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Citi aids largest QFI Indian investment

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Citi India acted as a qualified depository participant, custodian and execution broker for an investment made by Sanlam, one of South Africa's largest financial services groups, through the qualified foreign investor (QFI) scheme.

The investment of around $111 million is the largest QFI investment in India since the easing of QFI regulations for investing in Indian equities over the past few quarters.

The transaction, which was the first of its kind to be supported by a foreign bank custodian in India, reinforces the efforts of the government to allow QFIs to directly invest in the Indian equity market, with Sanlam making an investment in a listed stock in India through the scheme.

Gerrit Van Heerde, CFO of Sanlam emerging markets, said: "The investment made through the QFI scheme, ably supported by Citi India, demonstrates the capabilities of its people and platform in making an extremely difficult deal become reality. The advantages of the QFI scheme are immense in time sensitive deals as this one."

Debopama Sen, country head of India for securities and fund services at Citi, said: "[The bank] continues to actively engage in discussions with regulators and investors across diverse forums, highlighting the multiple benefits of a simplified QFI framework as one of the preferred investment routes into the Indian markets. Sanlam's investment through this route is extremely encouraging and we look forward to further investments from other leading investors in our portfolio using the simplified QFI route."

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ASTINBRIEF

IMS Group and HedgeOp Compliance branch out in Asia

IMS Group and HedgeOp Compliance will open its first office in Hong Kong to support firms in their efforts to manage global regulation.

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BNP Paribas signs up to the Collateral Highway

BNP Paribas has followed CME Clearing Europe's lead, going live on Euroclear Bank's Collateral Highway.

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Citi aids largest QFI Indian investment

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Gagan Rai, managing director and CEO of India's National Securities Depositary, added that Citi was among its first custodian partners to have been at the forefront of educating investors on newer formats of investment such as the new, simplified QFI scheme.

"As the central depository, we understand Sanlam's recent investment of around $111 million is the single largest QFI investment in direct equity in India post the several amendments made to the QFI regulations over the last few quarters. Post this transaction, current investments stand at approximately INR6.8 billion ($126 million) in Indian equities and INR4.4 billion ($82 million) in fixed Income though this investment route. We are confident that investments will significantly increase over the year as investors understand the many benefits of investing as a QFI."

The QFI framework simplified Indian access for foreign investors who are members of the Financial Action Task Force (FATF) jurisdictions, allowing them to invest in India without being registered with the Securities and Exchange Board of India (SEBI) or meeting the set eligibility criteria for a foreign institutional investor or sub-account in the country.

To encourage the use of this investment route, Citi said that it has been in "active discussions with various potential QFIs and regulators, to simplify the requirements further and attract fresh investments under this scheme".

The revised guidelines from the Indian government permits QFIs to open a segregated bank account in India and allow qualified depository participants to rely on authorised intermediaries such as global custodians to verify certain documents, and allow PAN card copy to be verified online.

"These changes in regulations are expected to widen the class of foreign investors and deepen the Indian capital market, thereby helping reduce market volatility in the equity markets," said a statement from Citi.

IMS Group and HedgeOp Compliance branch out in Asia

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The new office will enable hedge funds, wealth managers and other alternative investment managers engaged in the Asian markets to take advantage of focused localised support. It will offer services such as ongoing compliance, consulting across regulatory jurisdictions, web-based compliance and personal trading software.

Jonathan Currie, who was previously the head of IMS Group's regulatory transactions team in London, will lead the new office.

In a statement, Currie said: "Establishing a first local presence in Asia enables our group to better serve our clients, allowing them to maximise opportunities while substantially minimising the risk of financial and reputational loss associated through a regulatory breach."

The new office follows the merger of HedgeOp and IMS Group in January 2012.

Bill Mulligan, CEO of HedgeOp Compliance, said: "The establishment of a Hong Kong office became the next logical step in our plans for expansion and continued growth. Our group has delivered sustained high growth and together, we are delivering a trusted and respected programme of regulatory services and training designed to support our clients through a continuing wave of unprecedented regulatory change and ever stricter enforcement."

BNP Paribas signs up to the Collateral Highway

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The Collateral Highway links commercial and investment banks, supranationals, central banks, central counterparties and other capital market infrastructure providers across time zones and markets.

The firms have been working since last year to develop their triparty collateral management arrangements.

Under the arrangement, securities that are held in local custody with BNP Paribas may be used as collateral in triparty collateral management deals that are managed by Euroclear Bank.

In a statement, Frederic Hannequart, chairman of Euroclear Bank, said: "This partnership is particularly timely and important as demand for collateral continues to increase. By joining forces, we alleviate one of the challenges of collateral fragmentation by making the transfer of collateral to the right place at the right time as seamless and operationally simple as possible. As the first agent bank live on our Collateral Highway, we applaud BNP Paribas' foresight and drive to offer their clients a flexible and innovative option to ease collateral flows. We are delighted to be partnering with them."

Alain Pochet, head of clearing, settlement and custody at BNP Paribas Securities Services, added: "This is a major achievement for both parties, and comes at a very appropriate timing for our clients who face significant regulatory changes. From today, they will be able to flawlessly finance their available securities, which will help them address the ever-increasing demand for collateral."

"The first trade completed through this partnership was executed in the Spanish market. It allowed our mutual client to use available securities held with BNP Paribas Securities Madrid as collateral for the triparty transaction administered by Euroclear Bank. This resulted in increased purchasing power for the client. The transaction was easy and successful, and we are confident that this collaboration will continue to bear fruit in future—in fact, this same service is already available in the Italian market as well."

BNP Paribas Securities Services and Euroclear Bank are working to extend the scope of their arrangement to the main European and Asian markets. Euroclear Bank's Collateral Highway had used €700 billion of securities as collateral each day by the year-end of 2012, according to its first recorded results. Citi and CME Clearing Europe are among the firms to have signed up to the Collateral Highway since its inception in July 2012.

GSF down, AuA up for Clearstream

Clearstream's January 2013 figures showed a decrease in global securities finance (GSF), but an increase in assets under custody.

In February 2013, assets under custody that were held on behalf of customers reached €11.4 trillion, a year-on-year increase of four percent.

For GSF services, the monthly average outstanding reached €563.3 billion. The combined services, which include tripartyrepo, securities lending and collateral management, collectively experienced a drop of six percent over February 2012.

The investment funds services saw an 18 percent increase over February 2012, with 0.62 million transactions processed.

Daily volume increases but repo drops at Eurex

Eurex Group experience an increase in daily volume contracts but a decline in repo, according to its February 2013 figures.

The international derivatives markets of Eurex Group recorded an average daily volume of 9 million contracts, up 0.3 million year-on-year.

Of those, 6.3 million were Eurex Exchange contracts, down 0.3 million from this time last year, and 2.7 million contracts were traded at the US based international Securities Exchange, the same figure as recorded last year.

Eurex repo, which operates Swiss franc, Euro repo and GC Pooling markets, recorded €213 billion average outstanding volume in all repo markets, a decline of €23.4 billion year-on-year. The equity derivatives (equity options and single stock futures) segment at Eurex Exchange reached 21.8 million contracts, down 8.3 million contracts year-on-year. Equity options totalled 16.6 million contracts and single stock futures equalled 5.2 million contracts.

Torstone Technology in a blaze for FTT

Torstone Technology, which provides securities and derivatives processing software to the global financial markets, has readied its Inferno post-trade processing solution for the European Financial Transaction Tax (FTT), and is rolling out the upgrade to existing clients.

Eleven European countries have decided to impose the FTT—which is still subject to EU approval—across a range of equities and derivatives, with France and Italy being first to introduce versions of the tax.

Brian Collings, chief executive of Torstone Technology, said: "FTT is a core systems upgrade as far as we are concerned which means that it will be automatically provided to clients. The inherent design, support for a broad range of asset classes within one system and the ease of centralising trade and reference data from disparate front office systems, has made it relatively straightforward for us to implement the changes in Inferno and provide the data required for FTT regulatory reporting."

Creators of Inferno stressed that the taxation logic can be adapted "on the fly" as regulations are clarified and the needs of other countries are more clearly defined.

The system's online and historic transaction and reference data aims to simplify backdated tax calculations and back reporting which the new rules may demand. It also calculates net trading positions across multiple source systems throughout the organisation.

Indonesian asset manager to use Omgeo Central Trade Manager

PT Schroder Investment Management is the first Indonesian asset manager to go live on Omgeo Central Trade Manager (CTM).

The firm is the largest investment manager in Indonesia. Globally, it manages £212 billion as of 31 December 2012.

It will use Omgeo's domestic and cross-border central matching service for equity, fixed income, exchange traded derivatives (futures and listed options) and contract for difference trades.

The adoption of the service in Indonesia aligns PT Schroder Investment Management's local capabilities with those in other markets, which also use Omgeo CTM.

An Omgeo statement said that the adoption of Omgeo CTM in Indonesia introduces automation "to this largely manual market" and enables PT Schroder Investment Management "to mitigate operational risk and increase efficiency while using a single platform for the seamless communication of international and domestic trade details with broker-dealer counterparties".

"This will also enable Schroders' Regional Processing Hub, which is currently supported out of Singapore, to build contingency across its regional operations."

PT Schroder Investment Management is also partnering with Omgeo to reach out to Indonesian brokers "to advocate the importance of automating post-trade processes in addressing operational risk and aligning with global best practice".

Veronica Low, head of portfolio services in the Asia Pacific region at PT Schroder Investment Management, said: "As the largest investment manager in Indonesia, it is important that we take the lead in helping the industry move forward on automation as it minimses risks when managers seek improvements to their operational throughputs. This is particularly important in the Indonesian market where the back office is constantly under pressure to report matched trades to the custodians within a very tight turnaround time for NAV calculation."

"With most of our equity brokers now on Omgeo CTM, 95 percent of our equity trades are now achieving STP. We will continue to work with our fixed income counterparties in the coming months to achieve similar STP rates for fixed income trades. We believe the operations team is now well placed to support future growth of PT Schroders' business."

Omgeo has also partnered up with portfolio management solutions provider Enfusion to offer clients a new solution that increases middle-office efficiencies for hedge funds across asset classes.

The solution connects Enfusion's platform Integráta with Omgeo CTM.

The joint offering automates ETD post-trade processes for the global hedge fund industry, enabling clients to access the central matching benefits of Omgeo CTM directly from their Integráta portfolio management interface.

Users will be able to standardise post-trade workflows and enhance straight through pro-

cessing of ETD trades, which in turn will increase accuracy and efficiency while reducing costs and operational risks.

Tarek Hammond, managing partner at Enfusion, said: “Our clients are moving toward more integrated workflows in post-trade operations, and many continue to express an interest in this new solution. Partnering with Omgeo is a logical step as it allows us to assist our clients to increase efficiencies in the processing of listed derivatives and reduce operational risks.”

Ted Leveroni, executive director of derivative strategy and external relations at Omgeo, added: “As hedge funds continue to boost their trading strategies with listed derivatives, they need to ensure their middle- and back-office processes keep pace with their front-office activities. This new joint offering highlights Omgeo’s aim to facilitate efficiency across the evolving global markets, increasing the use of best practice automation and lowering risk for buy- and sell-side firms alike.”

Markit rolls out triparty repo data

Markit Securities Finance is seeking to capitalise on the $10 trillion repo market, with the expansion of its content and analytical services to include US dollar triparty repo transactions.

The firm will use triparty US dollar repo data and position updates from BNY Mellon, which has approximately 80 percent of the US triparty market. Adding to this data with original analytics, Markit hopes to aid transparency and price discovery for clients including banks, insurance companies, fund managers and corporations.

The data will include a two-year history and represents outstanding positions in excess of $1 trillion, marking a significant increase in the firm’s original stock loan data set.

The aggregated repo data provides enhanced visibility into the key drivers of repo pricing at market, sector and security levels. It aims to provide repo market participants with greater clarity into transaction maturities, haircuts, collateral type and collateral quality.

“The data we are receiving is at security level, but we can then aggregate that by collateral class level as well,” said David Carruthers, managing director of Markit Securities Finance.

“We could indicate the typical trade rate for corporate bonds, or typical type of haircut for government bonds—you can filter the data by any of these factors. It even includes equities, and is a rich data set that tells you how much money you could make if you were willing to accept a certain type of collateral, and how much you would have to pay if you were pledging that type of collateral and borrowing cash by transaction term.”

As for the reasoning behind the new venture, Carruthers indicated that the US Federal Reserve’s infrastructure reform, the Dodd-Frank Act’s collateral requirements for the central clearing of OTC derivatives and the LIBOR scandal all played their component parts in deciding the launch.

“The Federal Reserve wanted to look at a range of things. After the collapse of Lehman Brothers, they would like repo market participants to embrace longer-term trades, to diversify the range of collateral they accept and counterparties they deal with.”

“In addition, the Dodd-Frank rules and other regulations across the globe will require OTC derivatives to be cleared through central counterparties. As a result, they now have to post initial margin, which they didn’t have to post before. The direct consequence of that is the collateral shortage, and we expect a lot of people will want our information to enhance their collateral optimisation process and for benchmarking collateral swaps.”

The firm is rolling out beta trials to major clients for the next month, after which the data will be available through a web browser with enhanced analytics. Carruthers added that after the trial, this data will be made available to the broader market including corporate treasurers, collateral managers, money market managers, risk managers and commercial banks.

Pierre Khemdoudi, previously of BNP Paribas, and Steve Baker of Calypso Technology have been recruited to Markit as product managers for this and other planned launches.

Chapman’s Eye on the market

Survival of the value-adding specialist

Back in the mists of time, when dinosaurs roamed the earth and custody fees were in the high tens of basis points, there was no ‘asset servicing’, ‘investor services’ or some such variant. Instead, there was the ‘back office’—a dark and paper-filled place, likely within the bowels of an old bank building where people would add entries in pen in large ledgers, tear off reams of telexes by hand and pin them to trade confirms and respond to client issues by fax or letter. The people who thrived in such an environment were those who could manage large numbers of staff, understand the full back-to-front process that is involved in the life of a trade and who were masters of many trades—literally.

It was soon realised that this was a business perfectly suited to the rise of relevant technology, and that it was an annuity business with sticky revenue and many different charging opportunities. It was when these realisations were made—along with a growing appreciation of rising volumes (on the back of increased interest in the stock market and increasing general affluence)—that matters began to change. Those basement offices began to move up the corporate building and shiny new pieces of technology began to appear with significant implications for the human element of the post-trade process. Gone was the need for unreliable humans to reconcile trades, post entries and manually process tickets, as a tide of technology began to take over, with ‘security services professionals’—as they were now called—being obliged to learn new skills and more up the value chain. This inevitably reached a point where only those who could demonstrably add value could survive.

This evolutionary process continues to this day. It has reached a point where the only people who are on even relatively safe ground are, job-wise, those who are value-adding specialists in their finite chosen area—be it sales, investment operations, risk and compliance, or network. To be a generalist in this market is like being a dinosaur in that your days are very much numbered.

As ever, do let me know your thoughts. Drop me a line at paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

Bottom line:

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Citi has been given the go-ahead to provide private equity fund services to glendonTodd Capital.

Dallas-based glendonTodd is a private equity firm that focuses on investments in healthcare real estate, data centres and related infrastructure, technology-enabled business services companies and financial services companies.

Citi will provide glendonTodd with full capabilities for accounting, administrative and reporting functions. Citi coordinates across the general partner and other third-party relationships to act as a centralised point of information and investor/shareholding reporting.

Mary Hatcher, CFO and chief compliance officer at glendonTodd, said: "We think Citi's proven expertise and extensive experience in meeting the specialised needs of private equity sponsors fits well with our investment philosophy."

"The knowledge of their staff and the depth of their capabilities were key factors in our decision when finding a service provider for our private equity funds."

Joe Patellaro, global head of Citi's private equity services, said: "[The bnak] has a long history of providing services to mid-market private equity fund groups. We offer a flexible, end-to-end client service model and platform that can be easily tailored to our clients' requirements and objectives, backed by a dedicated team of specialists and the extensive investment services resources and infrastructure of Citi."

Mobiliar Asset Management, the asset management division of Mobiliar Group, has chosen **CACEIS** to administer its new Swiss-law real estate fund, MobiFonds Swiss Property.

MobiFonds Swiss Property will invest in the development of a high quality Swiss real estate portfolio and is open exclusively to subscriptions from institutional investors. The fund launched on 15 March.

Stefan Mächler, managing director of Swiss Mobiliar Asset Management and chief investment officer of the Mobiliar Group, said: "We made a thorough assessment of the business proposal received from CACEIS (Switzerland) SA for our new MobiFonds Swiss Property fund and decided to award the administration mandate to CACEIS on the quality if the service offer and the firm's experience in administering Swiss real estate investments. We believe this is the right decision for Mobiliar Asset Management as well as our investors."

Philippe Bens, managing director of CACEIS (Switzerland), said: "We believe that our broad service range, robust technology and experienced staff are key to winning mandates and maintaining our position as the leading administrator of real estate funds on the Swiss market. We look forward to strengthening our partnership with Swiss Mobiliar Asset Management over the coming years."

Northern Trust has completed the implementation and integration of Commonwealth Superannuation Corporation (CSC) on to its technology platform.

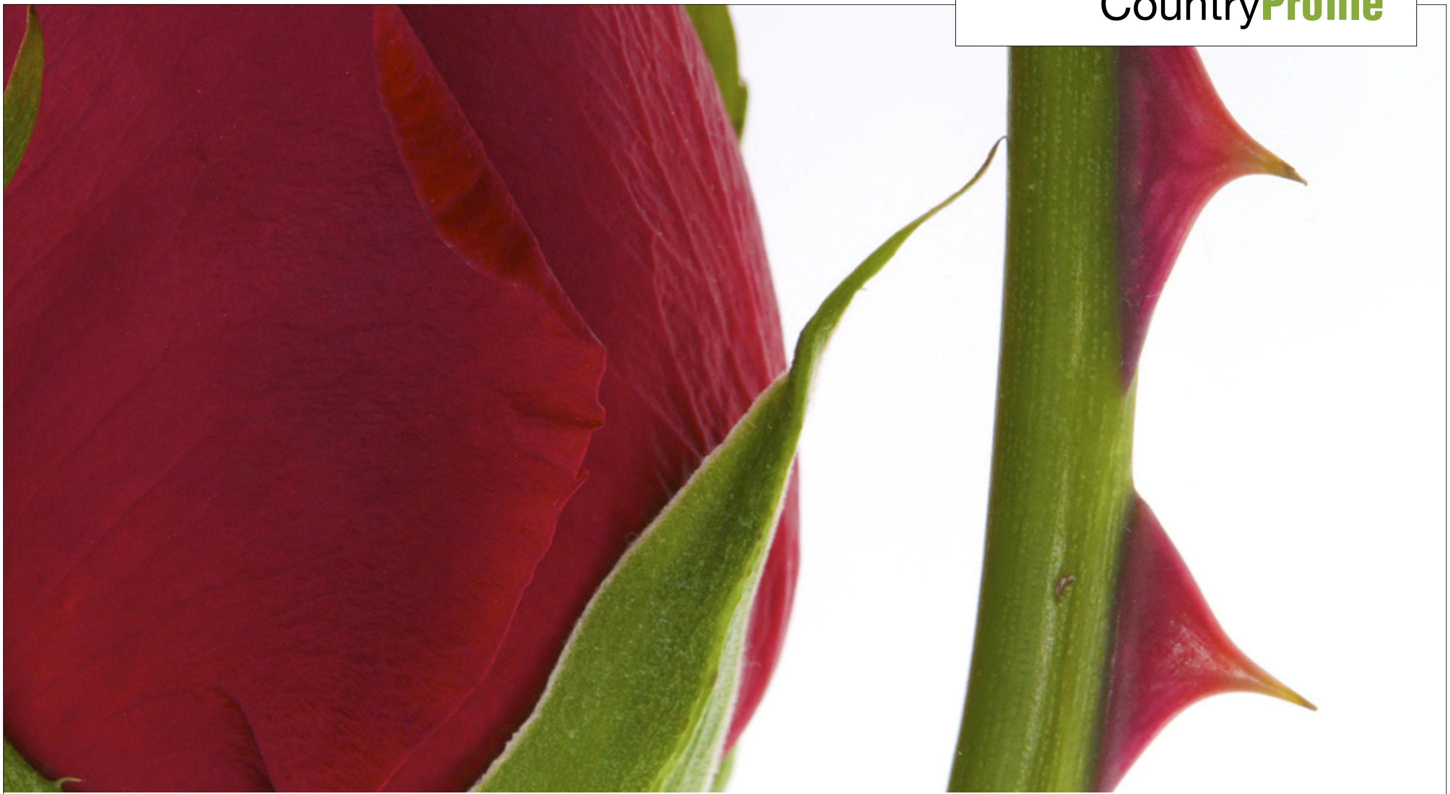
CSC was established in July 2011 as a result of a merger between the Australian Reward Investment Alliance and the Military Superannuation and Benefits Board.

Northern Trust was appointed to provide master custody and related services to the AU$26 billion fund in late 2011 and in the last year completed the transition of CSC's custody arrangements.

Rohan Singh, managing director of Northern Trust Australia, said: "Northern Trust's ability to deliver a range of online services and provide clients such as CSC with access to data for exposure and transparency purposes is key to managing risk on a real time basis."

"Northern Trust continues to develop innovative solutions and looks forward to delivering significant value to CSC and all its clients in Australia and New Zealand as they navigate a period of significant change and an environment of increased regulatory oversight."

Leonie McCracken, senior executive of operations at CSC, said: "The advantages of the service capabilities that we saw during the period of due diligence are being delivered. Northern Trust's online web portal, passport, assists CSC to manage daily operational risk in an automated manner. In addition, the fully integrated tax system is providing accurate and fully optimised tax reporting."



A rose amongst thorns

Debt is rising at a reported 23 percent a year, but Bermudian financial services are keeping up appearances. AST takes a look

GEORGINA LAVERS REPORTS

Far away from the hubbub of London and New York sits an island that promises a little sea and sand with its finance. With the allure of a working day that doesn't stretch into the night, some semblance of a work/life balance, and a two-hour flight to New York, it is of little surprise that Bermuda has built up its financial services offering to a hefty weight.

Beyond the azure waters, though, there have been significant structural problems with the territory's economy. Bermuda's finance minister, Everard Richards, recently said he has "looked under the hood" of the island's finances, and pronounced that it was clear that the state of government finances is "every bit as bad as we had feared might be when we were on the outside", adding: "The trajectories of deficits and debt we found are simply not sustainable."

Although debt is rapidly growing, Richards was adamant that tax increases would not be the answer. He instead plans to borrow further and to raise the debt ceiling.

"The inescapable reality is that Bermuda's present economy cannot carry the government as it is presently structured and sized without implementing crippling tax increases," he said.

"Your government does not want to go this route—rather, we will focus our maximum efforts to streamline and deregulate the economy and implement the stimulus measures that we outlined in our Jobs & Economic Turnaround Plan."

The island is home to many service providers—accounting firms, internationally recognised law firms, insurance, and investment management, to name a few—and the breadth of knowledge means that the financial services industry will continue to be a vital source of wealth.

Ede Conyers, CEO of ISIS Fund Services, says that the territory's strong and balanced legislative framework provides the jurisdiction with legitimacy and reliability. "The Investment Funds Act outlines the rules for establishing and supervising investment funds and fund administrators in Bermuda, and all fund administrators must be licensed before they can perform services here. The Investment Funds Act clearly outlines the criteria and can grant a fund administrator a licence efficiently if all the required information has been provided to the Bermuda Monetary Authority. This layer of regulatory oversight provides international investors and fund managers with a sense of security."

Conyers indicates that the island's regulatory framework, particularly its thorough know your customer rules that focus on risk, provides comfort to fund administrators, other service providers, investment managers and fund investors alike.

"It has never been more important in the history of the investment funds industry to have a fund administrator based in and have an investment fund domiciled in a jurisdiction that has robust anti-money laundering and anti-terrorist financing laws. Bermuda's Proceeds of Crime Act obligates fund administrators to put in place adequate controls to mitigate the risk of money laundering and terrorist financing business activities. Frequent monitoring and reporting has been implemented to ensure that fund administrators have adequate controls in place and that they are being effectively followed. Additionally, the BMA (Bermuda Monetary Authority) actively ensures that its regulatory standards exceed the international community's expectations to ensure that Bermuda maintains its excellent reputation as a recognised offshore jurisdiction."

The Bermuda Stock Exchange (BSX) is also an attractive feature for funds that look to access the international markets, says Conyers. Established in 1971, the BSX was the world's first fully electronic offshore securities exchange market, and is currently the world's largest offshore, fully electronic securities market offering a full range of listing and trading opportunities for international and domestic issuers of equity, debt, depository receipts, insurance securitisation and derivative warrants.

It is a full member of the World Federation of Exchanges and is recognised by the US Securities Exchange Commission as a Designated Offshore Securities Exchange and by the UK Financial Services Authority as a Designated Investment Exchange.

"The BSX is one of the world's leading listing facilities for offshore funds and alternative investment vehicles and supports niche markets for specialized insurance and debt products," says Conyers. "Having such a highly regarded stock exchange is a great asset for Bermuda fund administrators as it attracts quality fund managers wanting greater recognition from institutional investors and greater access to international markets."

Off the beaten path

Historically, people have equated administrators with offshore funds, but this has changed over the last several years.

"Without a doubt, both offshore and onshore funds now look to outsource their fund administration to reputable third-party fund administrators," says Conyers. "Many things over the past 10 years have precipitated this change; however the one factor that brought this change to the forefront was that investors expect independent oversight of their investments. Today, it is extremely uncommon to see an investment fund that does not engage a fund administrator. Investors will think twice before investing in a fund that self administers as they do not have a clear view of how their investment is being managed. Today, investors are seeking greater transparency into their fund investment from not only the fund manager but also the administrator. We expect this trend to continue as the investment funds industry continues to evolve and investors become more sophisticated."

Investors are not only looking at Bermuda as a potential servicing domicile. The Cayman Islands has similar regulatory set-up costs and time to market, and dominated when it came to new business for almost a decade.However, Bermuda's commitment to client vetting has helped its reputation among large blue-chip fund players.

"Bermuda and Cayman have developed as centres of excellence for offshore fund administration because they both have sophisticated infrastructures in place which are absolutely essential to support the growing international business sector of each jurisdiction," adds Conyers.

"Bermuda is particularly known for its insurance and re-insurance industry with aggregate global capital of nearly $90 billion (CY 2011) while Cayman is more known for financial services in general, which is said to be the sixth largest international banking centre. Both jurisdictions have strong legislative and regulatory bodies with progressive laws and tax structures. Fund administrators are licensed and subject to robust anti-money laundering regulations. Now more so than ever, greater emphasis has been placed on having a recognised and balanced legal framework to monitor and enforce the regulations. Other offshore jurisdictions have not had the political stability or infrastructure to put in place and enforce a similar legislative and regulatory framework, making them a riskier location to conduct business."

Bermuda fund administrators can provide services to a wide array of fund types including hedge funds, fund of hedge funds, private equity funds and insurance linked securities funds. "These funds, in particular hedge funds, employ various investment strategies including long/short equity, fixed income, managed futures, global macro, structured credit, etc, which Bermuda administrators are well equipped to service because of the investment that they have made in technology and in employing experienced staff," says Conyers.

The past decade has seen a number of high profile moves to the island—Invesco, with $500 billion AuM moved in 2007, thanks to the Bermuda's reputation and the number of similar types of firms already domiciled there.

The fact that such a broad range of funds are administrated lends itself well to potential crossover with other industries. Conyers says that over the past several years, there has been a convergence between the capital markets and the insurance/reinsurance markets, bringing about a new hedge fund strategy that trades insurance linked securities such as catastrophe bonds, industry loss warrants and other sidecar investments.

"These types of funds require expertise from specialised fund administrators that have the capability of providing traditional hedge fund administration services as well as the ability to verify the valuations for the specific type of securities where a price is not readily available on an exchange. Bermuda administrators in particular are in an advantageous position to provide administration services to funds that invest in insurance linked securities because of the enormous financial services, insurance and reinsurance presence on the island."

Global versus boutique

The fund administration landscape has changed in Bermuda over the past decade as larger administrators have shifted certain operations to lower cost jurisdictions, says Conyers.

"The island remains home to a good mix of both global administrators and boutique administrators with excellent reputations for providing investment funds with a hands-on, knowledgeable and a first class service offering."

Some of the island's top administrators have been acquired by bigger organisations; Bank of Bermuda by HSBC and, and Butterfield Fund Services by Butterfield Fulcrum, for example. Other administrators such as Citco and Citi Hedge Fund Services have reduced their number of staff on the island, and a number of Bermuda firms have set up shop in the US.

A 2012 industry survey found that consolidation is driving managers to change their fund administrators after launching funds in international domiciles.

In addition, international investors are expected to have greater influence on managers' domiciliation and fund servicing decisions, while offshore centres could prosper and gain market share.

More than a fifth of those surveyed work for managers that have changed their fund administrator. Consolidation was given as the chief reason for this, cost was the second most common reason with poor service being third. However, only 8 percent of the managers surveyed expressed some dissatisfaction with their administrators, but they did not say that this necessarily meant they were about to switch.

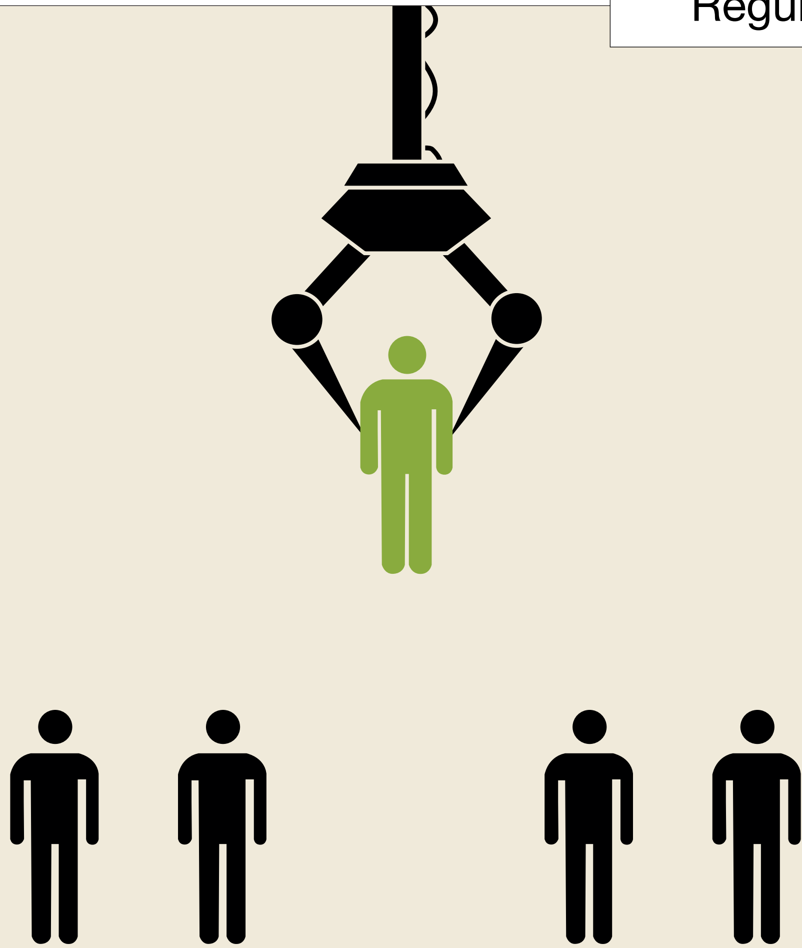
On a scale of 1 to 10, fund administrators scored 6.79 for the services that they provide. Guernsey was the jurisdiction that scored highest for fund servicing provision, scoring 3.8 out of 5, Malta and Bermuda shared the next spot at 3.5.

One area that saw a significant increase was investor due diligence on a managers' service provider since the Madoff scandal and market crisis. Seventy percent of respondents said that the level of investor interest in service providers has increased since 2008, though the remaining 30 percent said that interest was substantial before the market events and scandals.

In practice, investors are asking for more operational details though verification varied from rigorous onsite checks through to just being comfortable with the service provider's name. Additionally, managers reported that investors wanted more consolidation allied to a general rise in standards and that this will likely be the story for the next three years. Seventy-five percent of respondents expect fund administrators to consolidate.

"There has been a significant increase in fund administration M&A over the past three years," concludes Conyers. "A number of factors have brought on this change including the increased cost of running a fund administration company in today's regulatory environment, contraction of fees charged, and fewer fund launches and more fund closures as investors are wary to invest when fund performance is erratic."

"It is not a secret that the larger administration companies are getting larger. That said, there is still room for specialised, boutique administrators, but just not as many of them. Not all fund managers want to work with a very large administrator because they prefer the personalised service, fewer points of contact, and access to extremely experienced and capable fund administration professionals who are proactive and will add significant value to their funds and investor base." **AST**



Directive delight

Keith Hale of Multifonds assesses the Alternative Investment Fund Managers Directive as a driver for attracting new alternatives business to Europe

In an industry survey that was conducted by Multifonds last year, 63 percent of respondents, with combined assets exceeding $16 trillion, thought that the Alternative Investment Fund Managers Directive (AIFMD) would make Europe a more attractive jurisdiction for alternative fund investors. With the introduction of AIFMD, alternative investment fund managers will be able to market their funds across European markets more easily, potentially making Europe a more attractive venue for non-EU hedge funds. But there is also a potential downside if additional regulatory costs mean that funds choose to domicile outside from Europe as a result.

Growth opportunity for Europe in alternatives

Increasing institutional investor allocation to hedge funds and growth in retail absolute-return funds such as alternative UCITS, combined with AIFMD, are causing convergence between the traditional long-only and the hedge fund market. For example, investors may want daily liquidity and UCITS-levels of risk management in hedge funds; conversely retail funds may take on alternative characteristics such as a long-short strategy, more derivative instruments or performance fees.

We are already seeing evidence of this convergence across our client base, with a significant growth over the last few years in alternatives to complement our market-leading position in UCITS funds. For example, of the $165 billion of offshore-domiciled funds (Cayman Islands, Bermuda, British Virgin Islands funds) now on the Multifonds investor platform, $50 billion are performance fee equalisation, series or limited partnership assets and this figure is expected to rise to $150 billion on the platform in the next year. Sixty-nine percent of our survey respondents agreed that AIFMD will be a catalyst for convergence, so we may well see acceleration of this convergence as the July 2013 deadline approaches and AIFMD comes into force.

AIFMD offers another potential avenue for gathering assets for alternative funds. Fund managers will be able to establish AIFs (alternative investment funds) to attract investment that previously came directly from high net worth end investors or via an alternative UCITS distribution structure. An AIF structure will give distribution capabilities similar to a UCITS structure, but without the same limitations on eligible asset and risk controls. This will give non-EU alternative funds more opportunities to sell and market their funds across Europe. This assumption was supported by the survey findings, where 72 percent of respondents agreed that non-EU managers would set up European operations to take advantage of AIFMD.

The race towards AIFMD

As the deadline for AIFMD looms, the different European jurisdictions are at varying stages of readiness. But which of these will be best positioned should the inflow of alternative assets into Europe happen as more funds domicile and undertake administration in Europe?

First off the starting blocks was the Netherlands, which was the first jurisdiction to adopt AIFMD. However, being first does not necessarily lead to being the most successful. We believe that the long-established centres of fund administration, Ireland and Luxembourg, will benefit most. The real trick will be to bring the efficiency that is associated with traditional funds together with the flexibility that is associated with hedge funds in terms of asset classes, structures and incisive fees.

Our view is that Ireland is well positioned for alternatives given its position as the leading domicile for alternative funds in the EU. Many funds and administrators have their funds domiciled in Ireland as qualified investor funds (QIFs), which will become the basis for AIFs once that structure is adopted in law by Ireland in 2013. The Irish government appears to be encouraging the industry to grow by adapting and introducing legislation to attract further alternative investment activity. The Central Bank of Ireland (CBI) is attempting to leverage existing regulation, such as the QIF structure, to optimise the EU regulation requirements laid out in the AIFMD. The recently released CBI handbook gives managers advice when seeking authorisation in Ireland. Overall then, Ireland, as a recognised fund centre for alternatives combined with an extensive track record of UCITS distribution, should see net inflows as a result of the growth following AIFMD.

Luxembourg is also well positioned as it is already one of the major onshore European domiciles for alternatives. Luxembourg's version of its draft rules are likely to be transposed into law in August this year to meet AIFMD's requirements with local law compliancy, which may also make Luxembourg one the first jurisdictions to implement the directive.

Luxembourg is well established as the leading UCITS domicile and recognised as having a strong distribution network with a strong focus on the retail market. The real challenge for Luxembourg will be to bring the efficiency that is associated with traditional funds together with the flexibility that is associated with hedge funds in terms of asset classes, structures and performance/incentive fees, when compared to other relatively lower cost domiciles and administration centers.

However, Luxembourg's distribution strength alone will not guarantee the growth of Luxembourg-domiciled AIFs. If the cost of administration is materially higher than in other centres, managers will likely look to locations with lower labour costs that can deliver lower administration fees. As a result, the systematic automation of the AIF operating model via efficient processing systems is critical to the success of Luxembourg for AIFs and indeed as a UCITS centre.

Luxembourg and Ireland are also both bringing in special limited partnership structures into law in another move to make Europe a more attractive jurisdiction for investors. Under this arrangement, where incentive and management fees are allocated to each individual investor, these products can be administered and domiciled onshore while retaining the same limited partnership structures that they have now offshore.

Another of the front-runners in this race is the UK. The Financial Services Authority (FSA) has already issued a consultation paper on AIFMD, so the process is well underway. In Germany, implementation of AIFMD will be via the German Investment Code (GIC)—the last draft of which was issued last October—and will be effective in law by the July 2013 deadline. Spain, France, Belgium and Italy are trailing the pack at the moment and yet to release any specific text for implementation. Whether any of these countries will actually see any inflows over and above the more typical alternative administration centres such as Ireland and Luxembourg remains to be seen.

Word of warning

Until AIFMD comes into force, we will have to wait and see whether it will indeed succeed in bringing the predicted new inflow of alternatives business to Europe and attracting it away from the well-established offshore domiciles. But there is no reason for complacency. The potential downside for Europe is that if the cost of implementing the new regulations is prohibitively high for fund managers, they may re-domicile their funds offshore, outside of Europe.

For example, the biggest concern identified in our survey was depository liability (57 percent saw depository liability as the most challenging element of the directive), which could add anywhere from 1 to 200 basis points, depending on levels of liability. In this scenario, it is very unlikely with the current levels of low interest rates and returns that a '2 and 20' fund becoming a '4 and 20' would be a very attractive proposition. Of course, if a fund re-domiciled outside of Europe, it couldn't be officially marketed to European investors, but many hedge funds haven't ever 'marketed' their funds to European investors in the first place. **AST**

The potential downside for Europe is that if the cost of implementing the new regulations is prohibitively high for fund managers, they may re-domicile their funds offshore, outside of Europe

Keith Hale
Executive vice president, client and business development
Multifonds

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An advisory capacity

AST talks to Herwig Temmerman, Michel Kayembe and Josée-Lynda Denis of Kurt Salmon about geographic trends of fund vehicle distribution

GEORGINA LAVERS REPORTS

What does Kurt Salmon do?

Herwig Temmerman: Kurt Salmon's asset servicing advisory practice is comprised of two teams; one focused on investment funds and the other on securities.

Our securities services group has four specialised teams:

- A strategy team who provides assistance to our clients in defining and reviewing their securities services business model and operating model.
- Our securities solutions team specialises in the review and improvement of securities operational processes. Activities may include definition of key performance indicators (KPI's), benchmarking the processes, or applying Lean Six Sigma methodology to identify value/non-value processes to optimise accordingly. Additionally, system selection and implementation is another core competency of the team.
- The tax and regulations team provides feedback on new regulations, including tax rulings, affecting the securities industry and assists clients with operational implementation. They also render a point of view on the impact of the regulation on market infrastructure.
- Our global liabilities management team advises clients on collateral management, credit and securities lending, and risk and liquidity management.

Michel Kayembe: The investment funds team helps our clients analyse and respond to the challenges facing the asset servicing industry using asset servicing key trends and Insights research that is conducted by Kurt Salmon. This research is global-reaching and focuses on custody/administration asset trends, includes a review of the cost income ratio of market players, and details future strategies and priorities. This team also assists fund administrators with achieving operational excellence in fund accounting, transfer agency and fund distribution. Additionally, the group works with asset managers and asset servicers to support their outsourcing programmes, beginning with the strategic planning phase, selection and assessment of service providers, conducting due diligence, through to solutions-delivery and transition management.

How do you go about benchmarking and selecting a custodian?

Temmerman: Kurt Salmon provides advisory services and assists clients with custodian benchmarking. Additionally, our holistic approach starts with hands-on collaboration with our client. Our approach includes definition and review of business strategy, and target operating and business models. Part of this exercise includes a clear and homogenous custodian bank and transfer agent network strategy. The next step is a review or, if not yet existent, the establishment and implementation of a centralised governance and dashboard for custodian network management.

If benchmarking must be completed using a selection process, the service library and benchmarks are used to define the statement of requirements and key selection criteria

For custodian benchmarking, Kurt Salmon uses a five-step approach—(i) inventory; (ii) assess; (iii) review and validate; (iv) measure; and (v) present—that involves the following:

- During the inventory phase, we review or create a service library (gather service descriptions, process data, etc). In this step, it is important to take into account current and future client requirements, as well as best practices.
- The assess phase includes review or establishment of a benchmark. We analyse data to evaluate or determine internal benchmarks and identify and construct best practices and standard market practices. A method is then proposed to measure performance for suggested benchmarks.
- In the review and validate phase, we evaluate accuracy of the service library, benchmarks and the proposed method of measurement with our client.
- Once this occurs, we can measure the levels of service.
- And finally, we present the results and a recommendation to our client.

If benchmarking must be completed using a selection process, the service library and benchmarks are used to define the statement of requirements and key selection criteria. Various options are evaluated with a long list of potential custodian candidates identified. A request for proposal (RFP) is then sent to the candidates and received responses will then be consolidated, analysed and rated. This process yields a short list of prospects with further due diligence including verification and review of draft service level agreements. Following this, contracts and fees are negotiated, custodians are retained, contracts are signed and assets are transferred.

Finally, a post-implementation review process is put in place to qualitatively and quantitatively monitor actual performance against what was committed and expected.

Do you still see a prevalence of manual corporate actions in traditional domiciles such as Luxembourg?

Temmerman: Corporate actions handling remains a labour intensive process (in the STP world of securities handling). Most financial service providers must continue to manually process at least 20 percent of the total of all income and non-income events, with the manual part mainly linked to non-income events.

Further automation of the corporate actions handling process requires significant investments (to make the IT systems more flexible and/or to implement new rules to cope with lack of standardisation in the market).

However, building a strong business case is a challenging exercise (since new market innovations are ever-developing and advancing). Consequently, in a post-subprime crisis climate where the focus is on cost containment and risk mitigation and significant investments must be made by financial institutions to ensure compliancy with new regulations, corporate action automation is not at the top of the agenda. Consequently—and unfortunately—we can expect that a significant percentage of corporate actions will continue to be done manually in the coming years. The result can be an increase in financial risk and an impact on reputation.

Do you support the push towards 100-percent STP, and do you think faxes will ever be eliminated?

Josée-Lynda Denis: I believe STP should be more about 'straight through progress' than straight through processing per se. STP as a hot topic is becoming more and more redundant when you consider all of the standardisation and automation related initiatives across many fund markets throughout the world. The fund industry has made great strides in championing cross-functional standardisation and automation in the fund processing value chain over the last 10 years, particularly following the publication of the infamous Heinemann report in May 2003—Towards a Single European Market in Asset Management—which provided the impetus in various fund associations to push for automation and standardisation endeavours, specifically those supporting cross-border funds.

Using the biannual EFAMA – SWIFT Fund Processing Standardisation Report as a reference, this report primarily tracks the fund industry's progress and trends in standardisation and automation of fund orders received by transfer agents in Luxembourg and Ireland. The analysis is based on Luxembourg and Ireland as sample markets, as both fund domiciles have the most global cross-border fund transactions processed to/from the two domiciles. For instance, Luxembourg-domiciled funds are sold/distributed in over 60+ countries across the world. The latest analysis covering the first half of 2012 is an ongoing effort undertaken by EFAMA (European Fund and Asset Management Association) and SWIFT to highlight the advancement of automation and standardisation rates of orders of cross-border funds. Thirty-two transfer agents in Ireland and Luxembourg, representing more than 80 percent of the total incoming third-party investment funds order volumes, participated in the survey.

The mid-year 2012 EFAMA – SWIFT Fund Processing Standardisation Report that was published in October 2012 highlighted the following:

- In Q2 2012, the total automation rate (ISO and proprietary files) of orders received by Luxembourg and Irish transfer agents reached 77 percent, compared to 75.6 percent in Q4 2011.
- The total number of orders has stabilised at 11.9 million orders for the first half of 2012
- In Luxembourg, the total automation rate increased 2.9 percent to reach 73.1 percent compared to Q4 2011.
- In Ireland, the total automation rate increased 0.4 percent to reach 84.6 percent in Q2 2012.
- The number of manually processed orders decreased 7 percent to 2.8 million received faxes (against 3 million in H2 2011). This still represents a daily average of some 25,000 incoming faxes.

Peter de Proft, EFAMA director general, noted: "In the 2011 yearly edition of the report, we set the goal for the industry to move closer to the 80 percent threshold for total automation rate in 2012. The mid-year 77 percent rate is an achievement to applaud and a very positive step in this direction. This shows the priority that the industry sets to itself to continue to strengthen efficiency in fund back-office activities for the ultimate benefit of the end investors."

If this latest survey dedicated to fund processing standardisation is anything to go by in terms of the STP landscape, the continuous progress towards ISO adoption by distributors and transfer agents should be applauded. The 77 percent ISO adoption is a great achievement and we, fund industry participants, are indeed confident that the 80 percent threshold that was proposed by EFAMA is at our doorstep. SWIFT, EFAMA and other industry associations will continue to support initiatives in the industry, so that fund actors can leverage the benefits of ISO standardisation. Doing so will allow the industry to further reduce the 25,000 orders that are still treated by fax.

Today, with all of the endeavours undertaken by EFAMA, SWIFT, ALFI (Association of the Luxembourg Fund Industry), IFIA (Irish Fund Industry Association), AFAC (Asia Fund Automation Consortium) and others, it looks like the 100 percent STP goal and the elimination of faxes is well under way.

Which regulation concerns your clients the most?

Temmerman: The T2S project was first proposed by the euro system (European Central Bank and central banks in the euro zone) in July 2006. Generally speaking, the securities industry went through the usual psychological process of denial, resistance and finally the acceptance that T2S will dramatically change the way that the European securities industry operates in the future. Assessing the impact of T2S is a very challenging task for securities service providers, because T2S only covers the externalisation of the settlement activity to a centralised European platform, while all other asset servicing activities such as tax and corporate actions processing will remain highly domestic; as is currently the case. The important task of defining how to adapt its business and operating model has subsequently increased exponentially in complexity by the subprime crisis. The crisis has reduced revenues and has created a lot of new regulations.

> The hotspot target jurisdictions in the first nine months of 2012 were the Netherlands, the UK, Germany, France, Switzerland, Sweden, Singapore and Chile

For the securities industry, now besides T2S, the effects of a whole host of other regulations all have to be assessed in combination with the usual post-crisis activities of cost containment and search for new revenue generating activities. Although each regulation in itself has its challenges, the main concern is not confined to one particular regulation, rather, it is the inability to incorporate the effects of all of these changes into one holistic view that takes into account all consequences and opportunities and fosters a winning business and operating model. More optimistically, these are very exciting times for strategists and consultants in an industry that ten to twenty years ago was called dull and boring.

Kayembe: The Alternative Investment Fund Managers Directive (AIFMD) brings some challenges to the industry and particularly the cash monitoring provision. The industry is in search of best practices on how daily reconciliation of cash will have to be executed.

What do you think the drivers behind outsourcing are?

Temmerman: The securities services industry is an increasingly specialised business that requires continuous important investments. Overcapacity, fierce competition, tough economic conditions, changing market infrastructures and new regulations have led financial services companies to reconsider their core securities services activities. As a result, many of the financial services providers are progressively transforming their securities services operating models towards more rationalised and specialised models. In this process, the possibility to outsource part of the process is taken into consideration. Outsourcing allows benefiting from economies of scale achieved by the third-party service provider. Outsourcing also has the potential to further adapt cost effectively to market evolutions and to comply more rapidly with the increasing number of regulations with which the financial sector and securities services industry is faced. Finally, the externalisation of non-core processes permits to concentrate on the key business competencies that generate revenues and growth.

Are you seeing any specific geographic trend in terms of distribution of funds vehicles?

Denis: With more than 9181 cross-border fund groups as of 30 September 2012, cross-borders funds and registrations for sale are here to stay and continue to grow across many countries and regions in the world. The hotspot target jurisdictions in the first nine months of 2012 had a strong focus in: Europe (the Netherlands, the UK, Germany, France, Switzerland and Sweden); Asia (mainly Singapore); and the Americas/Latin America (mainly Chile). Registrations totalled 5226 funds, primarily in Europe, Asia Pacific, Americas and the Middle East.

According to the latest EFAMA International Statistical Release and looking at the worldwide distribution of investment fund assets at the end of the Q3 2012, the US and Europe held the largest shares in the world market at 49.3 and 28.1 percent respectively. Australia, Brazil, Japan, Canada, China, South Korea, South Africa and India follow this ranking. For UCITS, across the world as a whole, the total number of mutual funds reached 73,458 funds with the net assets' market share of USA (49 percent), Americas ex-U.S. (7.9 percent), Europe (30.3 percent), Asia Pacific (12.3 percent) and South Africa (0.5 percent).

An interesting trend that should be considered is Asian asset managers launching European UCITS for distribution across target EU countries. Let's not forget that the UCITS-type Asia passport is a hot topic with Hong Kong and China having some discussions over the last few months. AST

Herwig Temmerman
Partner
Kurt Salmon

Michel Kayembe
Partner
Kurt Salmon

Josée-Lynda Denis
Director
Kurt Salmon

Industry appointments

Pauline Bieringa has been proposed for appointment to the supervisory board of KAS BANK. Bieringa is currently the managing director of public finance with Dutch bank BNG.

The general meeting of shareholders of KAS BANK on 24 April will be asked to approve Bieringa's proposed appointment. Bieringa worked for 14 years at ING Bank in various management functions, lastly as managing director of corporate banking at ING BHF Bank in Germany.

Bieringa joined BNG Bank as managing director in 2004 and is responsible for the bank's lending portfolio.

The proposed appointment of Bieringa will fill the vacancy created by the departure of A.H. Lundqvist, who served on KAS BANK's supervisory board for 12 years. Bieringa has Dutch nationality and holds no KAS BANK shares.

William Mason has been named the new director general of the Guernsey Financial Services Commission upon Nik van Leuven's retirement.

Mason previously held the role of head of risk at the Central Bank of Ireland, where he led the development and implementation of its PRISM supervisory methodology. Prior to this, role Mason worked for the UK Financial Services Authority.

RBC Investor and Treasury Services has hired **Andrew Gordon** as head of investor services for Hong Kong and North Asia.

He will be based in Hong Kong and report to David Travers, head of investor services.

Gordon previously held the role of executive vice president and head of alternative and broker-dealer services, Asia Pacific, at BNY Mellon.

Travers said: "Hong Kong and Northern Asia are key strategic markets for us in our goal of becoming a specialist provider of custody, treasury and payments services."

"Gordon's longstanding experience in the industry together with his depth of experience and relationships in Asia will further strengthen our offering to institutional clients in the region."

Liam Butler has been recruited as the head of Northern Trust hedge fund services in Europe.

Northern Trust hedge fund services was established in 2011, following the firm's acquisition of Omnium from Citadel. Since then, it has gained 40 new clients across the globe.

Butler joined Northern Trust in 2011. He most recently held the role of managing director of Northern Trust securities services and was based in Ireland.

Peter Sanchez, global head of Northern Trust Hedge Fund Services, said: "Since the establishment of Northern Trust Hedge Fund Services we have seen an increasing demand in particular for our middle office services across the globe."

"In his new role, Butler will build on our 20 year-experience of hedge fund administration in the region and ensure we continue to support our clients' with the most innovative, leading-edge technologies."

Maples Fiduciary Services has established an in-house operational due diligence group. The group will be led by **Ramona Bowry**, who has joined the firm as a senior vice president.

Bowry has more than 10 years of experience in risk management and the provision of fiduciary services to investment funds.

The new group will conduct onsite operational due diligence reviews of hedge fund managers and other key service providers to funds where Maples Fiduciary provides directors.

AST
ASSETSERVICINGTIMES

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
Tel: +44 (0)20 8289 2405

Deputy editor: Georgina Lavers
georginalavers@assetservicingtimes.com
Tel: +44 (0)20 3006 2888

Reporter: Jenna Jones
jennajones@assetservicingtimes.com
Tel: +44 (0)20 8289 6873

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
Tel: +44 (0)20 8249 2615

Marketing director: Steven Lafferty
design@assetservicingtimes.com

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

Company reg: 0719464

Broadridge Financial Solutions has appointed **James Drumm** to the role of senior director for strategic account sales in the Asia Pacific region.

Drumm will be responsible for generating new business sales for a range of Broadridge solutions in the Asia Pacific region, including its multi-asset, multi-currency processing solution, Gloss. **AST**