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BNY Mellon establishes CSD

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BNY Mellon has received regulatory approval to launch a new issuer central securities depository (CSD) entity, allowing it to settle trades for clients and compete with other parts of Europe's market infrastructure.

The CSD will offer issuer, settlement and safekeeping services for the benefit of all market participants across Europe and the wider global marketplace.

Incorporated in Belgium as a non-bank subsidiary of BNY Mellon, the CSD will be regulated by the National Bank of Belgium, with long-time employee of BNY Mellon Chris Prior-Willeard appointed as its CEO.

In a statement, Prior-Willeard said: "In establishing the BNY Mellon CSD, we are redefining what it means to be a global custodian and how our industry will provide investment services. By becoming a CSD, we are responding to the current regulatory imperatives around issuance and settlement services."

"We will be able to offer our clients access to integrated services across the full spectrum of the securities value chain to allow them to accommodate new requirements mandated by, for example, the European Market Infrastructure Regulation (EMIR)."

The move further extends BNY Mellon's reach in Europe after it launched Irish-based clearing operations two years ago.

In June 2011, the bank created a new company to clear futures and derivatives trades on behalf of institutional clients in Europe, the Middle East and Africa. Headquartered in Dublin, the business, BNY Mellon Clearing International, marked the first Markets in Financial Instruments Directive-authorised futures and derivatives clearing entity in Ireland.

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ASTINBRIEF

Milestone and Maitland make strides in South Africa

Fund administrator Maitland has selected Milestone Group's pControl platform to enable it to provide an enhanced administration service to multi-manager clients in South Africa.

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Three's the magic number for Citi, Euroclear and Clearstream

Citi is launching a triparty collateral management solution in conjunction with triparty agents Euroclear Bank and Clearstream that will allow mutual clients to consolidate their equity and fixed income holdings into a single collateral pool.

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BNY Mellon establishes CSD

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The plan was to become a clearing member on major exchanges and central clearinghouses globally to support the trading activities of the bank's clients.

In a statement, Tim Keaney, vice-chairman and CEO of investment services at BNY Mellon, said: "[The bank] supports current regulatory and infrastructure initiatives aimed at making the securities markets more efficient and safer for all participants. Establishing BNY Mellon CSD reflects our proactive engagement with those initiatives to integrate and unify Europe's financial markets infrastructure."

BNY Mellon stands to gain a good chunk of revenue from this venture, with valuations website Trefis predicting that the establishment of the CSD will help the bank collect more fees as a securities issuer, forecasting a 4 percent annual growth in its value over the years to come.

This comes on the back of a good Christmas for the bank's asset servicing division, with 4Q 2012 results showing that assets under custody were up 9 percent year-on-year.

Assets under custody/administration amounted to $26.7 trillion at 31 December 2012, an increase of $100 billion sequentially.

The year-over-year increase was driven by higher market values and net new business. The sequential increase reflects net new business, said the bank.

AUM amounted to a record $1.4 trillion at December 31 2012, an increase of 10 percent compared with the prior year and 2 percent sequentially.

Both increases primarily resulted from higher market values and net new business. Long-term inflows totaled $14 billion and short-term outflows totaled $6 billion for Q4 2012. Long-term inflows benefited from fixed income and liability-driven investments.

Investment services fees totaled $1.6 billion, an increase of 1 percent year-over-year and a decrease of 5 percent sequentially. The year-over-year increase was primarily driven by higher asset servicing revenue as a result of net new business, improved market values and higher collateral management revenue, as well as higher volumes in clearing and treasury services.

This increase was partially offset by the impact of the sale of the shareowner services business in Q4 2011, as well as lower depository receipts and corporate trust revenue.

Sequentially, the decrease primarily resulted from a $107 million decrease in depository receipts revenue largely reflecting seasonality and lower securities lending revenue.

It was partially offset by higher asset servicing revenue that was driven by higher collateral management revenue, and higher clearing and treasury services revenue.

Milestone and Maitland make strides in South Africa

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Maitland believes that multi-manager fund administration in the region is underserved by existing solutions, with pControl providing a great opportunity for much needed improvement.

Through the implementation of pControl, Maitland will be able to provide clients with a consolidated view of underlying investments and market leading functionality.

This is particularly important, given recent changes to South African prudential investment rules that place an increased burden of compliance on local multi-managers, said the firm in a statement.

"We have long recognised a 'twilight zone' in accurate accounting of multi-managed portfolios," said Dale Lippstreu, project sponsor at Maitland.

"pControl addresses the middle ground between the asset register and investor ledger where spreadsheets have reigned supreme, and allows us to lead the way in ensuring the uncertainty of this 'twilight zone' is no more. We now have the ability to offer a superior service to our multi-manager clients and will look to grow our business across the sector."

Three's the magic number for Citi, Euroclear and Clearstream

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As custodian, Citi will continue to hold the assets of mutual clients, but triparty agents will be able to manage collateralisation directly from client trading accounts.

Using Euroclear Bank's global 'Collateral Highway', clients will be able to use the assets that are deposited with both entities as collateral in real time, maximising flexibility and optimisation.

The alliance will boost the pool of potential collateral that can be used to cover exposures rising from transactions such as repos, loans, derivatives, central counterparty margins and central bank liquidity.

Clearstream's Liquidity Hub Services will enable Citi clients to consolidate their collateral holdings for use within the Global Liquidity Hub to gain coverage of their global exposures from a single optimised collateral pool.

The liquidity hub allows clients to retain their asset portfolios within Citi's custody network while Clearstream carries out collateral management functions including automated optimisation and substitution.

Sanjiv Sawhney, EMEA head of securities and fund services at Citi, said: "Against the backdrop of increased risks related to counterparty exposure and the impending global collateral squeeze, this new offering further demonstrates Citi's commitment to developing open architecture solutions which allow our clients to more efficiently access liquidity pools."

"This service improves collateral optimisation across all asset classes and markets by leveraging the breadth of Citi's direct custody and clearing network that spans over 60 markets. We look forward to working with our partners and expanding this solution."

Frederic Hannequart, chairman of Euroclear Bank, added: "The joint initiative is a significant market development, with the aim of delivering meaningful client benefits at a time when collateral is in greater demand than ever."

"Together, Citi and Euroclear Bank will help our clients better manage counterparty exposures, ease access to liquidity and make more effective use of their assets as collateral, while alleviating the challenges of collateral fragmentation."

Jeffrey Tessler, CEO of Clearstream, said: "I am delighted to have Citi as a partner for the further extension of Clearstream's comprehensive liquidity pool. Liquidity Hub Connect will enable Citi to offer its customers the unique advantages of our collateral management services, which are widely acknowledged as the best in the industry and which continue to develop."

UK funds business rises from the ashes

The UK funds business of Phoenix Fund Services has grown more than 60 percent in 2012 and now administers funds worth £850 million.

Anthony Wolfe, business development director, said: "Phoenix is delighted that it's UK funds business has grown so strongly in the past year in a harsh investment environment."

"This growth has been based upon our support of specialist fund managers who have a clear investment proposition and, despite unhelpful markets, have a strong investment track record."

Conifer Group creates Form PF solution

The Conifer Group, a provider of fund administration and prime brokerage services, has launched a cloud-based Form PF solution.

The Conifer Form PF solution is based on Conifer's iCon portal, another cloud-based platform for portfolio accounting. Using the iCon technology will allow Conifer's fund administration clients and other funds to complete Form PF.

Jack McDonald, president and CEO of Conifer, said: "We have benefitted from the experience of some Form PF 'first filers' by leveraging their actual filing experiences into our current offering."

Risky business for LCH.Clearnet-cleared bonds and repos

LCH.Clearnet has implemented formal loss allocation arrangements as a means of mitigating systemic risk for bonds and repos that are cleared through its RepoClear service.

The loss allocation arrangements were designed in collaboration with fixed income market participants.

In the event of a RepoClear member default, where exceptional losses have been incurred in excess of the financial resources available, loss allocation ensures the ongoing operation of other LCH.Clearnet clearing services by introducing a further level of protection to the default waterfall.

John Burke, head of LCH.Clearnet's fixed income business, said: "The changes we have made to the RepoClear default waterfall highlight our commitment to providing world-class risk management solutions to the markets that we clear."

"Our clearing members overwhelmingly supported this development, with 98 percent of voting clearing members in favour of the scheme. This confirms the importance of our RepoClear service's resilience and highlights LCH.Clearnet's position as the industry-leader for risk and default management methodologies."

The loss allocation arrangements follow changes introduced in August 2012 to separate the RepoClear default fund in London from LCH.Clearnet's cross-asset class mutualised default fund.

Santander signs up to MYRIAD network management platform

Santander will begin using MYRIAD—the network management platform from MYRIAD Group Technologies—after signing an agreement to do so at the beginning of the year.

The project is already underway and is expected to be implemented in Q2 2013.

In a statement, Simon Shepherd, CEO of MYRIAD Group Technologies, said that signing Santander up to the company's network management platform is particularly pleasing because discussions with the bank have been ongoing for some time.

"They join a growing list of large banks using the platform; indeed, we now have more clients outside London than we do in the UK. This in part reflects the maturity of the platform as well as the external pressures many international banks are now having to withstand."

"MYRIAD's flexibility and depth of functionality mean that we address many issues beyond the standard remit of network managers, including governance, risk and compliance. We have shown strong growth in the last three years and this will continue for the foreseeable future. Our operational gearing has gone up as a consequence, as we have got bigger, and we are looking forward to working with more new clients in the near future."

Franklin Templeton deploys Riva's transfer agent solution

Riva Financial Systems has globally deployed its Riva Transfer Agent software solution across Franklin Templeton Investments's international transfer agency operations.

"We are very pleased to announce that Franklin Templeton has successfully converted its international transfer agency operations to Riva's software, marking the culmination of a project that is unprecedented in terms of scale and complexity," said Ghassan Hakim, CEO of Riva Financial Systems.

Paul Brady, senior vice president and operations director at Franklin Templeton Investments, commented: "This transition from our legacy system is a remarkable achievement for both organisations."

"The Riva system will now support all of our cross border clients in countries across Asia, Europe, the Middle East and Latin America on a single efficient global platform, delivering a standardised service and operational model supplemented with regional features."

Northern Trust is mirror image of Bridgewater Associates

Hedge fund manager Bridgewater Associates has chosen Northern Trust to independently replicate certain middle and back-office services for its $140 billion in AUM, as it continues to implement its back-office transformation plan.

In a role that will create approximately 100 jobs in Chicago and Stamford, Connecticut, Northern Trust will provide broad middle-office and back-office services including replicating various administrative processing, trade processing, valuation, real-time reporting, cash management, accounting and collateral management services.

These services will be furnished by Northern Trust independently, as well as mirroring and quality checking middle and back-office services provided by another firm. The arrangement is planned to go live in 2014.

“This is a transformational relationship creating independent controls and a new level of review and checks by two independent administrators,” said Peter Sanchez, CEO of Northern Trust Hedge Fund Services.

“As the hedge fund business model evolves, we expect our relationship with Bridgewater will lead the way toward the structure and independent controls that hedge fund investors will demand in the future.”

Markit and CTI launch FATCA service

Markit and Compliance Technologies International (CTI) have launched the FATCA Service Bureau, a new service that is designed to help financial institutions of all types comply with the Foreign Account Tax Compliance Act (FATCA).

The FATCA Service Bureau unites the capabilities of Markit Counterparty Manager and CTI’s specialised tax validation and reporting systems, to offer a solution that combines document management, automated tools for US Internal Revenue Service registration and e-tax form submission.

For the thousands of funds and other financial institutions that are required to register as a foreign financial institution under FATCA requirements, the FATCA Service Bureau provides tax domain expertise and operational efficiency in a low-cost solution.

Fiera Capital gives BNY Mellon’s Eagle wings

Fiera Capital Corporation will implement the solutions of BNY Mellon subsidiary and provider of financial services technology, Eagle Investment Systems.

Fiera Capital is an independent Canadian full-service investment management firm with approximately $55 billion in AUM.

It extended its existing relationship with Eagle Investment after buying the company’s long-time client, Natcan Investment Management, in 2012.

Robert Trépanier, senior vice president for operations and IT at Fiera Capital, said: “In Natcan’s case, we saw an opportunity to apply its current data management and performance measurement solutions to our entire company, thereby reducing multi-vendor complexity and saving time and money. Our adoption of Eagle’s software and migration to the cloud will enable us to establish a firm-wide, state-of-the-art technology solution that is secure and universal.”

“As a top investment manager in Canada, we saw the need for a leading technology provider that understands the industry and can advise us on how to best achieve our goals,” added Maher Hemissi, vice president of IT and middle-office at Fiera Capital.

“Eagle has the experience and qualifications we were looking for in a vendor, and Natcan’s success in using its platform was an obvious testament to their proven, broad capabilities.”

Basel treads water until 2019

After a Switzerland summit that saw bankers heatedly lobbying for more relaxed reforms, banks now have until 2019 to achieve a liquidity coverage ratio (LCR).

The Basel Committee on Banking Supervision also said that more assets would now be considered liquid, such as corporate bonds and some shares. New rules will still come into play on 1 January 2015, with the proviso that lenders will only need to prove that they hold 60 percent of the required ratio.

In a statement, Nigel Willis, partner at Deloitte, said: “The implementation of the LCR is an important step towards the creation of a global framework for bank liquidity. These initial minimum standards should be further enhanced when negotiations regarding the net stable funding ratio are concluded.”

“The combination of a phased implementation timetable for the LCR, broader definition of what constitutes a liquid asset and confirmation that a bank’s stock of liquid assets can be used in times of stress, strikes a welcome balance between the competing demands of raising regulatory standards to increase confidence in the global financial system, and not impeding the recovery of the global economy.”

Chapman’s Eye on the market

The future is coming

In last issue’s article, I mentioned that both financial institutions and candidates alike ought to prepare themselves for the ‘new normal’, a state that we are partially in already. Elements of this will include:

- Single-firm careers lasting 20 or more years will no longer exist. People will join firms with a career horizon of five to seven years and perform a ‘project manager’ type function in any given role, with an inherent natural life-cycle of effectiveness. After this period, they will either move on to something radically different within the same firm or, with the blessing of the firm, move on to another opportunity amicably allowing the firm to backfill/upskill with more motivated employees.
- Roles which are not client-facing or require direct input from/liaison with senior management will be moved off-/near-shore—this has been seen already with Northern Trust’s highly regarded operation in Limerick, Ireland, BNP Paribas Securities Services’s quality set-up in Lisbon, Portugal, and Brown Brothers Harriman’s growing operation in Krakow, Poland.
- At a macro level, asset servicing firms will polarise in terms of size into universal, full-service behemoths and smaller, more nimble and higher-quality specialists. Those in the middle will increasingly struggle with their own identity. Former technology firms, for example SS&C Technologies, will continue to encroach upon the traditional territory of the banks.
- Successful firms will come to accept that regulation, rather than being an ongoing burden, can be commercialised to add value to their clients.
- Buy-side firms will, with the aid of consultants such as Knadel, Amaces, Mercer, and so on, as well as the more proactive sell-side institutions, become more ‘savvy’ and efficient, through, for example, employing collateral optimisation strategies more than ever before.
- Sell-side institutions will gradually stop having a ‘widget sales’ mindset and focus more on creating the right ‘conditions to buy’ for their clients and prospects.

I could go on but you hopefully get the picture. As ever, if you feel the desire or need to comment on any of the above, do drop me a line at paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

The mandate mangle

The investor services business of RBC Investor & Treasury Services will be global custodian and fund administrator to Gemini Investment Management, which provides an outsourced sales partnership and fund distribution service for professional global asset managers.

RBC Investor & Treasury Services will assist the firm with expanding its own distribution and administration services for investment managers looking for cost effective market entry for new funds and those that have existing funds that would benefit from increased distribution through its outsourced Irish-domiciled UCITS platform proposition.

Gemini aims to help end investors benefit from 'boutique' funds that do not have the required size or track record of most fund distribution platforms, and so increase its own AUM.

Simon Shapland, managing director at RBC Investor Services, said: "With our global fund platform and cross-border distribution services we recognise the importance of connecting fund managers and fund selectors so that end investors benefit from the most appropriate, best-in -class solutions. As such we are delighted to assist Gemini as they continue to broaden access for investors to boutique fund segments from across the globe."

Stuart Alexander, managing director at Gemini Investment Management, added: "We take great pride and care offering distribution and administration solutions to carefully selected funds for investment managers. We have selected a global custodian who understands the importance of client service and has significant expertise and in-depth knowledge of the market, which is essential for our business."

Citi will provide fund accounting, global custody, transfer agency and trustee services to Portland Investment Counsel's investment funds.

In November 2012, Portland launched four mutual funds and one alternative fund.

"Having worked with Citi in the past, we feel the company has a proven reputation in the marketplace as a leading provider in this space. We look forward to the benefits this relationship will bring to our clients and our business," said Frank Laferriere, senior vice president and COO of Portland Investment Counsel.

WAY Fund Managers, the UK provider of fund hosting services to the wealth management sector, has selected Apex Fund Services to service all of its 47 funds, with combined AUM of more than $1 billion.

As part of a collaboration agreement, Apex and WAY Fund Services are to begin cross selling each other's services. Apex will introduce clients to WAY Fund Managers's platform and at the same time offer its order management Ssystem (OMS) and portfolio management system (PMS) technologies to WAY Fund Manager clients.

Peter Hugh-Smith, chief executive of WAY Fund Managers, said that after several years in which large administration companies had a stranglehold on the market, there are now a number of new and innovative administrators offering contemporary services into the marketplace.

J.P. Morgan recently secured another Mexican client with Grupo Aeroportuario del Centro Norte selecting it as depository.

The mandate sees the bank continue to consolidate its presence in the Mexican market and increase its market share in the Latin America region.

The client operates and manages 13 airports in nine states in the Central and Northern Regions of Mexico, with its airports serving more than 12 million domestic and international passengers with aeronautical and commercial services.

Grupo Aeroportuario del Centro Norte also provides cargo handling, storage and logistics services through OMA Carga at its cargo terminals in the airports of Monterrey and Chihuahua.

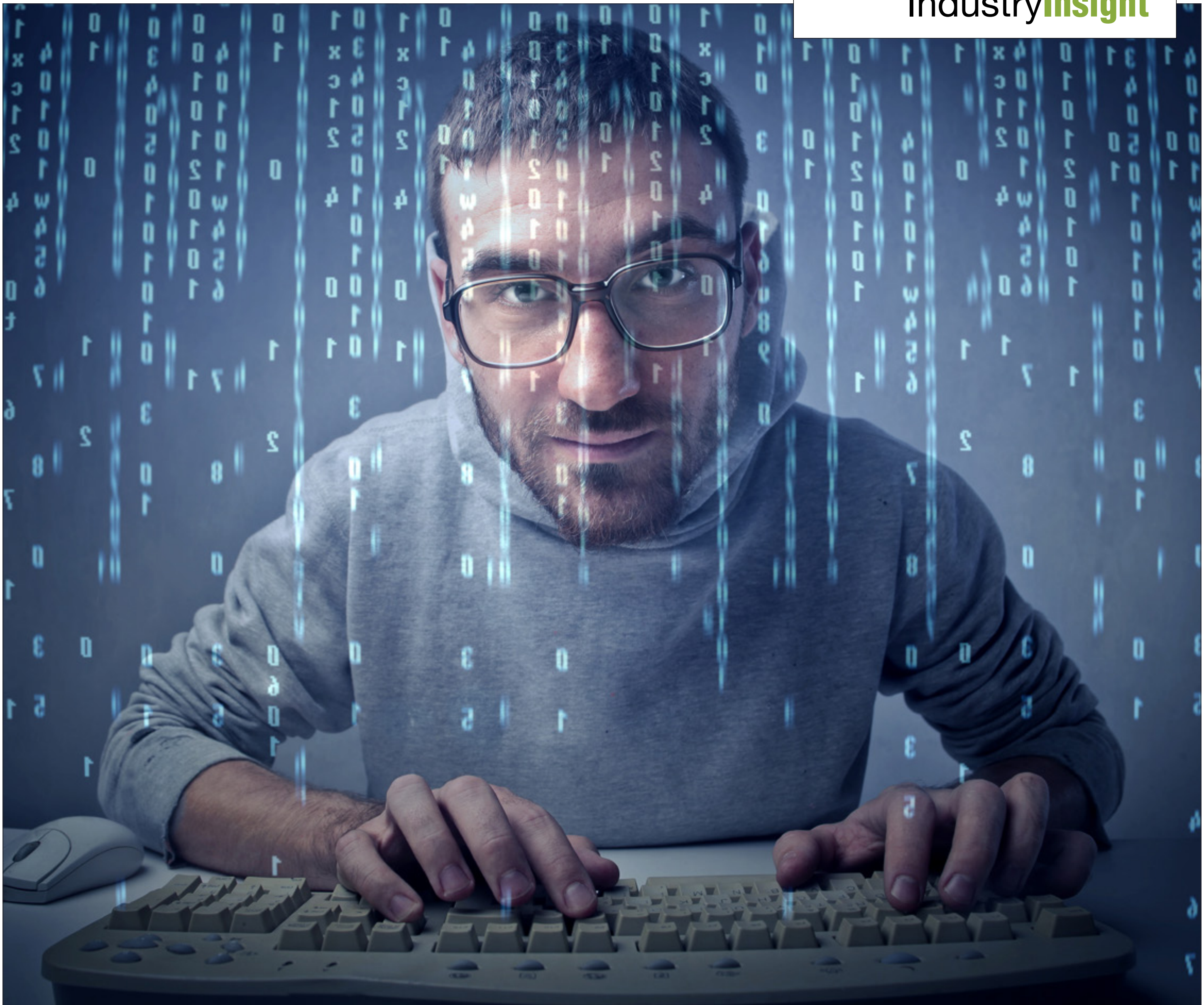
In light of the launch of its inaugural Templeton China Opportunities Fund in Hong Kong, Franklin Templeton has mandated Citi to provide trustee, custody and transfer agent services.

The new mandate extends an existing relationship that sees Citi provide fund services to Franklin Templeton's MPF funds.

AustSafe Super has re-appointed National Australia Bank (NAB) Asset Servicing to provide custodial services for a further three years.

NAB Asset Servicing has provided custody and investment administration services to AustSafe Super, which has more than $1.2 billion of assets under custody, since 2006.

Craig Stevens, CEO of AustSafe Super, said: "NAB's Asset Servicing business offers a consistent and high quality level of service and support."



Trend spotting

George Nast and Simon Cleary of Standard Chartered unpick the biggest trends in securities services for AST

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Trend one: the effect of increased flow of investment into emerging markets

George Nast: Aside from the obvious business opportunities it creates for us, given our network in Asia, Africa and the Middle East, it raises the bar on the services that custodians need to provide for their end client: the investor. Emerging markets are not like the US and Europe in terms of the seamlessness, the straight-through rates and the transparency of the underlying markets. Therefore, you really need to find providers in emerging markets that understand local characteristics and local regulations—although there is a convergence that is slowly happening—because they are still quite different to more developed markets.

Simon Cleary: The differences in the emerging markets that we operate in are of a much greater scale than that would be seen in the history of the Western markets. We play a key role by being the eyes and ears of the client within various markets, providing input in the way the markets develop through regulators and infrastructures and through advising our clients.

Look at the way Taiwan operates versus South Korea versus India—versus Singapore and Hong Kong which are much more established—its different for every market, but often equally complex. That's why it's so important to be able to provide standardised reporting.

Trend two: a concentration process with the end result of creating a strong leadership with a tiny number of top-tier providers

Nast: That is definitely a trend. There is also, I would argue, some counterforces and implications around that. Concentration is not always a good thing in the perspective of end-investors. Primarily on the counterparty risk perspective, putting all your eggs into one basket, although it might make sense from an efficiency standpoint, as Lehman demonstrated, it creates additional risk. And it's not just counterparty risk, there are also operational risks. If your main providers' systems go down, or if they make a big operational error, then you're going to be disproportionally exposed to that risk. With multiple providers, this is less so.

Two things are happening. One is obviously the interest around the quality and credit-worthiness of custodial relationships (which are very important). Another is how we're seeing a number of providers, particularly in the intermediary space, starting to look at contingent arrangements. So what if something happens? Is there a contingent in place that can allow me to flip my asset servicing to another provider?

Concentration has happened, absolutely, because the scale and efficiencies of the industry have driven it that way, but clients now realise the risks that are associated with that as well, and investors are reacting.

Cleary: For a period of time now, we've seen a general move from local to regional players. The scale that's required to justify the investment that is related to all the ongoing regulatory changes and requirements means that you can't just operate in one or two markets anymore and expect to be successful. Also, asset protection is key. The focus from our clients on balance sheet strength and stability significantly limits the types of players that they're willing to work with. There has been a lot of chatter about having contingent providers, but in reality nothing much is happening. Contingency was really an agreement of, 'if we have a problem, we'll come to you'. I think what people are starting to realise now is that real contingency has to be live to be effective. The push on contingency has shifted from an ability to agree to open accounts if something happens, to a secondary provider. That is a big trend that has definitely driven a lot of discussion.

Nast: That's the term that we prefer to use—'secondary'—because it means that its actually live. There's actually volume and business is happening on that secondary platform.

Cleary: The issue with the old-fashioned thinking about contingency is that if in Market A, a certain provider gets into trouble, half of the market will be wanting to move their assets to a different provider. And it's going to be unworkable to set up accounts, establish infrastructure and build links across the markets. So having a secondary provider that's live really just means an increased volume and not anything beyond that. This definitely makes an awful lot more sense. And a number of our clients are echoing that.

A lot of our clients that have historically spent a lot of time managing their assets on an individual market basis are looking to establish a smaller number of more significant—what they are terming—partners, within regions. Thankfully all of which works quite nicely for us.

Trend three: an enrichment of services and products offered, which could lead to a global switch from custodian to securities services as a brand/business line

Cleary: That's been happening for a while. We've been building out a much broader capability than just pure custody. In most markets, we are already selling FX capabilities and cash capabilities as well. When we're selling directly to investors within our regions, that whole product segment will typically include local funds services, any number of services on the transaction banking side and the financial markets side. This year we've added trustee capabilities in a few local markets. I think that trend has already evolved; it has always been there. It's rare to sell a standalone custody solution.

Nast: At a higher level, the industry has also evolved into a highly fragmented way for a number of reasons. A number of silos have been created along the securities chain. The realisation is that with the relentless pressure on costs and margins, we have to find efficiencies across the entire process. And you get that through much tighter integration of platforms. We're going to witness the trend of a much higher level of integrations across the securities chain in financial markets, execution services and the like.

The question is, will the increasing importance of investment management as a client segment come into play at all? I think so, and I would take it one step further and say that the pressure is on investment managers. You think of all the various pressure points in the industry, investment managers are kind of the first line on that in the sense that they're under relentless pressure performance-wise from either their fiduciary obligations or their fund holders to reduce costs and management fees. Compounded by their need to reduce costs, we can expect a flow through effect on the whole securities chain

Trend four: with the effects of globalisation, no big player in securities services can expect to survive for very long without building a strong position in at least one regional area

Cleary: You will always have unique boutique offerings in certain places, but clearly, the trend is towards larger players. I've been in this business for nearly 30 years, and at no time have I witnessed such a rate of change (principally driven by regulation) in the way we're doing things. If you don't have the willingness to invest in very flexible, sophisticated technology, you just can't stay valid as a provider. In the current environment, if you do not have scale, it's very hard to justify that level of investment.

Nast: It's also what's been driven by end-investors. Their portfolios are globalising, and they need to search different markets and expand coverage to achieve their performance expectations. If you are just a single market provider, you're always going to be at the margin of that game, whereas if you have a regional or global offering you're much more attractive.

Cleary: I joined three years ago and at that point we were in 17 markets, principally Asia. Now as a bank, our broader strategy is to support flows into, within and from Asia, Africa and the Middle East, and in those three years we've gone from 17 to 39 markets. That's not just because we want a big market coverage, it's because the way our clients are doing business is evolving. They're moving from one, to two, to five, to 10 markets, within, across and out of the region. If we don't stay relevant to them by supporting as much as makes sense for where we have specific capabilities, the reality is that they're not going to keep the 75 percent of their portfolio that happens to be in Asia with us. **AST**

George Nast
Global product head of transaction banking
Standard Chartered

Simon Cleary
Global head of custodian banks, transaction banking
Standard Chartered

A problem shared

AST talks to John Pfuhler and Stephen Inocencio of Fiserv about the company's investment services products, reconciliation and asset management trends

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The two main products of the investment services side of the UK are TradeFlow and Advantage Fee. What is TradeFlow?

Stephen Inocencio: TradeFlow is an on-premise installed software solution that focuses on post-settlement trade crossing and matching for the security space, and specifically wealth management. Fiserv handles the trade lifecycle from a holistic perspective—order management system data feeds into a robust work flow that will track the entire lifecycle of the trade, whether it's enrichment, import or data processing, and then the entire matching piece, confirmations and finally settlement.

TradeFlow has a dashboard that you can actually watch the whole lifecycle on, focusing just on the exceptions, you can customise the workflows, and clients like that because those customised workflows allow you to tailor it specifically to their institutions' needs and where they are crossing.

An additional benefit of being a very robust and efficient risk mitigation system in that trade lifecycle is that they can apply those modules to the type of the business that they have at the time. If it's just trading for FX or CLS, the user can just look at those trades and as their business grows in volume, they can add modules that that bring in other asset classes or other features at a later point in time.

And Advantage Fee?

John Pfuhler: Advantage Fee is a fee billing automation system that focuses on saving our clients' money and driving efficiency, specific to looking at client's revenue leakage.

A lot of our clients realise that once they have automation and their work-flow processes well defined, Advantage Fee keeps that strict process in play throughout the fee-billing lifecycle, so that every revenue leakage scenario can be avoided. They see that very quickly. Again, it's on an institutional software base, and is also installed on-premise, and we have more than 70 clients globally running it.

Your accurate reconciliation with SWIFT is ready. How is that going?

Pfuhler: That is a big one (and it's the 13th in a row), because we have introduced support for the 20022 messages for XML standards, supporting clients in their integration of SWIFT MX message content and implementation of Single Euro Payments Area-compliant controls. It's ongoing support for the SWIFT customer base, and a great way for organisations to further standardise and automate that operational work. The 20022 messages deliver a lot of value around data quality.

Historically, data reconciliation has been quite inconsistent, but what about today?

Pfuhler: I think that the inconsistency in the past has been based a lot around where an organisation was going to make an investment, so there has always been a priority to invest in a revenue-generating side of business. The operations were dealt with as required and you ended up with point solutions, or, it was okay to be manual for a period of time. Now, part of the current wave of the regulation is driving the desire to proactively demonstrate a strong control infrastructure.

At this point in time, to be a competitive force in the market, that control infrastructure is part of the evaluation that a potential customer will go through before it selects you to manage its pension fund, retirement fund or whatever it happens to be.

So you'll see organisations making much more significant and consistent investments in a lot of these control areas. Reconciliation is the source of a lot of NAV reporting that occurs, so they need to insure the quality of the NAV data, which is absolutely a regulatory mandate. The quality of that data is going to be driven by the quality of the reconciliation.

What kind of regulations are you focusing on?

Pfuhler: The US SEC is going through a series of regulatory changes—or better enforcement of existing regulatory requirements—that are causing everybody to come back and evaluate their internal controls. This includes reconciliation, fraud detection and other middle-office areas such as trade process management. Any place where you can eliminate human touch, get to an automated, rules-based process and implement a complete audit trail around it that gives you transparency into the processes is desirable.

What do you think about the latest FATCA delay?

Pfuhler: We have an AML solution that is very widely used in the market and the US Inland Revenue Service has come out suggesting to the financial services industry that you should look at your AML solution and leverage that to address your FATCA requirements. We are working with some of our customers today to see how we can do that.

What trends you are seeing in the asset management space?

Inocencio: One of the things that we are seeing recently is the growth in the asset classes—I think there has been a big explosion in that space. A lot of it is coming from the changes of Omgeo as well, so as different asset classes come up, firms want to expand and diversify into more than just FX and money markets. Fiserv is putting a lot of focus on increasing the number of asset classes that we offer in modules.

There are 16 asset classes covered currently. We are working with a large client called Bridgewater in the hedge fund space. We have a pilot coming out at the end of this quarter and another one in Q1 where they are actually doing fiscals, cash, repos, and going into physical assets. That's something that's new, but we are seeing a lot of clients that are asking about Repos, FX and CLS NDFs as of late. The other area of focus in the industry that we're still gauging the market and filling out is the global ETC.

Pfuhler: In the back office, on the operational side of things, we are still seeing a heavy push for cost savings, so that manifests itself to us in the adoption of reconciliation products in a centralisation model—taking the reconciliation function and centralising, making a global utility and then almost selling it internally as a service to the rest of the organisation.

That's also driving a little business-process reengineering. As firms take these point solutions out there, maybe they are geographically diversified right now, but they are looking towards getting them centralised.

How are the ever-evolving strategies and needs of investors shaping the technology that asset managers require?

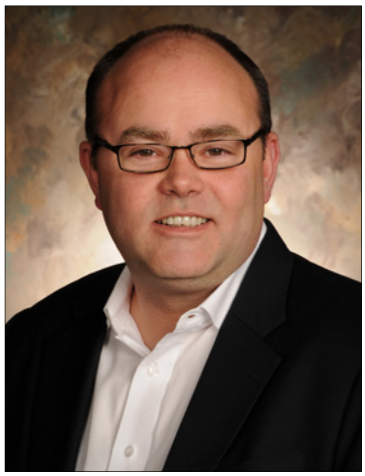
Inocencio: That's an interesting point because there's a lot that can be going related to types of messaging and standards. People are watching to see what SWIFT is going to do and thinking, 'if we're using XML messaging standards today, how do we import that, how do we look at the different type of MT messages coming out, the 4x, 5x series, and so on?'

With something simple, such as XML, people can still interface with a lot of asset servicing providers and managers and they can still do enrichment, so I think that we're going to see a broader expansion of SWIFT messaging, of capabilities over time, the MT series, and people looking to stay with the tried, true, and simplistic low overhead technologies such as XML message types because the enrichment is so simplistic.

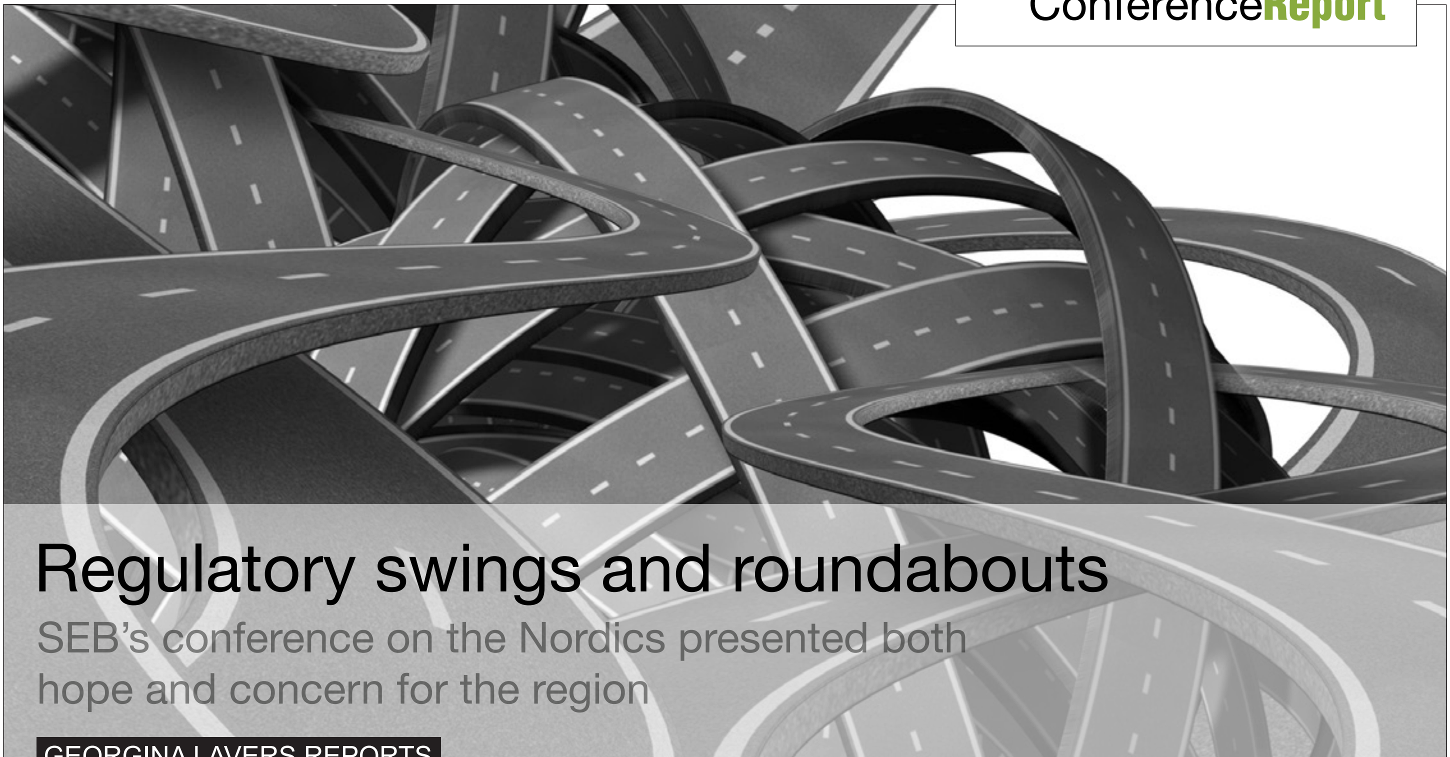
That message type can be expanded very easily without having to learn a big technology stack or difficult tools. One thing that clients really like about our post-trade processing solution, TradeFlow, is that it is message agnostic. We can interface with FPMLs, the XML, Omgeo, SWIFT, and so on.

Pfuhler: As I said before, the institutional investor will absolutely analyse the technology that's in place in the context of the control infrastructure and validate that their providers have the appropriate controls to provide the reporting that's required. There is, I think, a much bigger focus on analysing the security and control infrastructure and architecture, and performing an audit, if you will, from time to time during the course of the relationship and making sure that those audit results are correct and complete and would satisfy a regulator. **AST**

Stephen Inocencio
Vice president of sales, global managed services and executive relationship management
Fiserv



John Pfuhler
Vice president of sales in the Americas and Asia
Fiserv



Regulatory swings and roundabouts

SEB's conference on the Nordics presented both hope and concern for the region

GEORGINA LAVERS REPORTS

With roughly 10 chandeliers to a room and gold leaf a-plenty, Mansion House (the home to current mayor of the City of London, Roger Gifford) was an apt setting for a day of Northern Thoughts, an event from SEB.

After all, Norway has been spared from the economic problems having shaken Europe and the rest of the world. While increasing unemployment and burdensome debt threaten several countries outside of Norway, Norwegians enjoy advantages of low interest rates, a strong currency and high wages.

Yet, Norwegian Prime Minister Jens Stoltenberg warned just last week that Norway is not immune to the bleak year currently facing Europe; a statement that was echoed by Piia-Noora Kauppi, a Finnish politician who spoke at the event.

Kauppi, who juggles both representing the National Coalition Party as well as managing the Federation of Finnish Financial Services, emphasised the importance of a 'single market', while agreeing that over-regulation was a very real worry.

"I think we would be very competitive in Europe if we had a single market securities infrastructure, but unfortunately we still have the Giovannini barriers to contend with."

Other speakers were equally rounded when discussing the region, with a balanced macroeconomic outlook from Johan Javeus, chief strategist at SEB, as well as Roger Gifford, who presumably only had to come downstairs from his sitting room to give a welcome introduction.

The highlight of the day came from the last panel, which discussed effects of regulatory changes on the Nordics. Florence Fontan, head of public affairs at BNP Paribas Securities Services, wrestled with a hefty list of regulations, including Basel III, the European Market Infrastructure Regulation (EMIR), the Central Securities Depository Regulation (CSDR) and the Alternative Investment Fund Management Directive (AIFMD).

"At the top of the pack is Basel III. Although there's still a lot of focus on this, my other top three are EMIR and all the changes in the derivatives space, including consequences of collateral management and finding the right collateral, CSDR, which timings-wise is probably a more remote concern, being that it is still in an intense lobbying space, and lastly is AIFMD and UCITS V."

On the drive towards central clearing that is evident in EMIR and the US Dodd-Frank Act, director of research at Thomas Murray, Tim Reucroft, was vociferous in his criticism of the US's skills of definition.

"Dodd-Frank was actually put in place in June 2009; before the G20 summit in September 2009, and the way that all these countries are implementing G20 implications are very different. Europe has done a far better job than the US at defining an efficient CCP (central counterparty); in the US, the CCP could have zero capital and still need those capital requirements. It is a nightmare to keep track of what's happening in every region, and there's only one notion of what a qualifying CCP is ... this is a major black hole in the regulations."

Fontan agreed that there were problems, singling out globalisation as an important factor. "There is one question still floating around: we have conflicting regulations on OTCs across the globe, but we have a global market. What happens when you're transacting an OTC derivative with a US and a European counterpart? The US asset manager is subject to Dodd-Frank and the EU asset manager is subject to EMIR. But you can only clear in one place. Today, Dodd-Frank says you can only clear in a CCP which is applicable to Dodd Frank, which means we are still dealing with geography when it comes to legislation."

On how much of a fit OTC derivatives markets reform is with Nordic markets, Martin Axelsson, legal counsel at SEB, said that the region's clearing in the past has been quite Scandinavian in style. "It's an end-client type of clearing, and not fully EMIR compliant: a client having a direct relationship with a clearinghouse will have, from an EMIR perspective, the status of a clearing member."

Finally, moderator Bob Currie acknowledged that the Level 2 measures of AIFMD, which were published in December 2012, had much broader asset safety implications. When asked what the consequences would be for fund depositories, sub-custodians, and agent banks, Fontan said that liability was the big step.

"The depository concept has been introduced with increased level of liability than what was considered in UCITS. Here the depository has three main functions: its oversight function, safekeeping (which is split into custody, etc), and the newest thing from Level 2 is the cash function, which came as a surprise to the industry because it almost duplicated the previous administration. It means that a depository will have to duplicate some of the fund administration functions."

"The second aspect that could affect the UK is that the depository will probably keep custody function to ensure control. But if something happens at the sub-custodian level, the depository is responsible. Making sure that as custodian, you fully control where the assets are going and only work with sub-custodians that you truly trust—that is going to be a trend." **AST**

2013

01 January						
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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.

02 February						
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7th Clearing, Settlement & Custody Asia 2013

Location: Singapore
Date: 26-27 February 2013
www.clearingcustodyasia.com

Informa's 7th Annual Clearing, Settlement & Custody Asia Forum will continue to provide Asia's leading networking platform for attendees, while equipping them with the necessary practical strategies to work more efficiently. This is a focused event to enhance your understanding and implementation of the latest regulatory changes. Discuss best practices and hear from industry leaders as well as regulators on how to best navigate the ever-changing post-trading environment.

03 March						
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ITAS 2013 - International Transfer Agency Summit

Location: Luxembourg
Date: 26 February-1 March 2013
www.itas-event.com

The upcoming International Transfer Agency Summit sees 60+ speakers confirmed, and a noticeably increased asset management and distribution speaker attendance.

This really is the key event for catching up with business partners, listening to and debating with some of the leading figures in the fund operations industry, and having great fun at the evening functions. Speakers from all corners of the globe are once again committed to attend and grow the ITAS family—see you in Luxembourg in February!

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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

RBC Investor & Treasury Services has appointed **Tony Johnson** and **Joanna Meager** as co-heads of its investor services business.

Johnson, who is global head of sales and distribution, and Meager who is global head of client operations, will continue in their current roles in addition to their new positions.

Meager and Johnson take over from José Placido, CEO of RBC Investor Services, who has announced his departure, which comes into effect on 28 February 2013, after more than 24 years at the firm.

Both will report to Harry Samuel, head of RBS Investor & Treasury Services, which is the new RBC division comprised of global financial institutions, investor services and treasury services.

Nancy Grady has joined Northern Trust as head of fund administration and fund accounting in the Americas, overseeing fund accounting, regulatory administration, financial reporting, tax and other services for registered and unregistered mutual fund products.

“We are pleased to have Grady come to Northern Trust at a time when we see increasing demand for strong local fund expertise delivered on our global platform,” said Dan Houlihan, head of global fund services in the Americas for Northern Trust.

“Her extensive industry experience and leadership will serve Northern Trust clients well as they look for a servicing partner that can help them become more efficient, enter new markets and execute their regional and global distribution strategies.”

Grady has more than 25 years of experience in fund accounting and administration. Prior to joining Northern Trust, she was global head of custody and fund accounting advisory services at WIPRO Technologies.

For much of her career, she was a senior executive at State Street, overseeing operations responsible for providing accounting and fund services to asset management firms on a global basis.

Rob Feckner and **George Diehr** will remain on the California Public Employees’ Retirement System (CalPERS) board of administration after it unanimously re-elected them as president and vice president respectively.

The re-election marks Feckner’s ninth term as president and Diehr’s sixth as vice president.

Feckner was first elected as the representative of CalPERS school members in 1998. Diehr first joined the pension fund’s board in 2002.

Heritage International Fund Managers in Malta has named **Nicholas Warren** as head of office.

Warren has worked in the financial services industry since 2004, initially with Deloitte & Touche in Luxembourg, before moving to the regulatory unit of the Malta Financial Services Authority.

Paladyne Systems, a Broadridge Financial Solutions company, has appointed **Jim Feingold** to the role of global head of sales.

Joining the sales and business development team as senior hires are **Devani Maijala**, **Lisa Zippelius** and **Michael Conti**.

Feingold will developing buy-side relationships directly with hedge funds, asset managers, service providers and channel partners, as well as supporting Paladyne sales into adjacent markets.

Maijala joins Paladyne as a senior director of sales and will be focused on expanding relationships with global hedge fund administrators, and Zippelius joins Paladyne’s New York office as a senior director of buy-side sales and will focus on prime brokerage.

Zippelius spent nine years at Goldman Sachs where she was most recently a vice president in the prime brokerage group as a trader on the securities lending desk.

Conti joins Paladyne as senior director of sales and will cover direct sales to hedge funds and asset management clients in the US. **AST**

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