsifying the time of day that transactions took place, thereby ensuring the pension fund had a lower transaction value.

Detractors have complained that custodians are unwilling to provide time-stamped trade deals, and did not offer the best deals on price, relying instead on their intrinsic nature as a convenient and low-risk way to trade.

"Over the years, the UK custody market had become focused on the largest global custodians," says McAleenan. "However, litigation in the US markets has thrown a harsh spotlight on a number of custodians. Concern for reputation, service and the protection of assets has shifted client attention onto the strength of the institutions they deal with."

"Historically pension funds were primarily interested in the vanilla services that custodians offer. However, recently they have moved their attention to other product enhancements such as FX and treasury services and securities lending. Of course, for these services, transparency of fees is paramount to the pension fund industry."

"The growing regulatory environment also places greater emphasis on performance measurement and investment attribution, which pension funds will be looking to custodians to offer."

The regard for certain value-added services seems to be wearing thin, judging from the 2009 lawsuit issued by the State of California against State Street on behalf of CalPERS (the California Public Employees' Retirement System) and CalSTRS (the California State Teachers' Retirement System), and several subsequent accusations brought against State Street and BNY Mellon by various US states.

Although allegations have been made against BNY Mellon's FX practices, a spokesperson maintains that the demand for other value-added services has never been stronger, and is only set to increase across all client segments.

"Institutional investors continue to be challenged by ever-greater complexity, whether in the shape of new instruments, investment models, distribution channels or—perhaps most pertinently and pressingly—the current unprecedented wave of regulatory reforms around the world."

The spokesperson adds: "Accordingly, risk, transparency, and cost concerns will continue to drive demand for new 'value added' solutions—right across the investment lifecycle—that are at once flexible and scalable, as firms look to transform their businesses to continue to meet the needs of their own stakeholders and to grow in a sustainable and competitive fashion."

State Street has also been subject of scrutiny, with its most recent headache being a Boeing Co worker, who filed a lawsuit claiming State Street overcharged on FX trades in the aeroplane maker's $34 billion retirement plan. A State Street spokesperson says: "As we have previously stated, State Street continues to cooperate with inquiries regarding our indirect FX services and vigorously defend the litigation that has been commenced against us. We offer clients and their investment managers a range of FX execution options and we believe that our clients and their advisers choose indirect FX as an execution option when it represents the best mix of service and price to address their needs."

It looks as though a change for good may only come in the form of fee transparency—oft-cried at conferences as an absolute necessity in an industry that battles with accusations of opaqueness.

And as costs are illuminated, it may well be that in the future, custodians will start having to hunt in different plains for revenue. AST

Playing catch up

The UK is a big loser when it comes to reclaiming withholding tax, says Stephen Everard, CEO of Goal Group

There continues to be increased emphasis on dividends as a method of delivering shareholder returns. Throughout the first decade of the new millennium, earnings from dividend payments have grown. Even taking into account the natural suppression of dividends that were paid after the financial markets crisis, in line with suppressed profits, the culture of the dividend is far stronger now, compared with the 1990s, when returns were often predicated solely on capital growth. So, more and more companies are now paying a dividend, and those that have historically done so are looking to increase the dividend payout year-on-year.

In April of 2011, one market commentator said that by the end of March 2011, 32 percent of companies within their coverage had increased dividends by an average of 22 percent, and they anticipated a further 65 percent of companies to follow this trend, increasing their payouts by 34 percent by the end of 2012.

At present, Europe is not seeing much equity growth, but economies further afield are, so holding cross-border shares is also becoming more popular with fund managers that are increasing the proportion of their portfolio that is made up by non-European foreign shares. For example, at the end of 2011, the UK had $3.22 trillion assets invested abroad, compared to $2.43 trillion in 2008, according to a survey from the International Monetary Fund.

Dividends on cross-border shares and yield from foreign bonds are subject to withholding tax. Research from Goal Group found that in 2010 around 25 percent, which amounted to $17.39 billion of investors' rightful returns from their foreign shares and bonds, was lost because withholding tax on dividends and income was not being properly reclaimed. This represented an increase of more than 50 percent in the annual amount that was lost compared with 2006, and we expect to see this maintained when we report our latest analysis of the situation. After the US, the UK was the second biggest annual loser from un-reclaimed withholding tax on foreign securities at $1.65 billion.

The problem is likely to increase as dividend payments become more popular and a more significant element of shareholder returns, and a rising proportion of portfolio investment that is devoted to foreign securities means that lack of tax reclamation needs urgent attention from fund managers and custodian banks. The significance of un-reclaimed withholding tax on cross-border securities holdings has therefore risen to a prominence that it has not enjoyed since the 1990s and 2000s.

Tax reclamation rates, rules and timings vary widely around the globe, making the reclamation process very complex. However, automated systems are now available to take the cost and manual complexity out of the reclamation process. This makes withholding tax reclamation an economic—indeed, profitable—process for custodians, and a 'must have' for fund managers that are under pressure from their investor clients. Fund managers and pension funds that are also increasingly aware of the existence of such systems are beginning to include the requirement for automated facilities as a standard part of their custodian services RFPs.

Safe and settled

AST talks to Jonas Modigh of Handelsbanken about the importance of risk and T2S

GEORGINA LAVERS REPORTS

You have said that customers have switched from looking at long-term commitment to being more concerned with risk and stability. Do you see still this trend?

Long-term commitment is always important for the bigger clients, but now, almost everyone I speak to say that risk and stability are often at the top of their list. And I would say that the same goes for Handelsbanken. We are looking more at selective partners that we feel comfortable with expanding our existing relationships or building new long-term ones.

What challenges are Nordic countries facing when creating growth on their own?

There are some differences between the Nordic countries, but in general, creating growth on their own is very difficult, since they are to a large extent export driven economies. We are very dependent on the environment around us, and with the problems we are facing today in the eurozone and the US, it's a challenge to solely depend on export growth outside of these regions, such as the developing countries. To some extent we have been able to see compensation from the less cyclical export goods. The way to continue growth probably depends on the success in product development, innovation or establishment in new markets. But at the moment, all of the Nordic countries are doing well compared to the Southern European countries. Maybe Denmark is a little bit weaker at this point, but relatively, we're quite well off.

T2S opens up Europe for competition among CSDs and custodians—how is Handelsbanken preparing to compete?

Target2-Securities (T2S) is an extremely big change in the European landscape, but Handelsbanken has a very long-term committment to the securities business and we are investing heavily in this product area. We are at the moment carrying out our biggest IT investment ever in order to prepare for the future securities landscape. We are building a brand new securities platform that will serve the entire securities flow in the bank throughout the Nordic region, and many existing systems are being shut down and enhancements are being made in many products. We of course follow the progress towards T2S for the Nordic markets, and we are confident that we will be well prepared for the launch. We have a very long-term business plan, and we will continue to deliver a first-class regional Nordic custody solution.

Speaking of T2S, what kind of messages are you getting from clients on whether they will still have a regional custodian in the Nordics?

It totally depends on what client and what kind of client you're speaking to. The major global custodians have one view and smaller local or regional banks may have another view and investment banks and / or brokers may have yet another view. The different client segments see a different need for a local provider going forward, and the global custodians see much less of a need than the others. However, there will still be services that are of interest, such as tax services and other asset services. The picture for the region may look a little bit different depending on what countries you're looking at, with Finland and Denmark being a little bit ahead of Sweden and Norway in their plans for T2S.

But projects such as T2S will most likely have an effect on the number of market players, and we are seeing a trend of moving from a single market provider to regional providers. The main message though is that now you rarely hear anyone questioning the project, but more are concentrating on benefits of the project and how to interact.

How is your partnership with Northern Trust going?

It's a strong partnership that gets stronger every year, and we look forward to continued mutual growth in the region. The Nordic region is a very important market place for us and there are some interesting business opportunities out there. Joining forces with Northern Trust gives us the possibility to offer the client the best of both worlds—the strong local bank and the muscles and top quality products of a global custodian.

What opportunities are there for Handelsbanken in Asia, including Japan?

No other Nordic bank has such a strong presence in Asia. Handelsbanken has branches in Hong Kong, Shanghai and Singapore, as well as representative offices in Beijing, Mumbai, Taipei and Kuala Lumpur. We are active in many areas, such as trade finance, export financing, project financing, FX trading and cash management. **AST**

Jonas Modigh
Vice president and head of sub-custody and cash clearing services for financial institutions
Handelsbanken International

Stretching to the West

AST talks to Marek Zacal of Czech Republic bank CSOB about the country's capital markets, the new Russian CSD, and whether a local brand name can stand up to the big players in CEE countries

GEORGINA LAVERS REPORTS

How are the Czech Republic's capital markets faring?

The Czech Republic is one of those emerging Central and Eastern European markets that deserves attention. Capital markets have been making concrete shapes right after the revolution in the early 1990s and the focus has been clearly re-directed towards the West. Although they have not reached 'Western' parameters yet, the central European location itself, and strong EU-based partnerships, have helped to do a lot of the work.

Not by chance is the Czech financial market viewed as a relatively stable environment, with its own monetary policy and 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 (CNB) declare the strength and readiness of the banking sector even if the severely adverse scenarios take place. Continual profitability of the largest Czech banks and high capital adequacy and liquidity in the post-crisis times will serve as the best evidence of good health and sustainable performance of the whole banking industry.

What are your feelings on the new Russian CSD?

The establishment of the Russian central securities depository (CSD) is definitely a significant change, and I believe that positive factors will prevail. From our own experience in the Czech Republic, a new CSD brought several features that made post-trade servicing much easier. Clearing and settlement is finally done in one house, which brings more effectiveness in communication with market participants, and there has been a cost reduction in terms of a single technical platform. On the other hand, a full nominee concept has still not been adopted in the Czech CSD. Therefore, from our perspective, the opening of foreign nominee accounts is undoubtedly one of the biggest milestones for the Russian financial market.

How can non-EU member states increase asset safety if they are not affected by certain European regulations?

Non-EU member states can indeed achieve similar safety of assets, if they manage to implement into their local legislative framework the principles and rules that are anchored in European legislation. Such implementation, however, may strongly depend on the political environment in this or that country. It is worth mentioning that in some states, no matter if they are EU or non-EU, the asset's protection is even higher than what the European regulations stipulate. The Czech Republic, with its traditionally conservative banking sector, is an example of a state where local regulations are even stricter than the European ones.

What are the challenges and quirks of offering custody services in the Czech Republic?

After the establishment of a CSD in 2010, the settlement of securities that are traded on the Prague Stock Exchange was finally centralised under one roof. However, another challenge was last year´s introduction of the MTS market.

The current hurdle is the adoption of the Xetra platform by the Prague Stock Exchange, which poses higher demands on local entities in terms of clearing, settlement and other post-trading processing. Remote Membership introduction brings new options to the Xetra members that will now be able to trade Czech securities via Xetra without being a member of the CSD. Local custodians will be handling the settlement of their Xetra trades.

After the switch of Prague Stock Exchange from its current trading platform to the Xetra platform, the introduction of the central counterparty (CCP) will be another feature that will keep sub-custodians rather busy. Currently, it is expected that CCP implementation in the Czech market will take place in 2014.

A structural change arising from participation in TARGET2-Securities (T2S) can be expected. However, due to the cash clearing in Czech currency and other capital market specifics, the signing of a T2S agreement by the local CSD has been postponed.

An absence of the full nominee concept in the Czech CSD is perhaps the mostly frequent debate between local providers and foreign investors. Described as 'bi-level' or 'two-layer' evidence, it still seems that this concept does not bring much light into the discussion. To cut a long story short, the secret lies in the distinction between an owner´s account and a customer´s account. According to Czech legislation, disclosure of beneficial ownership is necessary either in a CSD's records (segregation on an owner´s accounts) or in a local-custodian´s books (segregation on an owner´s accounts in local custodian´s books provided that these segregated accounts are linked to the customer's account in the CSD).

Do you see the use of small custodians lessening in the CEE region, and is this a good or bad thing?

First of all, we have to deal with understanding who these "small custodians" are. I would rather divide custody providers into two groups: firstly, those companies that operate under the brand of a renowned global group, and secondly, companies whose brand is well-known locally or regionally. CSOB is a good example of the second group.

A global brand name of some local sub-custodians has a noticeable benefit, but these big names have a relatively short track record in terms of Czech custody services. Also, it's not only Czech investors that will give preference to local institutions with strong historical roots, long-term experience and a significant domestic and foreign customer base. **AST**

Marek Zacal
Custody relationship manager
CSOB

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If the reprice is right

ING's Lilla Juranyi and BNY Mellon's Hani Kablawi tell AST what it takes to be a truly global custodian

What constitutes the ideal global custodian, and what obstacles are there to achieving this?

Hani Kablawi: As a custodian, it is critical that you have the ability to address complexity, and to innovate and adapt our offering quickly enough to stay ahead of the curve, in terms of our clients' own evolving needs and challenges. Scale, global reach allied to local market expertise, robust technology and scalable solutions, cross-border capabilities, and real bench-strength in terms of intellectual capital—these are also key attributes that are required if we are to help our clients to grow and transform their businesses.

The key obstacle we face as a custodian is the persistent low-interest rate environment that exists globally, which continues to challenge all custodians' net-interest revenue. That cannot be overstated—it knocks many millions of dollars off of our bottom line before we have even got out of bed in the morning.

With clients constantly searching out new instruments, investment models and distribution channels, they are asking us to do more and more for them, and not least to take on a more consultative role in terms of helping them to map and execute on future opportunities as well as dealing with today's challenges. Meeting these needs requires significant reinvestment in not just new technology but also intellectual capital, which requires a different breed of expert who is typically more expensive and harder to recruit and retain. So there are clear cost and capacity issues to take into consideration too.

I would add that our strong credit rating has proved incredibly attractive to clients, which have come to value even more the financial strength and stability of their counterparties and providers as they have become ever-more focused on risk management and mitigation after the collapse of Lehman Brothers in 2008.

Lilla Juranyi: From our position as a sub-custodian, I would rather make a comment on the relationship of the global custodian and its sub-custodians and mention one important item, which is how the local agent banks can support global custodians to become the 'ideal' one. We contribute to the global custodians' performance with our strong market expertise through our knowledgeable team, both in the relationship and in the operational areas. It is key to the global custodians that they get the market intelligence updates as soon as possible with proper impact analysis.

What do you think is the ideal set-up of the client / custodian relationship?

Kablawi: Our view is that our industry has hit another of those inflection points that periodically manifest themselves—transformative moments in time that require us to move decisively into new areas of activity and influence. While as an industry we are constantly adapting in line with emerging client needs and changing market dynamics, every 10 years or so a more fundamental reboot of our business models is required.

Historically, our servicing model has involved the same workflow and the same technology across all clients, whatever their size. However, we are currently in the process of realigning our service model, ensuring that our servicing solutions are better tailored to needs of distinct client types. And as part of that process, we have been actively revisiting our fee schedules—some of which date back 10 years—and repricing clients in recognition of the scope of the new and sophisticated products that we now offer, and the costs we incur to develop and provide them.

As a result of that, there have been instances where some smaller clients have no longer been seen as economically viable. That said, I should stress that size in and of itself is not the determining factor when we assess a client: it is more about the fit between our respective organisations and whether we feel that we are indeed best placed to offer them the very specific solutions that they need.

Juranyi: Each client should decide themselves what they consider the ideal structure to be and how they prioritise their requirements towards a custodian. Usually, the big clients choose the bigger custodians. If a client appoints a smaller one, the reasons are often that the client expects some special service, more flexibility or tailor-made solutions. We know very well that a scale business requires standardisation and it allows less option to adopt the services to special requirements. Sometimes we hear that a client appoints a smaller service provider because of the personal touch. There is no golden rule to the question but a good balance between the standardisation and the flexibility can be a success factor for building long lasting relationships between the custodian and its clients.

How are custodians rethinking their relationship with CSDs?

Juranyi: The original role of central securities depositories (CSDs) is to be a market infrastructure service provider. They are often in a monopolistic position by law. Because of T2S (TARGET2-Securities), more and more thinking is given to CSDs becoming competitors to the commercial banks. There is a clear competition between the CSDs and the custodians servicing the international central securities depositories. There are more and more discussions around whether CSDs and custodians can be considered as competitors in connection with asset servicing as well. In my opinion, it is not the case. Asset servicing to custodians and their underlying clients would require significant changes in the CSDs' systems, operating models and attitudes.

> The original role of CSDs is to be a market infrastructure service provider. They are often in a monopolistic position by law. Because of T2S, more and more thinking is given to CSDs becoming competitors to the commercial banks

Lilla Juranyi
Global head of investor services
ING

In which market do you think clearing and settlement is handled best, and why is this so?

Juranyi: In most of the developed markets, clearing and settlement is well established and commoditised, so there is no real differentiator to rank the markets. However, in some of the emerging markets, settlement is quite complicated and is not easily automatised. Sometimes, pre-matching is done on a best-effort basis and communication to the street side and receiving reports from the market is not an easy process. Lack of market practice standards, lack of international SWIFT standards, various local regulatory requirements, additional documentation requirements, and so on, make settlement quite a challenge.

However, in these markets, local custodians do their best to establish special settlement schemes among each other to simplify the complicated processes. Russia is a good example of this.

How do you ensure that your risks and controls stay stringent?

Kablawi: Risk management is a key focus at BNY Mellon. Managing risk is a responsibility of every employee in every one of our many locations across the globe. Our risk management practices directly impact our client's experiences with us. In our business, we face many internal and external challenges and risk factors so it is critically important to ensure our risk management framework is robust.

We use quantitative tools , which include risk and control self-assessments, key risk indicators and scenario analysis, to ensure our risks are appropriately identified and managed. We also employ a structured governance process through business risk meetings, where senior line of business managers regularly meet with our risk group to assess key current and emerging risks impacting the business. The underlying goal of our approach is to ensure material risks are defined, understood and effectively managed.

While we welcome the current round of new regulations as a means of mitigating risk and enhancing transparency, we do recognise that the sheer volume of change that they bring has placed a significant additional burden upon both ourselves and our clients

Hani Kablawi
Head of EMEA asset servicing
BNY Mellon

Juranyi: There are various risks in the custody business, including the client acceptance (know your clients), operational risk, market risk, credit risk, compliance risk, and so on. Let's take the increasing regulatory and compliance requirements. We live in a changing environment, so custodians have to constantly review and update their internal procedures. Following all the changes and having a good understanding of new regulations is the first step. The new requirements should be properly translated to the operations. The proper implementation of such changes requires efficient coordination of several people from various areas including product development specialists, relationship managers, legal compliance, and IT and operational specialists. The three levels of defence ensure that: the product specialists have a good understanding of the risks and take responsibility to set proper internal procedures; the operational risk management as the second line of defence monitors regularly how the risks are controlled and mitigated, and proposes actions if needed; and the third line of defence is the internal and external audit.

What regulations have hampered business growth, or will moving forwards?

Juranyi: I would not say that the regulations hamper business growth—it is the current macroeconomic environment. However, a big challenge is the number and the complexity of the regulatory changes. We see quite often that some changes in the law that are related to the securities industry are not harmonised with some other laws. The impact of the international regulations comes on top of the local ones.

Kablawi: While we welcome the current round of new regulations as a means of mitigating risk and enhancing transparency, we do recognise that the sheer volume of change that they bring has placed a significant additional burden upon both ourselves and our clients. To further complicate matters, many proposed regulations are still being cooked, so details of the final implementation requirements are still hazy, which makes it very difficult to move ahead with detailed planning. That makes client education particularly challenging.

Has regulation hampered business growth? Certainly, it has forced us to reallocate resources. Our software development budget used to be discretionary, but today a very significant portion of our technology spend is dedicated to supporting the cost of compliance. The question remains as to whether enough attention is being paid to what the costs will be for investors as a result of tagging custodians with a higher standard of care and duty to protect those same investors.

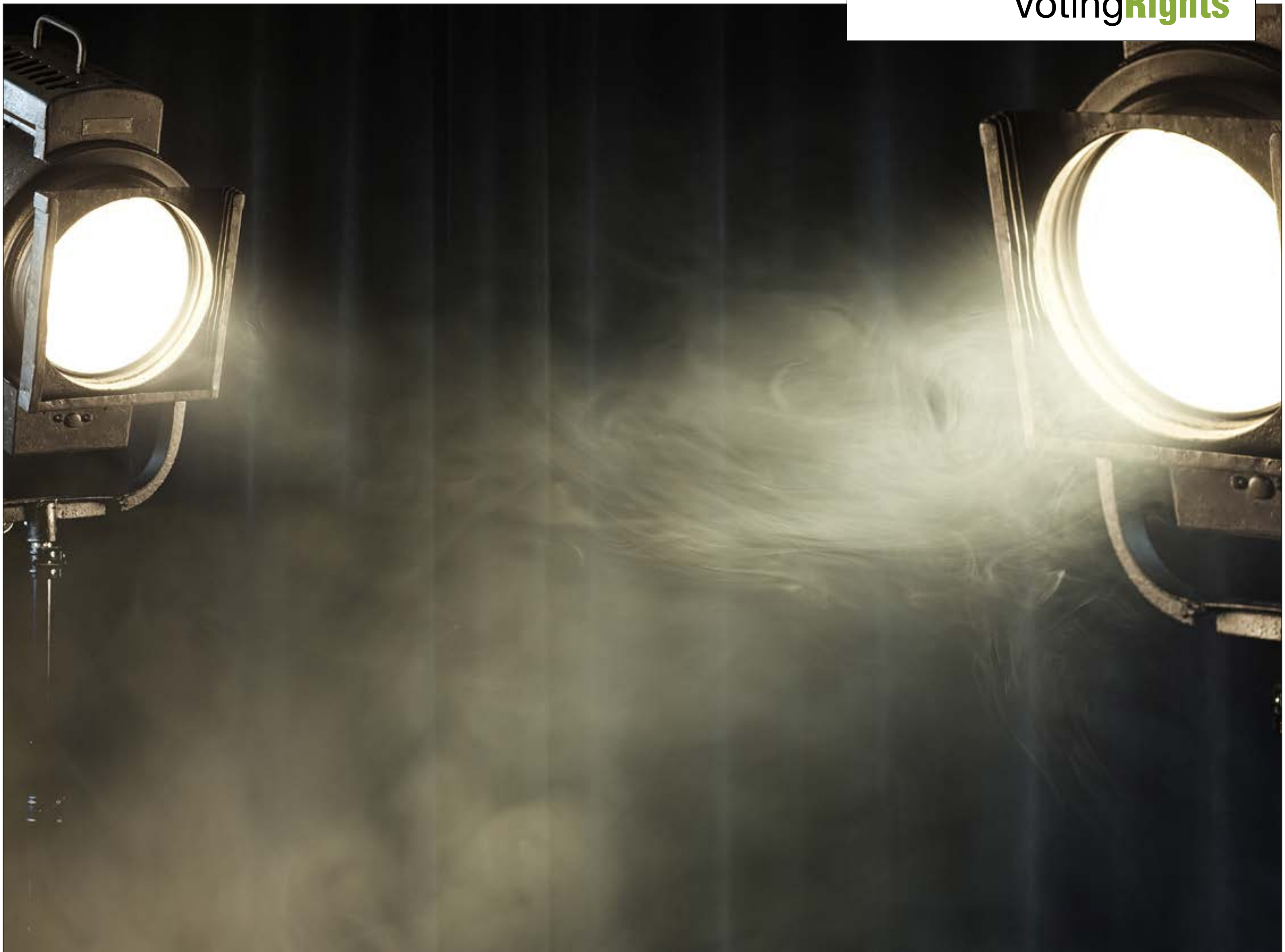
Take the proposed UCITS V legislation. As things stand, it will bring quite significant changes for this industry in the name of enhanced investor protection, via measures that largely mirror those now being finalised within the Alternative Investment Fund Managers Directive. In other words, the introduction of a liability regime for depository banks that exceeds what we have today. While it is difficult to make predictions, it does seem inevitable that custodians' fees will rise as a consequence of that additional degree of liability.

But some of these regulatory changes—coming as they do at a time of evolving market dynamics and a heightened focus around risk management—also present clear opportunities for a provider such as BNY Mellon, not least around the collateral space. The financial services industry faces nothing less than a seismic shift around the management of collateral over the next 12 to 18 months. In particular, we can expect an ever-greater demand in the marketplace for collateral—and specifically high quality collateral.

The Dodd-Frank Act and the European Market Infrastructure Regulation are expected to result in a broader spectrum of derivatives moving from an off-market, OTC environment into a listed, centrally-cleared one. Buy-side firms in particular will have a greater need to post initial and variable margin in the shape of high-quality collateral. At the same time, they will be expected to hold higher levels of exchange-eligible collateral on their balance sheets.

That means that both sell- and buy-side firms will be under pressure to optimise their collateral. They will need to transform and finance investment portfolios, converting idle assets into eligible collateral. They will also be looking to enhance their operations and manage risk—be it credit, liquidity or operational risk—across a broad spectrum of markets and products. At the same time, they will be looking at business models that allow them to focus on their core competencies and sustain—and further expand—their investment strategies.

As a result, we are seeing accelerating demand for solutions around the segregation, optimisation, financing and transformation of collateral as institutions look for answers to a broad range of questions that span not only collateral management, but also activities such as securities lending, liquidity management and derivatives servicing. AST



The proxy factor

When voting for a talent show is more important than having a say in your financial future, something's amiss. Patricia Rosch and Mike West of Broadridge make the case for increased investor participation to AST

GEORGINA LAVERS REPORTS

What is the situation with proxy voting globally?

Patricia Rosch: There is significant interest from market participants around the world to improve the way capital markets function. It's exciting to see the traction in Japan towards improved proxy communications. Our joint venture with the Tokyo Stock Exchange and the Japanese Securities Dealers Association is a great example of that. As part of our 'think globally, act locally' approach, we're developing locally-tailored solutions to address the needs of both mature and emerging markets, within local regulatory frameworks. Through an alliance with Singapore Exchange (SGX), we are now offering proxy communications solutions to issuers listed on the SGX. Clearly, the regulatory environment in many jurisdictions is changing, and there is a push in many markets for stronger corporate governance and investor participation. Accordingly, there is also an appetite to implement policies and rules that are relative to proxy and continuous disclosure.

Broadridge monitors regulatory changes in jurisdictions around the world so we're able to deploy technology solutions that support investor communications within those regulatory frameworks. Most often, the key drivers of change are toward better transparency, integrity and increased voter participation. Take the Securities Law Directive that was issued by the European Commission as an example. In October, it was announced that the directive would in fact be a regulation. That gives it more teeth. And in Australia, there has been a recent review of proxy voting and disclosure protocols for superannuation funds. That review was very proactive and a clear sign that participants there support strong corporate governance based on global best practice standards.

Those are just a couple of examples that demonstrate how regulations are evolving to support fuller disclosure and in turn drive stronger investor confidence. That will help corporate issuers to engage more meaningfully with their investors.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What jurisdiction is most ahead of the curve when it comes to proxy voting?

Rosch: In North America, the capital markets are mature. Proxy communications in the US and Canada have been regulated for a number of years. All public corporations have been required to conduct proxy communications with their beneficial investors since the 1980s.

Japan has been extremely proactive in improving its proxy communication processes in the past decade. Today, 400 issuers in Japan are using our electronic proxy solution so that their local and foreign investors can participate in the annual meeting process. Of companies with a market capitalisation of more than 200 billion yen ($2.5 billion), more than 75 percent leverage the platform.

But even in emerging markets, it's clear there is a focus on improving the proxy voting process to make it more transparent and to provide investors with better access to the market. I was in New York in October, attending a conference of corporate secretaries. I met delegates from Nigeria, India, South Africa, Australia, and Singapore, just to name a few. Corporate secretaries from all over the world are coming together to discuss ways to enhance and support corporate governance and investor engagement.

What about Broadridge's reconciliation solution?

Mike West: Broadridge provides a broad range of operational control solutions, offered through a choice of deployment options including on-site, SaaS and BPO, and we are firmly committed to delivering new market enhancements to benefit our user community. At Sibos, we announced a unified cash and stock reconciliation capability.

Trading in financial instruments typically involves both a cash and non-cash element. Traditionally, many financial organisations have based their reconciliations on entirely separate matching processes for the cash and for the underlying asset, for example, stock, even when they relate to the same transaction. While this approach has aided the operational efficiency for each process, it has been necessary to provide a separate link or manual check between any exceptions in either the cash or stock in order to trace the impact of a failed match in one area upon the other.

Broadridge clients now have the choice of continuing with separate reconciliations for cash and stock, or adopting its new, combined approach whereby cash and stock transactions are matched in a single operation that links all related cash balances and stock positions in a single view, for example all balances and transactions from cash and securities statement, such as MT535, MT536 and MT940/950 in a single process. By adopting the new approach, firms will be able to identify the root cause of exceptions at greater speed.

This is a growing area of our business, because there is a lot more pressure on firms to improve their operational controls to meet both stricter compliance rules and benefit from a more up-to-date view of positions and exposures.

What are some of your other current projects?

Rosch: The unified reconciliation capability Mike West has just described is a great example of the kind of solutions that we're developing. We're also leveraging STP in proxy communication and voting processes. One such initiative is a full end-to-end solution. We're looking at all facets including the distribution of materials and voting, and then extending that to vote confirmation and reporting meeting results. Closing out the proxy period with vote confirmation and providing accurate, auditable meeting results will provide assurance to the investor that the meeting tabulator counted their vote.

This is the kind of transparency that issuers, custodians, registrars, brokers and investors are looking for in the proxy process. It's a simple premise—investors are entitled to the voting rights that they purchased when they bought shares in a company. Institutional and retail investors need to know with certainty that their votes were cast and counted at annual meetings.

End-to-end vote confirmation can provide that assurance. There's already been a great deal of work in this area in the US. This past proxy season, four companies made end-to-end vote confirmation available to more than 1.5 million investors. While there is more traction for end-to-end in North America, there is significant interest in emerged and emerging markets as well.

Transparency in the voting process is just one piece of the puzzle. For the markets to function effectively, investors need to participate in the ownership of the company.

This is the interesting thing: people will vote like crazy for American Idol, which has no impact on their life, but when they have a financial stake in something, they're less interested in voting. We think it's really important to raise awareness about the importance of voting, and how easily it can be done. With mobile voting and technology innovations, people can interact with their investments each and every day—it's intuitive to them. We do believe really passionately that voting participation is critical to the capital markets.

If someone is in Kansas and there's a meeting in New York, how can they use Broadridge to proxy vote?

Rosch: There are several different ways. Broadridge provides electronic voting platforms for institutional and retail investors. Our institutional platform, ProxyEdge, is used by more than 4000 institutions globally to manage, vote and disclose their proxies. Retail investors can submit their proxy vote by mail, they can vote by telephone, or they can use our online voting platform, ProxyVote.com. We also introduced Mobile ProxyVote.com, so now investors can cast their vote from anywhere, anytime, through a mobile device.

Investors can always vote in person at the annual meeting. But they're not likely to hop on a plane to attend an annual meeting. We offer a virtual shareholder meeting solution that allows investors to participate at the meeting—to see and hear the proceedings, to ask questions and to vote through the internet. It's all about enhancing engagement between shareholders and issuers. **AST**

Patricia Rosch
President of investor communication solutions international
Broadridge

Mike West
Vice president of international marketing
Broadridge

2013

01 January

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Post-trade Technology Summit

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Date: 29th November 2012
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At this vendor-neutral, industry-led, one-day event, delegates will gain expert knowledge from leading practitioners across the financial services industry on business operations in the post-trade securities sector. The event will combine insightful interactive panels and presentations on business solutions, software, standards, IT and networks.

Global Custody Forum 2012

Location: London
Date: 4-5 December 2012
www.icbi-events.com

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Best Practice in Managing Insurance Assets

Location: New York
Date: 28-30 January 2013
www.global-fmi.com

The current environment with very low yields is extremely challenging for insurance asset managers, but they need to develop effective investment strategies to meet insurers' needs and differentiate themselves from competition. Moreover, the insurance regulatory landscape is changing and asset managers have to make sure they are aware of changes and incorporate them into their strategies.

Moscow Financial Innovation Forum

Location: Moscow
Date: 20-21 March 2013
www.fi-forum.com

The Moscow Financial Innovation Forum (MFIF) is a unique platform for international financial service providers to meet the growing Russian and former Soviet Union financial industry. Moscow is rapidly developing into a world class international financial centre and requires qualified and reliable partners for linking it with the international financial community.

Industry appointments

Deutsche Bank has appointed **Deborah Thompson** as global head of sales for fund services and **Robert Coates** as a director in the fund services EMEA sales team.

The bank's recently created fund services business is part of global transaction banking (GTB), and offers administrative, custodial and banking services to ETFs, UCITS, hedge funds and other alternative investment vehicles—from start-up to maturity.

Deborah Thompson joined GTB in March 2012 as global head of client solutions and relationship management. Based in London, she will report to Nelius De Groot.

Coates was previously with Man Investments. He is based in London and reports to Simon Behan, head of sales for EMEA.

BNY Mellon has named **Fred DiCocco** as head of sales and relationship management for treasury services in the Asia-Pacific.

DiCocco will assume the role on 1 December 2012, joining BNY's Asia-Pacific executive committee at the same time. He will continue to be based in Hong Kong and will report to Alan Verschoyle-King, global head of sales & client management, treasury services, BNY Mellon.

Citi has recruited former Australian senator and minister for superannuation **Nick Sherry** as senior advisor to its securities and fund services.

Sherry will be based in Australia with a regional role supporting Citi's pension fund clients in Asia Pacific.

Stephen Roberts, chief country officer for Citi in Australia, said: "We are delighted to have Sherry join Citi. He joins a team with local capabilities and international reach, well positioned to provide custody and administration services in Australia to support the needs of the fastest growing pool of superannuation assets in the world."

Christine Bartlett has been recruited as executive general manager of National Australia Bank's (NAB) asset servicing and wholesale banking division.

Prior to her new appointment, Bartlett held the role of executive programme director of NAB's NextGen platform.

She will report to Rick Sawers, group executive of wholesale banking.

BMO Global Asset Management has made four new hires in order to strengthen its institutional sales team.

Holly Garteiz joins as a relationship manager for institutional sales for the central and western regions of the US. Garteiz arrives from Janus Capital Group where she most recently held the roles of vice president, consultant relations and director of consultant relations. She will be based in Denver.

Lisa Doi has been appointed as relationship manager for institutional sales, responsible for marketing and selling accounts for institutional clients. Doi previously served in a variety of sales and business development roles. She will be based in Chicago

Mark Osterkamp has been recruited as a relationship manager for institutional sales, focusing on the US western region. Osterkamp previously served a senior director of global distribution and investment strategy at an investment firm based in Los Angeles.

The company's final appointment, **David Preiner**, will join the firm's affiliate sales team as a relationship manager for institutional sales. Preiner's previous experience includes relationship manager, administrator and service provider roles. He will be based in Minneapolis.

All four will report to Jennifer Pedigo, managing director and head of institutional sales at BMO Global Asset Management.

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Torstone Technology has recruited **Jonny Speers** as global head of sales to lead the company's expansion in the UK, USA and Asia markets

Prior to joining Torstone Technology Speers headed up business development at business service management and data solutions provider OpTier **AST**

...Andreas Costi

AST and Andreas Costi, who is director of sales and relationship management for Australia and New Zealand at GOAL Group, talk securities class actions, Mount Kilimanjaro and sports physiotherapy

How did you arrive at where you are now in your career?

I started my career in the banking industry, in 1996. My first role was in the withholding tax area of a major UK custodian, where I spent a few years learning the ropes and getting to grips with the securities industry. After this, I moved to a German bank, again within the custody area. In 2002, I was presented with an opportunity to join the first non-US based securities class action filing firm—a proposal that I quickly accepted. I have now worked in the securities class action filing industry for more than 10 years in a variety of roles, ranging from head of research, to operations manager, to my current role as director of sales for Australia and New Zealand. I believe that if you have a strong work ethic and you are willing to learn from your peers, you will reap the rewards.

How did you get into your industry?

I was offered a position with the first non-US specialist filing firm in February, 2002. I was the first employee of the company, which provided me with an opportunity to not only watch the firm evolve and grow, but also to help direct that growth, particularly when we were acquired by Goal Group in 2007. Since then, the company has changed beyond recognition and we now focus on educating global custodians, banks, pension funds and hedge funds in the securities class action tool and show them how they can participate in these actions to realise the benefits of taking part as a class member.

To what extent did it meet your expectations?

The securities class action area has both exceeded my expectations and disappointed me. My main source of disappointment is the apparent prevalence of corporate mismanagement, fraud and misrepresentation that causes these securities class action cases—in an ideal world, there would be no need for this type of litigation. One thing that I did not expect is the scale of the rewards that can be gained by taking part in a case as a class member; the funds that are received can be astounding, especially in this day and age. It's a great feeling when you see clients receiving the monies that they deserve after these actions are settled.

What would you change about your industry?

That's a tough question; I guess if anything should change for the better it should be global awareness of securities class actions. Historically, class action litigation has always been US-based but, after the ruling made in the US Supreme Court in the NAB v Morrison case in June 2010, opportunities to participate have been restricted for non-US investors. Following this, other countries have begun to amend their laws to incorporate class action legislation. Cases are now being brought in many countries outside of the US, including but not limited to Australia, Belgium, Japan, Taiwan and the Netherlands.

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

Over the years I have met some very inspirational people within the industry. One of my key inspirations is a lawyer from the US named Todd Collins. I was very impressed with his passion for upholding shareholder rights and his belief that companies that disadvantage shareholders should be held accountable. Another is Justin Hughes, the assistant operations director at a large US claims administrator. We started in the industry at about the same time and have, over the years, shared a wealth of ideas and knowledge. When I first met him, he was new to the firm and has now risen to his current post—it is great to see people putting the hard work in and moving upwards accordingly. Finally, I would have to say that the CEO of Goal, Stephen Everard, is one of my role models for the way he has taken a small, UK-based company and transformed it into a leading global provider of securities class action and withholding tax services.

What are your ambitions?

My professional goals are to grow the Australian / New Zealand business and raise awareness of the securities class action process in Australasia. I believe that disadvantaged shareholders should be participating in these cases to realise the recoveries to which they are entitled and it is my aim to facilitate the participation of as many investors as possible. My personal ambition is to finally climb Mount Kilimanjaro; I actually registered for this a few years ago for a charity but had to pull out for personal reasons.

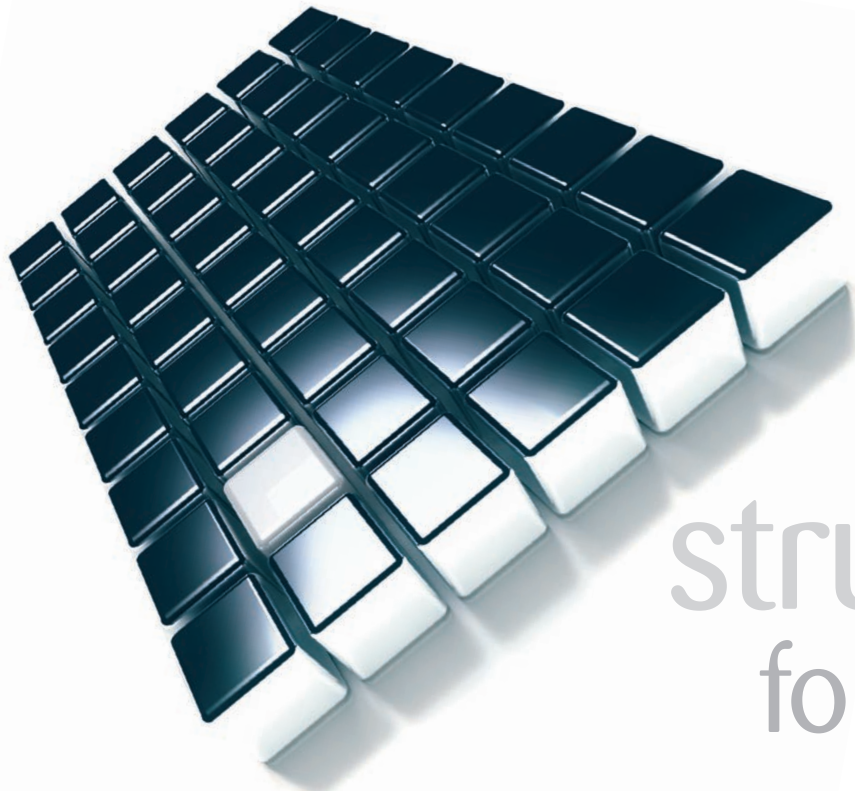
If you weren't in your current industry, what would you be doing?

I was always interested in sports rehabilitation as a teenager after suffering a few injuries playing English football and seeing first-hand how the physiotherapists not only physically rehabilitate you, but they are also there for you emotionally. I would have loved to have been a physiotherapist, especially working at my beloved football club, Charlton Athletic.

What are your interests and hobbies?

I love to play golf. I've been fortunate enough to play at a few of the classic courses such as Royal St George and Turnberry. The game is an individual challenge and there are so many factors that can make a great round or destroy it. I also love to travel. I recently spent some time in Canada with friends and travelled through the Rockies; the landscape is absolutely stunning and the wildlife that you see is amazing. I also enjoy live music and spending time with my wonderful family and friends. AST

Andreas Costi
Director of sales and relationship management for Australia and New Zealand
GOAL Group



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