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SunGard buys XSP for corporate actions know-how

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SunGard has acquired XcitekSolutionsPlus (XSP), a provider of end-to-end, automated corporate actions solutions, for an unknown sum.

XSP offers automation of the corporate actions processing lifecycle, including data sourcing and cleansing, position monitoring, and notification, response and entitlement processing.

XSP will become part of SunGard's capital markets business. XSP's current chief executive, Brendan Farrell, will continue to lead the XSP team, reporting to John Grimaldi, head of the North American securities business for SunGard.

Grimaldi said: "Corporate actions processing is fundamental to the successful operations of most financial services firms ... the acquisition of XSP will help us deliver specialist corporate actions expertise and solutions to these core customers, and enhance our offering to our securities processing, accounting and servicing customers."

The acquisition is not expected to have a material impact on SunGard's financial results.

In 2008, SunGard integrated XSP's global corporate actions software capabilities with its Phase3 multi-asset, multi-currency securities processing solution in a SunGard-hosted application service provider environment.

From then on, SunGard provided customers with web-based access to the XSP v5 corporate actions platform, with the integration with Phase3 helping to improve STP, cost and complexity of global corporate actions processing.

The firm renewed its interest in the corporate actions arena with the acquisition of Asset Arena Pricing Services, formerly known as the ValueLink business, in March 2011. The service provides fully validated pricing, corporate actions and broker/counterparty price collection services to fund administrators, asset managers, pension and hedge funds.

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ASTINBRIEF

China Merchants sails into private equity custody

A securities company is offering custody services to private equity funds, making it the first to do so in China.

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Clearstream releases T2S pricing model

Clearstream has released its pricing model for TARGET2-Securities (T2S), addressing market concerns on fees and implementation costs.

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China Merchants sails into private equity custody

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China Merchants Securities launched its custody service on 28 November after obtaining approval from the China Securities Regulatory Commission (CSRC).

The service will see China Merchants Securities provide its private equity fund clients with asset custody, netting, investment liquidation, investment monitoring, custody reporting, risk evaluation and management, and back office outsourcing.

Banks dominate fund custody in China, with 18 offering services. They have 1100 funds that are worth RMB 2.37 trillion ($433 billion) under custody.

The Agricultural Bank of China is one such bank with a private equity custody offering, describing its duties as including account opening, funds settlement, accounting, investment oversight and preparation of custody reports.

The move comes as the country works to open up fund custody to foreign banks.

The CSRC sought public comment on draft rules on October 31 that would change custodian qualification to “boost the market-based competition in the fund custody industry”, according to a statement.

It plans to open up the market, allowing foreign banks to act as fund custodians as long as they comply with prudent supervisory requirements.

But the commission also wants to raise the qualification threshold and improve withdrawal measures.

To qualify as custodians, banks in China must have at least RMB 2 billion ($321 million) in net assets for three years in a row and meet capital requirements, according to the draft rules.

They also specify statutory obligations for custodians and improve internal control and accountability requirements.

Private equity fundraising has fallen over recent years amid concerns that too many firms are chasing after too few deals.

In a survey, data provider Preqin reported that China-based fund managers have raised 49 funds worth a combined $12.1 billion in 2012. In 2011, the country raised 94 funds worth a total of $26.4 billion.

China is now the fourth most active region for fundraising behind the US, the UK and France, with the country’s GDP increase recorded at 7.6 percent in Q2 2012, the lowest level since 2009. In Q3, it fell further to 7.4 percent.

Clearstream releases T2S pricing model

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The aim is to provide T2S settlement at the lowest possible price by passing on the settlement fee of the European Central Bank (ECB) to its existing and future customers without adding any margin or settlement fee of its own.

In doing so, Clearstream hopes to encourage settlement volume to grow and to keep both domestic and cross-border settlement costs as low as possible in line with the ECB’s T2S Economic Impact Assessment.

Customers will also have the option of a deferred payment making the migration to T2S as flexible and manageable as possible.

The CEO of Clearstream Banking, Stefan Lepp, said that T2S is a key component of European market infrastructure that 22 central securities depositories (CSDs), including Clearstream, have committed to over the past months.

“In establishing the cornerstones of a cost model, coupled with a clear strategy based on our industry leading collateral management services, we support our customers in moving towards T2S. Beyond a transparent cost model our customers will also benefit from the combined strength of our German CSD with our international central securities depository in Luxembourg.”

NAB responds to Stronger Super reforms with FundEdge

NAB Asset Servicing has launched FundEdge to help clients with new regulatory requirements.

Clients will now have access to a range of new investment reporting solutions, including counterparty exposure and asset allocation analysis reporting.

Counterparty exposure reporting will provide clients with a clear view on the total exposure to financial institutions acting as counterparties to appointed fund managers on OTC derivative transactions.

Asset allocation analysis provides support to trustee boards to monitor fund investment allocation by providing transparency of sector holdings and flows at a whole-of-fund level.

Peter Hele, managing director of product and strategic alliances at NAB Asset Servicing, said: “The Australian superannuation industry is experiencing a paradigm shift. The Stronger Super reforms MySuper and SuperStream represent the most significant changes to the superannuation industry since the inception of the Superannuation Guarantee in the early 90s.”

“We are committed to supporting our clients as they prepare for the reforms taking effect next year. We are taking the lead by working with clients, consultants and industry bodies to understand how to best deliver an appropriate and robust solution for the industry. FundEdge will better equip our clients with the information and tools they need moving into 2013.”

Repo flying but trading volume dips at Eurex

The international derivatives markets of Eurex Group ended 2012 with a turnover of approximately 2.3 billion contracts, a dip from the 2.8 billion seen in 2011.

The total volume for 2012 splits into 1.7 billion contracts traded at Eurex Exchange, a drop from 2 billion in 2011, and 631.8 million contracts traded at the International Securities Exchange (ISE), a drop from 778.1 million in 2011.

At Eurex Exchange, the equity index derivatives segment was the largest in 2012 with a total yearly volume of 765.6 million contracts—still a drop from 954.7 million in 2011.

Derivatives on the EURO STOXX 50 index were the largest single product with 315.2 million futures and 280.6 million options. The equity derivatives segment (options and single stock futures) saw 411.0 million contracts (2011:449.6 million).

Eurex Repo, which operates CHF Repo, Euro Repo and GC Pooling markets, reached an average outstanding volume of €234.7 billion across all repo markets in 2012, compared to €276.6 billion in 2011.

The secured money market GC Pooling hit a new record with an average outstanding volume of €145.4 billion, an increase of 23 percent year-on-year, and the Euro Repo market totalled at the new peak of €36.1 billion, an increase of 19 percent.

In December 2012, the combined volume reached €227.1 billion, the GC Pooling market reached €151.5 billion (an increase of 8 percent year-on-year), and the Euro Repo market recorded an average outstanding volume of €39.5 billion, an increase of 15 percent.

SGX welcomes BNP Paribas as new clearing member

BNP Paribas Securities Services will support Singapore Exchange's (SGX's) position as a gateway for businesses looking to move into Asia after joining its securities market as a clearing member.

Chew Sutat, head of sales and clients at SGX, said: "With its strong global client network and infrastructure, BNP Paribas Securities Services brings to the marketplace a wider choice of clearing and settlement services, supporting SGX's position as the Asian Gateway."

"This new development supports our stated strategy to expand our product suite in Asia Pacific and demonstrates our commitment to the region," added Bruno Campenon, head of clearing, custody and settlement product management in Asia Pacific at BNP Paribas Securities Services. "We look forward to providing our innovative clearing services to market participants, while further promoting the Singapore market to our worldwide client base."

There are now 27 clearing members in SGX's securities market.

Okasan Securities picks Fidessa's Japanese trading platform

Okasan Securities has selected Fidessa's Japanese trading platform for its proprietary trading business.

Fidessa's trading platform will support the expansion of Okasan's multi-asset prop-trading business. Okasan will also have access to Fidessa's global connectivity network providing links to multiple execution venues both locally and overseas.

Fidessa's fully integrated algorithm trading engine, BlueBox, will also be implemented.

Kazuhiko Kitagawa, senior general manager of the proprietary investment department at Okasan, said: "We selected Fidessa for a number of key reasons. Firstly, it provides an integrated multi-currency and multi-asset trading capability across equities, futures and options, along with access to a comprehensive global connectivity network."

"Secondly, the service will cover all the system upgrades required for changes in regulation and exchange connectivity as a result of the TSE and OSE merger. And thirdly, Fidessa has been running live and stable in our agency business for the last year and we felt that it would make a lot of sense to integrate the trading system across our agency and prop businesses."

Ian Chilton, chief executive of Fidessa in Japan, said: "We are very pleased that Okasan Securities has selected Fidessa to support their prop-trading in addition to their agency business. Fidessa recognises the strategic significance of providing a cutting-edge, high-performance trading platform for Japanese domestic securities firms."

BNP Paribas launches FATCA service for asset managers

BNP Paribas Securities Services has launched a service that will help asset managers to meet the requirements of the US Foreign Accounts Tax Compliance Act (FATCA).

FATCA require non-US financial institutions to report information about financial accounts that are held by US taxpayers, or held by foreign entities in which US taxpayers hold a substantial ownership interest.

Funds are considered financial institutions and are therefore subject to FATCA law.

As a transfer agent, BNP Paribas Securities Services will offer funds the ability to identify investors into those funds, and undertake associated services.

Philippe Ricard, head of asset and fund services at BNP Paribas Securities Services, said: "Although the finer details of what foreign institutions will be required to report have not yet been published, we know in broad terms what is required in terms of data and how to meet the associated processing and reporting requirements."

"Fund evaluation, monitoring and reporting are at the core of our business so we are in an excellent position to help funds and asset managers comply with FATCA. This service is testament to our ongoing commitment to help financial institutions navigate the changing regulatory landscape."

Cofunds signs up to Calastone and Barclays joint offering

Cofunds has adopted the Calastone and Barclays management fund settlement service, which is the final stage of the automated net settlement service that is offered by the two firms.

Calastone previously launched a settlement service to standardise and improve automation in response to industry demand.

In addition to reducing cash flow exposure, the fund settlement service will also reduce counterparty and liquidity risk across the market, enabling the fund industry to take advantage of full automation from point of trade to settlement finality.

Stephen Mohan, managing director of operational services at Cofunds, said: "We already use and benefit from a number of Calastone services. The integration of this product is the ideal step forward in helping us streamline and improve automation within our cash management sector."

"We are always looking at ways in which we can improve efficiencies and reduce risk and these benefits, along with the reduced cash flow exposure, are the main drivers for us signing up."

Phil Goffin, executive director at Calastone, said: "Cofunds signing up to our complete managed net settlement service marks a significant milestone. This further emphasises the early success of the service, and is a market moving step in standardising settlement across the market."

SIX acquires Oslo Clearing

SIX has agreed to purchase Oslo Clearing from Oslo Børs for approximately 180 million Norwegian krone ($32.4 million).

Oslo Clearing currently carries out central counterparty (CCP) clearing of financial directives and securities lending products. Once the deal is completed, it will become a part of securities services, which is the post trade division of SIX.

Thomas Zeeb, CEO of Six Securities Services, said: "[Our firm] has, since its inception, been at the forefront of interoperability initiatives in Europe to allow customers to benefit from greater competition and freedom of choice as to who they clear with."

"The acquisition of Oslo Clearing is complementary to our existing businesses and provides a further expansion of choice, both for existing SIX clients as well as Oslo Clearing clients, who will benefit from single-interface access to additional markets as well as greater efficiencies and economies of scale. Additionally, we see significant opportunities for future product extensions and diversification as part of our post-trade value chain."

Harbert picks SunGard to power up its alternatives

Harbert Management Corporation (HMC) has selected SunGard's Investran for automation of its alternative investment funds across real estate, venture, mezzanine capital, private equity, independent power and Australian private equity.

HMC serves endowments and foundations, funds of funds, family offices, pension funds, financial institutions, insurance companies and high net worth individuals.

Lauren Iaslovits, chief operating officer of SunGard's Investran business unit, said: "As a hybrid fund manager of both liquid and illiquid funds, HMC has complex reporting needs. The solution generates standard or user-defined reports with drill-down capabilities—

Chapman's Eye on the market

A year of two halves

As the Christmas decorations are being taken down and we slowly—and more expensively, given the inexorable rise in transport costs in the UK—return to work, our thoughts turn to what 2013 might have in store for us. While making predictions is a fool's game given ongoing uncertain market conditions, I think that some bets are safer than others, namely:

- While sentiment is improving somewhat, with the 'fiscal cliff' issue looking like it has been partially resolved and companies continuing to be cash-rich (and hence the equity markets hitting 18-month highs), underlying confidence is still extremely fragile and companies do not yet have an appetite for anything other than targeted, business-critical hiring. Sales remain an area of focus, as does derivatives (in terms of product management) and of course risk and compliance. With the latter, there is a move away from pure administration to a desire for people who can 'commercialise' risk and regulation, ie, turn something that is deemed to be onerous and a burden into a value-add for clients.
- Operations hiring will remain weak with the prevailing mantra continuing to be 'do more with the same or even less'. Network management will be the one area to buck this trend as more enlightened firms realise that a good network manager wears a multiplicity of hats—including, but not limited to, salesperson, ambassador, risk mitigator and relationship manager—and so represent very good value for money.
- I predict that redundancies will increase in Q1 and Q2 across the board with few firms being immune, although on the positive side this should free up firms to up-skill so we will see a levelling out and, potentially, an uptick in hiring in Q3 and Q4.
- Finally, candidates should and will continue to broaden their horizons and consider working outside of the UK should personal circumstances permit, at least until the UK market stabilises to the 'new normality'—more of this in my column in the next edition.

May I take this opportunity to wish you all a peaceful, prosperous and healthy 2013 and as ever, do feel free to drop me a line with any thoughts, suggestions or comments to paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

essential to help HMC keep its internal and external stakeholders abreast of the activity within their portfolios."

BNY Mellon enhances post-trade in Germany

BNY Mellon has improved its post-trade processing offering, Trade Director, to provide enhanced automated servicing for German clients.

Trade Director now supports electronic trade confirmation using SWIFT message type 515 (confirmation of purchase or sale) and type 517 (trade confirmation affirmation), as well supporting multiple formats for the messaging of confirmed trade details to BNY Mellon's KAG (Kapitalanlagegesellschaft) network.

Trade Director supports all asset classes (outside of OTC) via a single, unified trade file to streamline processing. It also offers instruction management, confirmation, standard settlement instruction (SSI) enrichment, and settlement and fails management.

Thomas Brand, head of investment services at BNY Mellon in Germany, said: "SWIFT's Global Electronic Trade Confirmation initiative is gaining momentum across the EMEA region, as both the buy and sell side look to reduce costs in the face of increased competition in the post-trade confirmation space."

"While these latest enhancements are targeted at our German clients, there is growing interest in using MT515 and MT517 messages throughout Europe, and accordingly we will continue to look at expanding Trade Director's capabilities to meet our clients evolving needs."

LACERA seeks custodian

LACERA has issued an RFP to find a custodian bank to fulfill a range of services.

The RFP includes, but is not limited to, safekeeping and asset servicing, performance measurement and analytics, plan and investment accounting and compliance monitoring.

In addition, LACERA also requires banking and treasury services from a custodian bank.

One of LACERA's main concerns is finding a custodian bank that can offer cost-effective solutions "that embrace technology and expert systems, and a disciplined approach in the delivery of custody services".

Assets under custody increase for Clearstream

Clearstream has released its November 2012 figures, showing an increase in assets under custody, but a decrease in global securities financing services (GSF).

In November 2012, assets under custody held on behalf of customers reached €11.2 trillion, a year-on-year increase of 3 percent.

For GSF services, the monthly average outstanding reached €549.4 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced a drop of 17 percent over November 2011.

The investment funds services saw a 27 percent rise from November 2011, with 0.57 million transactions processed.

BNP Paribas provides integrated post-trade service

BNP Paribas Securities Services has launched an integrated post-trade service for banks and brokers that wish to trade stocks under the proposed cross-trade agreement between the London Stock Exchange (LSE) and the Singapore Stock Exchange (SGX).

The agreement between the two exchanges has been created to enhance liquidity and increase access for investors.

LCH.Clearnet will provide clearing services for the proposed cross-trade agreement.

Through obtaining LCH.Clearnet and central securities depositories in the UK and Singapore, BNP Paribas will offer brokers the ability to clear, settle and safe-keep Singaporean stocks that are traded on the International Board, and FTSE 100 stocks that are traded on SGX.

Philippe Ruault, global head of clearing and settlement at BNP Paribas Securities Services, said: "We are a local custodian in 25 markets clearing two million executions daily as a member of 11 clearing houses globally."

"We have a long track-record of simplifying complexity in the post trade environment. This puts us in a strong position to help clients with their post-trade requirements, and to help exchanges with their international growth ambitions. We look forward to supporting the LSE and SGX in future initiatives."

Nicolas Bertrand, head of equity and derivatives markets at LSE, said: "This first of its kind partnership with SGX will offer our customers new, previously inaccessible opportunities and raise the profile of our listed companies."

"The support of global custodians such as BNP Paribas is a clear endorsement of the International Board and the potential it offers investors in Singapore and London."

The mandate mangle

Frontier Asia Capital Hong Kong has appointed **Societe Generale Securities Services** (SGSS) to provide a full set of services to accompany the re-domiciliation of its fund to Ireland.

SGSS will provide the fund with custody, trustee and transfer agency services, as well as all of the fund accounting services that are required within the legal framework of an Irish-registered UCITS fund, including the preparation of regulatory documents, fund pricing and client reporting.

According to SGSS, the mandate comes after an increasing number of funds from other jurisdictions have sought to establish themselves in Ireland to benefit from the UCITS label, which allows funds to be offered for sale in other member states of the EU, Asia and Latin America.

Citi will provide custody, prime brokerage and depository services to the recently launched Carve fund from Sweden's largest hedge fund manager, Brummer & Partners.

The mandate means that Citi, which has worked in Sweden since 1976, is now able to offer local custody, prime brokerage and depository services in the country.

Peter Thelin, CEO and portfolio manager at Carve Capital, said: "Citi's local presence, proprietary global sub-custody network and its ability to offer a multi prime brokerage model for Swedish investment funds, putting Sweden in line with the rest of Europe, have been important factors in our decision."

"We are delighted to be chosen as prime broker for the Carve fund," added Mark Harrison, European head of prime finance at Citi. "In bringing together our Swedish depository and our global prime finance business, we have created a compelling and integrated offering allowing the Swedish onshore hedge fund community to benefit from Citi's multi prime brokerage model."

Citi can now support locally domiciled funds with independent depository capabilities, including oversight of funds' service providers, safekeeping of funds' assets, as well as daily automated monitoring of funds' investment guidelines and regulatory restrictions.

Sanjiv Sawhney, EMEA head of securities and fund services at Citi, said: "We are thrilled to provide depositary and custody services in Sweden. This new offering as well our appointment by one of Europe's longest established and most successful hedge funds further strengthen our presence in this growing and promising market."

BNP Paribas Securities Services has migrated nine funds with an approximate value of €2.5 billion for Henderson Global Investors.

BNP Paribas will provide Henderson with custody, fund accounting, securities lending and foreign exchange services for the former Gartmore fund range. Further migrations are also planned for early 2013.

With these new arrangements, BNP Paribas will take custody of approximately €1 billion in Latin American assets, including a significant sum in Brazil.

This migration was not the first that BNP Paribas has handled on behalf of Henderson. In 2011, when Henderson acquired Gartmore, the bank played a role in integrating the middle-office activities across all Henderson funds on to the existing joint platform.

Prior to this, BNP Paribas managed the integration of 114 funds totalling £7.6 billion in assets when Henderson acquired New Star Asset Management in April 2009.

BNP Paribas was also appointed to in-source the collateral management around Henderson's OTC derivatives activities and to extend its existing automated foreign exchange service across the manager's entire portfolio, including funds that are held with other custodians.

James McAleenan, head of BNP Paribas Securities Services UK, Middle East and South Africa, said: "We're very pleased with the outcome of this deal, which is the culmination of collective efforts across different areas within the business and across a number of markets."

"It reinforces our long-standing partnership with Henderson, which is key to maintaining the quality of service we provide to them, and is a building block for the upcoming projects planned for 2013."

Aruban pension fund, Stichting Algemeen Pensioen Fonds Aruba (APFA), which has approximately $1 billion in AUM, has appointed **State Street** as custodian.

State Street will provide the pension fund—which is designed for public sector workers—with custody, fund accounting, risk analysis and performance and analytics.

APFA chief information officer Mark Bakker said: "State Street was selected because of its experience in servicing pension funds in a fiduciary management structure."

"As a former Netherlands Antilles island, it is likely that we will adopt the Dutch regulatory framework for pension funds so it's in our best interests, as well as our clients, to work with a Dutch client service team who understands our challenges."

Roel van de Wiel, business development executive for State Street's global services business in the Netherlands, Belgium and the Nordic region, said: "In a recent research study we undertook, we found pension funds in the Netherlands rated risk management, regulation and compliance, and market volatility among the most important challenges they face."

"With the likelihood of Aruban pension funds moving towards the Dutch pension fund framework we expect these will be key challenges for them as well. We are well positioned to support these challenges by leveraging our global knowledge as well as local market capabilities."

Settle on something

Tony Freeman of Omgeo provides an update on the move towards settling securities transactions within two days of the trade date

Amid the raft of financial market regulations that will be implemented within the next 12 to 18 months, one that deserves attention, but is somewhat overshadowed by the furore around changes in the OTC derivatives markets, is the imminent move to shorter settlement cycles. The subject is now firmly back on the agenda in the US, and has received additional attention following the publication of the Boston Consulting Group's cost benefit analysis of shortening the settlement cycle. It is an area, however, where Europe is undoubtedly leading the way.

In March 2012, the European Commission published its proposal for a regulation for central securities depositories (CSDR) and for improving settlement efficiency. One of the proposed measures in relation to settlement efficiency is that securities transactions must be settled within two days of the trade date, or T+2. This measure will require market participants operating in the majority of EU member states to accelerate their settlement processes. Currently, there are just three European countries that settle on T+2—Germany, Bulgaria and Slovenia. The proposal also states that financial penalties will be imposed on trades that fail to settle within this timeframe.

The deadline for the move to shorter settlement cycles has been set as 1 January 2015. However, harmonised European settlement cycles are an essential prerequisite of Target2Securities, which will create a single European platform for securities. This means that participants will need to be ready for T+2 by mid-2014. To this point, it is a concern that in a recent study, which was commissioned by Omgeo and based on responses from 590 custodian banks, broker-dealers and investment managers, 50 percent of market participants have done nothing to prepare for shorter settlement cycles and it is perhaps not an exaggeration to say that it is even more alarming that this lack of preparation also indicates a lack of awareness around the move to T+2.

The barriers to implementing and adhering to a T+2 settlement cycle are relatively low (again, particularly when you compare it to the processing changes that are required for central clearing). However, there are areas of technical detail that have been identified as needing further attention before T+2 can be implemented, including FX settlement and securities lending, and this is likely to happen in the coming months. What is required, almost immediately, from custodians and asset managers is an industry-wide effort to accelerate the processes that occur in the middle office, ie post-execution and pre-settlement—this is an absolute precondition of adhering to a T+2 settlement cycle. To be specific, participants on both sides of the transaction must become much faster at agreeing to and confirming the details of the trades that they have executed. In order to meet the T+2 settlement deadline, this process of trade affirmation needs to happen on the same day that the trade is executed. This is referred to as same day affirmation, or SDA.

Financial market participants are in agreement that in terms of the industry's readiness for T+2, the need for counterparties to submit trade details in a more timely fashion requires the most attention (66 percent of respondents said that this was the most important measure for getting ready for shorter settlement cycles). For those firms who still use manual processes for trade confirmation, achieving high SDA rates and complying with T+2 will be particularly challenging. Closer analysis reveals that custodians attach greater importance to the timely receipt of trade details than fund managers, which is perhaps not surprising. However, the results suggest that custodians could be doing more to help their clients prepare for shorter settlement cycles, since only 20 percent of respondents are educating clients about the impact of T+2.

One such impact relates to the proposed introduction of financial penalties for late settlement. While the details of the financial penalty regime are still being worked out, it is interesting to note that research suggests there is a significant appetite for inducing better behaviour by penalising the non-compliant participant. Indeed, industry data shows that 66 percent of respondents positively viewed the introduction of a financial penalty.

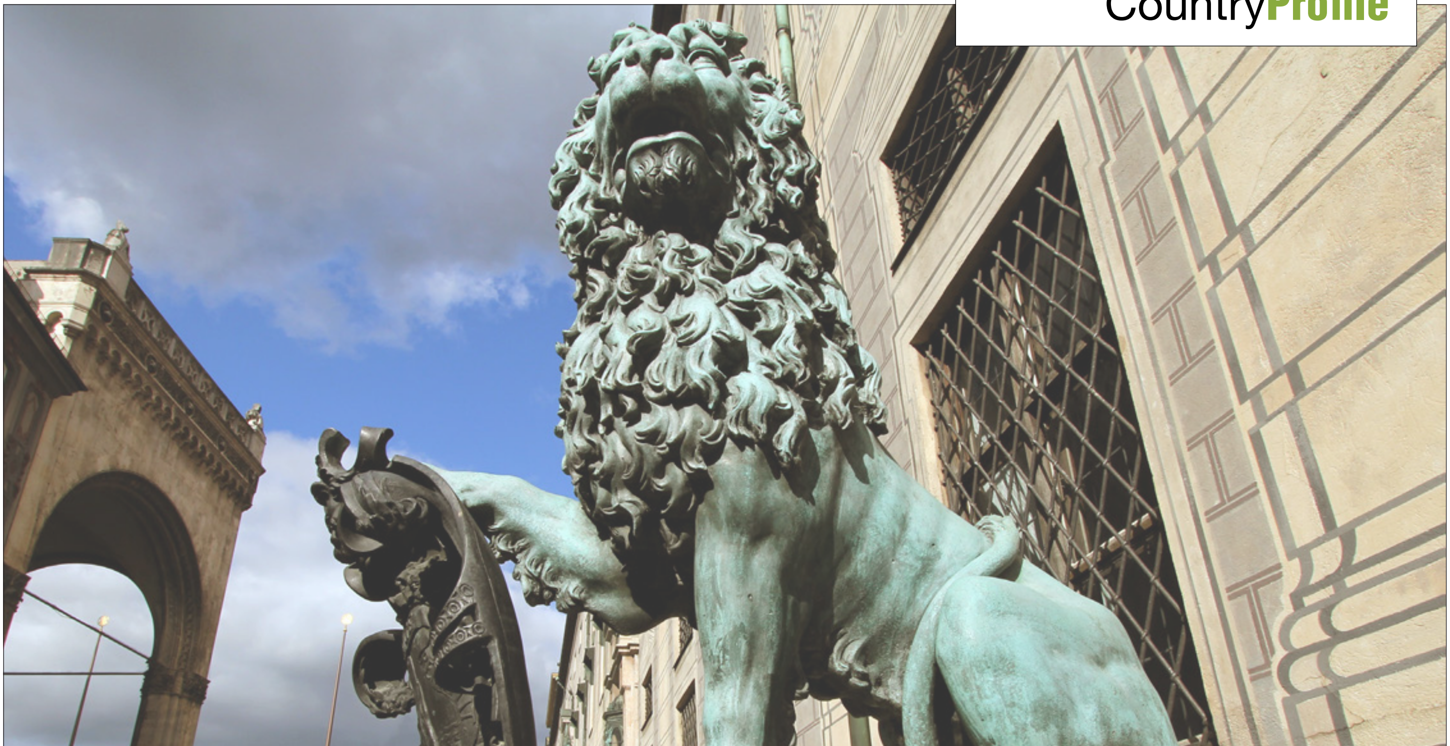
Indeed, on the whole, shorter settlement cycles have been uncontested by market participants. Our study shows that 66 percent are in favour of a T+2 cycle and this is most likely due to the simple fact that there is a strong rationale for shorter and harmonised settlement cycles. Seventy two percent of market participants surveyed believe that shorter settlement cycles deliver net benefits to the securities industry, and a majority (60 percent) believe that a reduction in counterparty risk is the most positive effect of T+2. That said, there are other important business benefits—namely, shorter settlement cycles mean that cash can be reinvested more quickly, and savings can be made in capital, cash reserves, cash borrowing and stock loan.

Given the global drive towards risk mitigation, and the regulatory focus on risk management in the middle office, custodians and their clients must start to prepare now for the move to T+2. With the right technology, processes and infrastructure, adhering to shorter settlement cycles is achievable, but it is imperative that the momentum towards raising awareness and understanding of T+2 increases now.

Financial market participants are in agreement that in terms of the industry's readiness for T+2, the need for counterparties to submit trade details in a more timely fashion requires the most attention

While securities settlement has historically received less attention than trade execution and clearing, recent, high-profile cases of failures in risk management processes have placed a spotlight on the 'middle office', where trade settlement takes place. Regulators are increasingly focused on making sure that the markets are seen by investors as an orderly and safe place to do business and it is likely that the harmonisation and shortening of settlement cycles will become one of the most tangible and successful examples of the efforts to reduce risk since the global financial crisis. **AST**

Tony Freeman
Executive director for industry relations
Omgeo



Large and in charge

Though their may be reasons to be gloomy, German investor confidence has rebounded vigorously. AST looks at custody in the country, and how to attract a demanding institutional investor

GEORGINA LAVERS REPORTS

In an effort to develop its asset servicing business in Germany, BNY Mellon bought BHF Asset Servicing from BHF-Bank Aktiengesellschaft for $343 million in 2010.

The deal made the bank the second largest asset servicing provider in Germany, with $642 billion in assets under custody and administration at the time. In addition, the acquisition expanded BNY Mellon's existing capabilities to include German domestic custody services and KAG fund administration.

The transaction included the purchase of BHF Asset Servicing's wholly-owned fund administration affiliate, Frankfurter Service Kapitalanlage-Gesellschaft.

Originally run by Michelle Grundmann from BNY Mellon and Juergen Frank and Christopher Friedrich from BHF Asset Servicing, in August this year the roles were switched up, as Frank became chairman of the supervisory board of the KAG business, and Grundmann left the bank completely, with Laura Ahto and Thomas Brand overseeing the bank's asset servicing and investment services in Germany respectively.

Brand explains that the acquisition of BHF Asset Servicing provided access to a top-tier client base and expanded cross-selling opportunities, enabling BNY Mellon to increase its presence and offering within Germany, which is a core target market.

"Moreover, the purchase expanded BNY Mellon's existing capabilities to encompass the provision of German domestic custody and also extended—via FSKAG—our capabilities in respect of German-compliant fund administration. And of course, BNY Mellon had a successful relationship with BHF-Bank since 2002, which was a well-established and robust business that we knew very well, and so this deal was a natural 'next step'."

"This summer saw the completion of our post-merger integration project in record-time, well ahead of industry benchmarks for such undertakings. The German business continues to show good growth rates, with the BNY Mellon Service KAG leading the way with several new key client wins in 2011 and 2012—for instance, the provision of outsourced accounting and data management solutions to a range of discretionary mandates international portfolios (including both securities and derivatives) managed by Allianz Global Investors."

Owing to its enviable position as the largest economy in Europe, Germany is a natural playing space for the bank, Brand adds.

"German fund volumes still show considerable growth rates due to two factors: a stable economic environment nationally and a favourable regulatory environment, which attracts money from abroad. Recent reforms have also helped to make Germany a more attractive fund domicile and so have narrowed the gap with other established European fund destinations such as Luxembourg and Ireland."

The finishing touch

A BNY Mellon-sponsored study from consulting firms itechx and Faros concluded that there was increasing demand among German institutional investors for sophisticated services. The study, which was called 'Cost pressure—Financial Service Providers at a Dead End?', identified key service areas where clients are seeking additional support from their providers, which included performance and risk management, as well as proxy voting services.

Oliver Draeger, senior investment consultant at Faros, said at the time: "The market survey clearly shows what institutional investors currently demand from depotbanks. We can answer the initial question—are depotbanks at a 'dead end'—with a definite 'no'."

The survey—of 31 institutional investors representing a volume of almost €400 billion depotbank AUA—acknowledged that the German market has witnessed a significant decrease in fee levels over the past five years, but stated that at the same time, fee structures remained somewhat opaque and have historically often been based on cross-subsidisation across core and so-called 'value-added' services.

Today, the majority of institutional investors have a growing need for sophisticated services, particularly in the fields of transaction cost analysis, performance management and risk measurement.

Clients increasingly see innovative solutions as value creating, and according to the survey, institutional investors are willing to pay separately for these services as and when they are introduced. The study concluded that custodians are not taking full advantage of available opportunities to sell new services on a stand-alone basis.

"The findings of the study go hand-in-hand with what we are seeing in our day-to-day contacts with our German client-base in terms of current appetite and emerging needs," says Brand. "As in other markets, we are also seeing a renewed focus on collateral management as institutional investors recognise the changes that EMIR (European Market Infrastructure Regulation) and Dodd-Frank (US act) will bring to the European industry."

However, while German investors are scrupulous when it comes to quality of service, the cost of such a service must still be competitive, says Brand.

"Germans are very focused on, and sensitive to, costs. This attitude is borne out by the tough competitive nature of the environment in which German asset servicing industry must do business. In the depotbanking sector, for example, there are more than 50 players competing for market share. In addition, local German investors are looking for long-term, committed relationships with their providers, and will think long and hard before considering any switch.

"Last but not least, the very clear division of the German banking industry into three sectors is something which makes this market unique. Whether they are private banks, savings banks or cooperative banks, they always tend to prefer third-party providers that are specialists in servicing their particular proprietary sector."

Holger Sepp, co-head Germany and member of the management board at CACEIS, agrees that institutional investors are looking for sophistication, along with low fees.

"Many institutional investors are looking for reliable and attractive securities lending services and collateral management solutions as they search for possibilities to earn more money and—at the same time—maintain the safety of their assets.

"Moreover, they are interested in sophisticated reporting solutions in order to have an overview of their investments, even those managed by several asset managers and a number of different trustees. He adds: "In times of low level interest rates, it is especially important for institutional investors to find reasonable opportunities to park short-term liquidity, so sophisticated and competitively priced FX money-market services are a key service to deliver."

CACEIS, whose predecessor companies have provided trustee services in Germany since 1959, acquired UniCredit's group-wide asset servicing operations at the beginning of 2008 from Hypovereinsbank—the German arm of UniCredit.

Four years down the line, Sepp says that the embedding of European law is the biggest challenge for asset servicing providers in the country.

"A common European law will have to be transferred into local legislation, as with the AIFM (Alternative Investment Fund Managers) directive. As such, the responsible government department decided to implement an entirely new piece of legislation called 'Kapitalanlagegesetzbuch' (KAGB), which is planned to come into effect from 22 July 2013. It will replace the former German Investment Act by including the new AIFMD requirements. The first draft of KAGB has gone beyond the scope of the original European regulatory requirements."

"Therefore, it has attracted some criticism from the funds industry, which fears losing substantial parts of their business to other European countries, for example, through the abolishment of open-ended real estate funds. Since the publication of the first draft of the KAGB, an updated draft was published at the end of October, which now takes into account most of the German fund industry's concerns."

Whether it be adapting far-reaching European legislation, demanding lower fees, or updating services, regulators, clients and custodians have a lot on their to-do lists. But a surge in December's economic expectations (despite the government predicting a loss of momentum) ensures that even though those in charge may be gloomy, investor confidence will be present to push the country through difficult times. **AST**

From across the pond

Germany is just one of the jurisdictions where US-style securities litigation is developing, says Stephen Everard, CEO of Goal Group

Until recently, the main focus of securities class actions was on the US as the most developed geography. In fact, according to one global economic consulting firm, the aggregate amount of settlements that were approved in the first six months of this year in the US was $2.2 billion, and, if settlements have continued at the same pace, are set to be substantially higher at the end of this year than in 2011.

However, class action growth outside of the US is now increasing rapidly, and is predicted to mirror the growth of the US class action scene in the early part of the 21st century. The root of this international diversification seems to have been a combination of restrictions on jurisdiction definitions in the US federal courts, along with a growing desire to develop domestic class action procedures in many countries around the globe.

The 2010 court ruling in Morrison v National Australia Bank that US securities laws only apply to companies listed on US exchanges has limited the ability of overseas plaintiffs to bring securities class action claims within the country. To be precise, it has wiped out the eligibility of what have become known as f-cubed actions, which involve a non-US shareholder suing a non-US company whose stock was purchased on a non-US exchange, and who is bringing a case in a US court.

Germany is one of the jurisdictions where US-style securities litigation is developing and where a framework is already in place. In 2005, Germany passed the Capital Investors' Model Proceeding Law, which serves as the primary legal authority for securities fraud class actions. Rather than providing a mechanism to certify a 'class-type' claim, the German legislation instead provides for the designation or selection of a 'model case', which allows common elements of claims to be litigated first, and its common rulings bind all petitioners.

In terms of litigation examples, after a similar securities lawsuit was dismissed in the US following Morrison v National Australia Bank, a Canadian bank brought a suit in the Stuttgart District Court alleging that Porsche manipulated the shares of Volkswagen common stock in 2008 when it was trying to take over Volkswagen.

It seems though that the German class actions procedure is still in at a nascent stage, as a judgment given in favour of Deutsche Telekom in 2012, deciding that the company did not make false or misleading statements in a prospectus for a secondary stock offering in 2000, took 12 years to reach its conclusion, whereas class action litigation brought in the US alleging liability for US investor losses over the same offering was settled in 2005. The efficiency of German class actions processes therefore still requires some development if litigants are to be attracted to pursing cases through the German courts.

Freezing up

As custody provider consolidation in the Nordics ploughs on, single market providers are struggling for a foothold. Handelbanken's Jonas Modigh and SEB's Ulf Norén give AST their opinions

What trends have you observed in the Nordic custody market in 2012?

Ulf Norén: To start with, the long term trend of provider consolidation continues in the Nordics. The single market providers are losing business, not because of service quality and dedication to their respective home markets, but simply due to the fact that the business model does not cater for benefits of scale and a wider cross-border assimilation and influencing agenda. The increased focus on cost reductions with maintained and even increased quality delivery has led us to create a centre of operational excellence in Riga, Latvia.

A majority of the settlement processes for sub-custody and some mandatory asset servicing and account administration processes have been moved, and a 60 (or more) person workforce has taken responsibility to conduct the processes, while the business responsibility and management remains within the business line of global transaction services at banks centrally and locally.

Aside from this, there is increased focus on asset safety, risk controls, further granularity in service offering and pricing is evident in the Nordics as well as in most other parts of Europe. This is driven by the general financial situation, regulations and the preparations happening in front of Target 2 Securities (T2S), and banks getting the basics right in terms of T2S modelling, regulatory compliance and assistance and collateral management optimisation mean they will become future winners.

The competitive landscape is further blurred and even if our central securities depositories (CSDs) as of now have been fairly low key in developing commercial competitive models in the agent bank space, I am convinced that we will see such attempts coming. I also foresee increased tension in the relationship between agent banks and international central securities depositories (ICSDs).

Jonas Modigh: We see a continued pressure on consolidation—both among custodians where it looks continuously tougher for the single market providers, but also consolidation of our clients' business flows. More and more clients are looking at placing their assets with regional providers in the Nordics but also consolidating their custody and cash clearing services at one provider. In addition to that, there is a pressure to consolidate your business flows internally in order to find more efficient ways to run your business without interfering with quality. You need to be more efficient in your processes, but also cost effective in order to meet the price pressure and to be able to invest in your systems to meet all regulatory requirements and infrastructural changes.

How are these trends affecting the way that you do business, and how do you work to mitigate the effects of negative trends, such as difficult economic conditions?

Modigh: The difficult economic situation that we are facing at the moment makes it even more important to have good cost control and good risk control. We need to streamline our processes in order to lower our processing cost per transaction. At Handelsbanken, we are currently investing heavily in a new pan-Nordic system platform in order to achieve that. By doing this, we are able to reduce our internal processing cost, become more flexible to meet our clients' changing needs and meet all regulatory requirements and infrastructural changes.

Norén: The Nordic markets have performed well in a macro perspective and we have thereby not seen further constraints following the crisis that has been notable further South.

In this environment, it is very evident that we are in a situation when we are witnessing changes of a nature that will reshape the industry forever. Our reaction has been to allow many processes in operations the benefit of total focus in an operational centre of excellence in Riga, while strengthening the local business management and increasing the resources for performing asset servicing and local market industry activities. We foresee a further granulation of business models and how the components of the service offering are charged for. A further unbundling will happen, and other models, such as capped fee models, will be introduced.

What are your custody clients in the Nordic region demanding today that they didn't a few years ago?

Norén: Asset safety is very high on the agenda and this is materialising in much more detailed investigations of exposure in the shape of questionnaires and market due diligence visits. Being absolutely sure of liabilities' distribution and reducing exposure will also lead to various kinds of contractual changes when possible. Cost reductions have always been a focus, but what is partly new is the increased focus on how sub-custody expertise can be used in order to cater for measurable cost savings within the clients' own organisations by improving behaviour.

Modigh: Everyone is talking about asset safety, and clients definitely require that we have a long-term commitment and they are very interested in our plans and possibilities to offer good services in a post-T2S environment. They are also showing much more interest in our work to streamline our internal processes.

We have seen an increasing interest from clients the last year to divide the region in two and place their assets with two regional providers. This might be a good way to spread your risk and also have a good back up possibility should you need to quickly transfer your assets to a different provider. You could easily have all agreements in place with the other provider and maybe also have dormant accounts for the non-active markets with that provider in the region.

Furthermore, many clients are showing interest in processing parts of their flows themselves, for instance, through becoming direct members at the CSD or other steps as a way to prepare their organisation for T2S as early as possible. By doing this, they can process the settlement in-house and use the sub-custodian as paying agent and for other additional services.

How are European regulatory initiatives coming into play here?

Modigh: Regulation will have a major impact on future product development, which in turn needs good collaboration with your risk and compliance teams in order to ensure that products are compliant. You might also need to decide what kind of clients you are targetting in order to be able to develop your products in a way that fit into their business models and needs. Obviously, these initiatives drive cost and make it more important to find ways to mitigate it, for example, through reducing our internal processing costs.

Norén: The impact of European regulatory initiatives is heavy and the majority have a full impact on the Nordic securities market. The whole banking sector is driven by this and at an overall level, I would say that it is the Basel rules and Capital Requirements Directive that provides the structural framework. These will have enormous effects for the whole industry and will not always be positive.

The capital requirements will drain a lot of capital that could otherwise have been left to the so-called real economy, and so the real economy will suffer. Europe doesn't need enforced suffering now; it needs incentives for growth. But it is there and you can't do much about it.

In the custody industry, we focus on about 20 different regulations where we will see a direct impact from FX CSD regulation and securities law legislation. Indirect and maybe more serious consequences will come from Alternative Investment Fund Managers Directive and UCITS V, and despite the fact that no Nordic market has signed up to a direct interest in the financial transaction tax, I am personally convinced that this will have a hampering effect on all cross-border activity.

What are clients telling you about proxy voting and how are Nordic regulations affecting it?

Norén: Voting is a focus area that continues to cause attention. In recent years, the cross-border shareholder has displayed more and more interest in active meeting participation. Legislative actions at EU level in terms of transparency requirements for listed companies and improved shareholders rights obliges member states to adopt accordingly.

We have approximately the same clients using us in all of the four markets and it is very seldom we experience voting issues in Norway and Finland, while we notice a higher degree of inconsistencies in Sweden and Denmark.

Starting with Denmark, the main obstacle is a cumbersome process relating to the requirement of owner registration in the Company Shareholder Register followed by a PoA from the beneficial owner down through the chain. The rate on votes cast is not impressive—in the market as a whole, the rejection rate in 2012 was at 36 percent. For Denmark, we remain optimistic that a proposal to change the company law will lead to significant efficiency improvements.

Modigh: In general, we see an increasing interest to participate in votings, and many are using agents to assist them in this process. We are still stuck with the PoA process and need for physical attendance to a large extent through the region for foreign clients, but for domestic shareholders we see signs that we are moving in a positive direction. For example, Euroclear Finland has built an internet solution for local shareholders, which enables them to vote without participating in the actual meeting and there are positive signs in Denmark as well towards fewer PoAs.

How important are custodians' network and relationship managers to meeting new client demands?

Modigh: It is extremely important, and I believe that there is continuous increasing demand on the network manager, and the relationship manager needs to understand that and meet that by having even more in-depth knowledge about the client, market and the products that you offer in order to serve the client in the best possible way. This is of course also needed from a risk perspective in order to understand what risks you have on each of your clients and the products or services that you offer to them.

Norén: The demands on both roles have increased manifold. The successful network manager will most likely have the most interesting job in the industry and become the prime go-to source for any international activity. But it will carry a lot of responsibilities and liabilities, and it is not difficult to see how it easily could become a target to account for any problems occurring in cross-border activity. In addition to being on top of processing and quality issues and balancing mutual revenue flows, a network manager now needs to be fully on top of the consequences, opportunities and threats of at least 20 regulatory issues that will affect the legal and liability situation for his or her firm.

They must also deal with positioning alternatives when it comes to single market providers versus regional providers. When doing so, the network manager must determine what the recommendation should be in terms of how many providers that are needed: one, two or three for Europe, or a cluster of several providers servicing parts of Europe? The manager will therefore have to be involved in a lot of evaluations and have to stand up for why one solution is preferable for Switzerland and the UK, while another is the solution of choice for the Nordic/Baltic region. **AST**

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

Ulf Norén
Global head of sub-custody
SEB

Industry appointments

Rhode Island's general treasurer, Gina Raimondo, has appointed **Anne-Marie Fink** as the new chief investment officer/deputy treasurer of finance responsible for managing the state's $7.3 billion pension fund.

Fink previously held the role of managing director and portfolio manager at J.P. Morgan Private Bank. She will be replacing Kenneth Goodreau, who left the role after four years.

BNY Mellon has named **Timothy Keaney** CEO of investment services, effective January 1.

The promotion comes as the firm aligns its asset servicing, corporate trust, depository receipts, global markets, global collateral services, broker-dealer services and Pershing businesses under Keaney's new leadership.

Keaney was CEO of asset servicing and retains his other role of vice chairman under his new position. He continues to report to BNY Mellon chairman and CEO Gerald Hassell.

Before joining BNY Mellon, Keaney worked at Deutsche Bank where he had responsibility for sales and client management for custody, asset administration, performance measurement, asset management, funds transfer and trade finance activities.

Post-trade software company Information Mosaic has appointed **James Millard** as its new global head of sales. He will be based in New York and manage a team spanning the US, Europe and Asia.

In addition to leading the global sales team, Millard will oversee the firm's post-trade processing suite, IMSecurities, and the corporate actions automation solution, IMActions.

Rule Financial has recruited **Derek Perry** as a management consultant and specialist in OTC clearing.

Based in its London office, Perry joins Rule Financial with 20 years of cross-product investment banking expertise and six years of professional services industry experience behind him.

Perry leaves his current role at the Royal Bank of Scotland (RBS) where he was global head of treasury operations and IT change management.

Before joining RBS, Perry spent five years at Capco and also held senior management positions in the investment banking arm of Barclays and at Skandinaviska Enskilda Banken.

He has a track record of large-scale front-to-back deliveries, and is skilled at ensuring continued active stakeholder engagement to COO level throughout the lifecycle of a programme.

Gregory Forbes has joined Huntington Asset Services as senior vice president for business development. Forbes will focus on expanding market share in servicing larger fund companies and institutional clients.

Prior to joining Huntington, Forbes was senior client sales manager for securities funds services at Citi, where he sold 40 Act mutual fund administration, global custody, securities lending, foreign exchange, and retail and institutional asset management outsourcing services.

Societe Generale Securities Services (SGSS) has appointed **Gabriele Pollastri** to the newly created position of head of sales and relationship management for Italy and Spain.

Pollastri will be a part of the SGSS sales and relationship team—based in Milan—led by Mathieu Maurier. He will focus on strengthening SGSS's commercial presence in Italy and Spain in addition to helping clients in their growth and development.

Pollastri joins SGSS from the Italian branch of BNY Mellon where he held the role of deputy general manager.

ABN AMRO Clearing has recruited **Robbert Booij** as managing director of the firm's UK office. Booij is joining its London office from Amsterdam, where he held the role of global head of enterprise risk management for ABN AMRO Clearing.

Booij joined Fortis in 2007 and was deputy head of business control at Fortis Clearing from 2008, before Fortis bank Nederland was merged into the new ABN AMRO in 2010. **AST**

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