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BNP Paribas Securities Services fully commits to Hong Kong

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In light of increasingly international cross-border fund distribution, BNP Paribas Securities Services intends to launch a full range of services targeting local funds in Hong Kong.

"Cross-border fund distribution is becoming more international than ever both in terms of geographies and asset management domiciles as international investors are looking to diversify their asset allocation together with an increasing appetite for high growth asset classes, in particular RMB," said the bank in a release.

It noted that two main trends have emerged as a result: on the one hand Asian fund houses are making more use of their Hong Kong subsidiaries while on the other, large international asset managers are shifting to Hong Kong domiciled funds such as renminbi qualified foreign institutional investor (RQFII) products.

Aiming to address the needs of local and international asset managers, BNP Paribas has reinforced its full range of services, with the intent of positioning itself as the single bank able to cater to both Asian and international asset managers. The service offering includes global custody services, as well as a fund administration service model combining centralised activities such as securities database management and asset pricing with local expertise.

Also, the bank promised core transfer agent services for locally domiciled funds, and trustee services that represent and protect the interests of investors.

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ASTINBRIEF

BlackRock and Euroclear to launch innovative iShares ETF

BlackRock and Euroclear Bank plan to issue the first iShares ETF with an international security structure, to reform ETF trade processing and settlement across Europe.

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Cuentra controlada is BofA Merrill Lynch's newest idea

Bank of America Merrill Lynch has launched Cuenta Controlada (Controlled Account) services in Mexico for Mexican pesos and US dollar transactions.

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Issuer to Investor: Corporate Actions
Less delay. Less errors. Less risk.
More sense.

BNP Paribas Securities Services fully commits to Hong Kong

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Mostapha Tahiri, head of asset and fund services in Asia Pacific at BNP Paribas Securities Services, said: "Hong Kong is the second hub for global distribution in Asia of UCITS products allowing asset managers to expand regionally and target European institutional investors. But for asset managers to be successful in such a complex region, they must be locally present with both onshore and offshore product strategies."

"At BNP Paribas, we are already a leader in Europe in servicing UCITS products, and now with our trust company live, BNP Paribas Hong Kong can provide a complete range of fund services based on our local and regional operating model."

This product launch reinforces the bank's continuous commitment to the Hong Kong market and is in line with the strategic objectives supporting asset managers looking at new areas of growth in Asia.

RQFII is the new policy initiative championed by the mainland Chinese authorities. It allows qualified RQFII holders to channel renminbi funds raised in Hong Kong to invest into mainland securities markets. RQFII holders are allowed to issue public or private fund or other investment products using their RQFII quotas.

BlackRock and Euroclear to launch innovative iShares ETF

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Unlike other cross-exchange listed ETFs in Europe—which currently settle in national central securities depositories (CSD)—the new iShares ETF will be issued and settled for the first time in an international CSD, Euroclear Bank.

Currently all cross-exchange listed ETFs in Europe including iShares ETFs are issued and traded on one or more national stock exchanges and settle in the national CSD of the exchange where the trade is executed. This often causes inefficiencies when ETFs are traded across borders.

By using a single European settlement location, it is expected the new international ETF structure will improve trading liquidity, ease cross-border ETF processing and significantly lower transaction costs for investors.

Tim Howell, CEO of Euroclear, commented: "ETF trade processing across borders in Europe has long suffered from inefficient, complex and labour-intensive post-trade processes. BlackRock and Euroclear Bank have listened to the industry's calls for an improved European solution and worked closely together to provide one."

"The beauty of our service offering is that it centralises settlement for ETF trades conducted on multiple trading venues. This structural shift, that clearly recognises ETFs as internationally traded securities, will further broaden investor appeal and provide the optimal post-trade arrangements. This will enable ETFs to continue their rapid rate of growth in Europe."

Mark Wiedman, global head of iShares, added: "This pioneering partnership seeks to facilitate growth in the European ETF market by simplifying the issuance structure and post-trade environment of European ETFs. In order for the European ETF market to reach $1 trillion in the next three to five years, the entire market ecosystem must become more efficient for investors."

"Access must be widened to encompass new investors and operating simplicity must be delivered in the form of lower transaction costs. We are proud to be a part of this development by making iShares ETFs 'Euroclearable' and hope that the result will be valuable for our clients."

Cuentra controlada is BofA Merrill Lynch's newest idea

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The new offering is an addition to the suite of transaction services available to clients operating in Mexico.

Cuenta Controlada regulates the exchange of cash among multiple parties based on agreed upon contractual provisions as specified by a client, said Juan Pablo Cuevas, head of global transaction services for Latin America and the Caribbean.

Bank of America Merrill Lynch acts as an independent third party to receive, hold and subsequently disburse the funds.

"This is an exciting development for our clients needing controlled account services in Mexico," said Cuevas. "Cuenta Controlada can significantly help companies manage their risk exposure and improve efficiencies."

"Importantly, the product is supported by our integrated suite of services including our online banking portal, CashPro Online, and its numerous modules such as information reporting."

Cuenta Controlada can be used to support a variety of corporate situations that involve cash only deposits, such as settlement of large mergers and acquisitions, good faith deposits or break fees, and subscriptions relating to a capital strategy.

Bank of America Merrill Lynch's global escrow services group now covers 15 jurisdictions across Europe, Asia, and North and South America.

Markit accesses exchange-traded products market

Markit has created an analytics solution for the global exchange-traded products (ETP) market.

The launch of Markit ETP Analytics builds on the foundation of Markit's encyclopaedia and composition data, which spans more than 5100 unique ETPs.

It aims to provide full transparency into the global ETP landscape through a comprehensive set of analytics that covers over 1,300 calculations to address performance, liquidity, risk and benchmark tracking metrics.

Lauren Estabrook, director of ETP services at Markit, said: "The massive growth in the number and complexity of ETPs, along with increased adoption by the institutional investment community, has created the need for a comprehensive and independent dataset that allows traders and investors to measure ETP performance, risk and liquidity objectively."

"Markit ETP Analytics will enable investors to compare ETPs, research the ETP market and make informed decisions in a standardised way."

Key analytics include critical historical regression analysis, such as market price returns and NAV total returns, with and without dividend reinvestment and management fees.

The solution also offers key statistics on the ETPs' ability to track the stated benchmark for each return type and to understand the risk associated with the product, as well as AUM growth, shares outstanding changes and inflows/outflows.

Trading and liquidity trends such as bid/ask spreads, volumes and turnover holdings, as well as data points essential for analysing risk metrics, such as beta, alpha, r-squared and standard deviation, are also offered.

Citi/Aviva/Bravura deal is in the bag

Bravura Solutions has completed a project with Citi and Aviva to incorporate its Bravura-hosted wrap platform and full range of financial products into Aviva's integrated online system for advisers.

In this new project with Aviva, Bravura provides all the interfaces between the wrap platform, the respective internal Aviva systems and a number of different adviser back office software applications. Citi provides administrative services including an end–to-end outsourcing solution to power the Aviva wrap platform, using Bravura's technology.

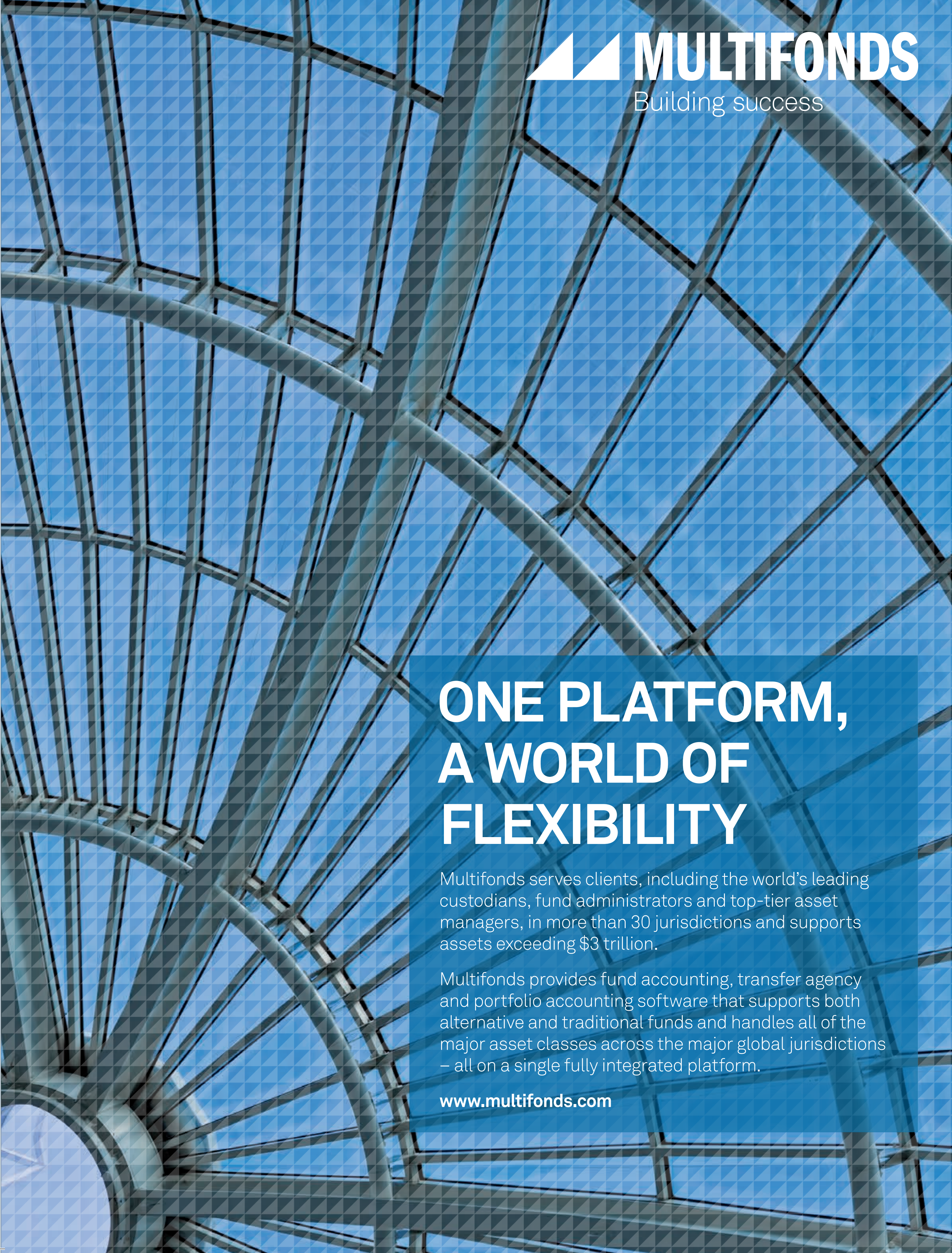
Prague broker connects to SunGard

WOOD & Company Financial Services, a Prague-based broker with additional offices in Warsaw, London and Bratislava, joined the SunGard global network (SGN) for international trading and connectivity to more than 2,000 buy-side firms and more than 530 brokers around the world.

With a focus on providing clients with new trading opportunities and agile growth in Central and Eastern Europe, WOOD will offer SGN members access to the stock exchanges of Budapest, Bucharest, Euronext (Amsterdam, Brussels, Lisbon, and Paris), Istanbul, Ljubljana, London, NASDAQ, NYSE, Prague, Vienna, Warsaw and Zagreb through this new connection.

Guernsey plays nice with European regulators

The European Securities and Markets Authority (ESMA) has approved the cooperation arrangements between the Guernsey Financial Services Commission (GFSC) and the EU securities regulators for the supervision of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alternative investment funds, including hedge funds, private equity and real estate funds.

ESMA has negotiated the agreement with the GFSC on behalf of all 27 EU member state securities regulators as well as authorities from Croatia, Iceland, Liechtenstein and Norway.

The cooperation arrangements include the exchange of information, cross-border on-site visits and mutual assistance in the enforcement of respective supervisory laws.

Henderson improves fund efficiency with Euroclear

Henderson Global Investors has made all of its investment funds available for processing on Euroclear UK and Ireland's fully automated fund processing platform.

Henderson is one of the first international asset managers to utitlise Euroclear's electronic 'order routing through to settlement' service.

INTERBOLSA connects to T2S via SWIFT

INTERBOLSA has chosen SWIFT's value added network solution and integrations tools to connect to the T2S platform.

INTERBOLSA manages the central securities depository, securities settlement systems and national numbering agency in Portugal.

The firm plans to go live on T2S via the SWIFT value added network in 2016.

The objective of T2S is to facilitate post-trading integration by offering core, neutral, harmonised and commoditised delivery-versus-payment settlement in central bank money in substantially all securities in Europe.

First Asian broker is live with SWIFT

CLSA has become the first Asian broker to go live on SWIFT's global electronic trade confirmation (GETC) solution for the automation of allocation and confirmation processes.

SWIFT's GETC messages—MT509, MT513, MT514, MT515 and MT517—provide operational control through trade confirmation messages generation.

The GETC solution is backed by the ISO 15022 standard, which follows a collaborative effort between SWIFT and a group of investment managers and broker/dealers to create and agree an enhanced ISO best practice implementation governing the use of the securities GETC messages over SWIFT.

SWIFT added that it had reported a threefold increase in the number of brokers using its GETC solution in 2013.

EDHEC-Risk Institute and CACEIS undertake research on risk

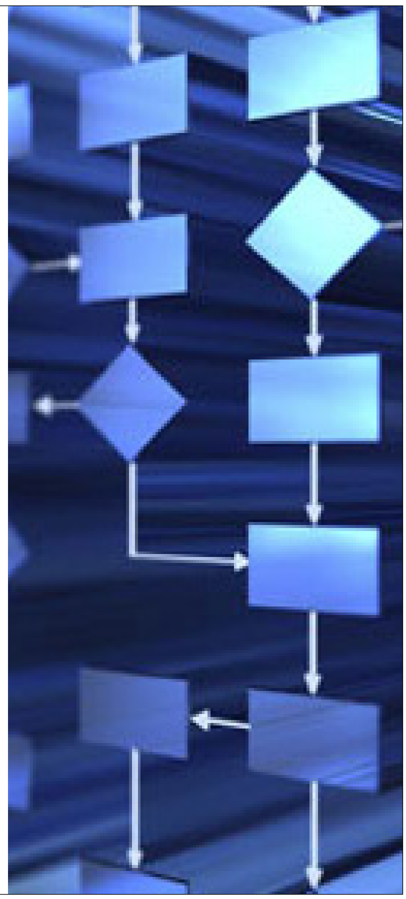
CACEIS and EDHEC-Risk Institute created a new research chair at EDHEC-Risk Institute to look at new frontiers in risk assessment and performance reporting.

This new three-year chair will follow on from the previous CACEIS research chair at EDHEC-Risk Institute on risk and regulation in the European fund management industry.

Led by Professor Noël Amenc, director of EDHEC-Risk Institute, and Professor Lionel Martellini, scientific director, the research chair team will examine new advances in risk measurement and reporting.

The goal is to explore, for the benefit of institutional investors and asset managers, both new concepts and innovative applications of concepts that are popular in the investment world.

The chair will focus on the consequences for the reporting of both institutional investors and asset managers of a change from asset allocation to risk allocation, increasingly present within institutional investment and asset management, which is leading to a focus on categories of risk rather than categories of assets.



The chair will also research an improvement in extreme risk measures and reporting for funds and institutional investment management.

Jean-Marc Eyssautier, chief risk and compliance officer for CACEIS Group, said the work will decide what services a major custody and depository player should be able to offer the asset management industry.

Professor Noël Amenc, director of EDHEC-Risk Institute, said: "With the support of CACEIS, we very much look forward to advancing research in the different areas covered by this new research chair—improved risk reporting, by shifting from asset allocation to risk factor allocation; enhanced risk measurement for diversified equity portfolios; and better geographic segmentation for equity investing."

NASDAQ Dubai prepares for sukuk bonds

NASDAQ Dubai, the Middle East's international financial exchange, is preparing to open a platform on which investors can trade sukuk (Islamic bonds) and conventional bonds.

Trades will be automatically and exclusively routed for settlement at Euroclear Bank. The tradable securities will initially comprise at least 12 sukuk and bonds that are listed on the exchange, with a nominal value of $10.9 billion.

The platform will be available to institutional and high-net worth investors and will be opened and gradually developed in coming weeks.

Essa Kazim, chairman of Borse Dubai, the holding company for Dubai's stock exchanges, said: "The new platform is a natural extension of Dubai's existing role as a centre for sukuk and bond issuance and listing. NASDAQ Dubai will offer an efficient trading venue to participants from the region and around the world, providing fresh impetus to the growth of the capital markets in the UAE and the region."

Tim Howell, CEO of Euroclear, said that Euroclear Bank's post-trade infrastructure will complement NASDAQ Dubai's new platform, helping issuers gain access to a large and diverse community of global trading counterparties.

Hamed Ali, acting chief executive of NASDAQ Dubai, said: "The opening of the platform will be an important step in Dubai's growth as a global leader in innovation in the Sukuk and bond sectors. We look forward to creating further depth in the fixed income market and will collaborate with investors and other participants to steadily develop and enhance the platform."

For the first time, prices of NASDAQ Dubai-listed sukuk and bonds will be visible to all investors simultaneously on the same screen-based system, through the exchange.

Hedge Fund Solutions rebrands to North Street Global Fund Services

North Street Group, a capital markets and investment banking firm, has acquired Hedge Fund Solutions, a New York-based alternative asset service provider.

North Street Group also changed the name and branding of Hedge Fund Solutions to North Street Global Fund Services.

Terms of the agreement were not disclosed.

Hedge Fund Solutions offers fund administration for both emerging and established alternative asset managers.

"The strategic acquisition of Hedge Fund Solutions allows North Street to enter the alternative asset management space and expand its service offerings," said Alex Mascioli, managing partner of North Street Group.

European trade repository and Russian CSD sign MoU

REGIS-TR, the European trade repository owned by Clearstream, Iberclear, and National Settlement Depository (NSD), the Russian central securities depository, have all signed a memorandum of understanding (MoU) to intensify their cooperation on the mutual exchange of information.

Parties have also agreed to establish the foundation for regular communication to increase a common understanding of regional and business development related to repository services.

Eddie Astanin, chairman of the executive board at NSD, said: "The MoU displays mutual intention between our companies to learn the best repository practices from each other and to focus on simplified reporting of cross-border OTC trading in derivatives concluded between European Union and Russian companies. [It] is a first step aiming to establish an interconnection with the leading European trade repository in 2013–2014."

Starting from February 2013, NSD has kept a register of agreements concluded on the basis of the general agreement (integrated contract), and has functioned as a repository in respect of repo and currency swap agreements.

This project was initiated in response to a general trend of reorganisation of the global derivatives market discussed and adopted at the G-20 meeting in September 2009.

Chapman's Eye on the market

Into Africa

This issue's missive comes from the delights of Johannesburg—blue skies, no humidity, a light breeze and 70 degrees. All of this and a warm welcome wherever you go—what's not to like, I hear you ask? Well, a quick scan of the morning papers will answer that—Singapore this ain't! Crime is rife, as evidenced by the multiple guards—armed or otherwise, even in the central business district of Sandton—and the barbed wire-topped residential compounds and gated communities look particularly forbidding.

From a business perspective, things are equally 'hot' but in a more positive manner. South Africa is seen by many as the gateway to the lucrative (if still in its formative stages, infrastucture-wise) sub-Saharan markets in the same way that Hong Kong is the gateway in to mainland China. There are many RFPs in the market and Standard Chartered's recent acquisition of Absa Bank's custody business is testament to ongoing interest in the area. From a human perspective, there is a need for external talent redolent of Hong Kong or Singapore some years ago, and South African expats with a securities services background are being eagerly sought to return home.

Like many major cities, Johannesburg is one of contrasts—homeless people sleeping in the open right next to McLaren and Ferrari garages, but perhaps that's indicative that high rewards do await those individuals and companies who are willing to venture south.

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

Paul Chapman, managing director, HornbyChapman Ltd

Mackenzie Investments has selected **Citi** to provide a complete suite of fund administration, middle office, collateral management and transfer agent services in support of its portfolio advisory and fund management activities in Asia.

Algebris Investments has chosen **Societe Generale Securities Services** (SGSS) to act as its local transfer agent in Italy for the Algebris Financial Credit UCITS Fund.

SGSS will provide the Algebris fund with paying agent and investor relations management services with reference to investors located in Italy.

Global funds manager Dimensional has appointed **Citi's** securities and fund services business as back office provider to its Australian funds.

Citi will provide custodial, fund accounting, unit registry and securities lending services to the Dimensional Australia funds, extending existing middle office services that the firm has provided since 2006.

Dimensional Australia chairman and CEO, Glenn Crane, said the decision to award the contract to Citi followed an extensive global due diligence process, in which end-client benefit was the over-riding requirement.

Citi already provides custodial services to US clients of Dimensional who invest in non-US funds.

Dimensional is a privately held global institutional asset management firm with approximately $300 billion in AUM globally, including more than $22 billion for clients in Australia and New Zealand.

Dimensional began in the US in 1981. It opened its Sydney office in 1994 as an Asia Pacific trading hub and began offering strategies to Australian institutional and fee-only financial advisor clients from 1999.

The National Bank of Abu Dhabi (NBAD) has become a direct custodian for NASDAQ-Dubai, providing custody services for all three United Arab Emirates stock markets.

NBAD is the first licensed custodian bank and the only banking institution originating from the UAE that is licensed by the Emirates Securities & Commodities Authority to be a custodian.

It stated in a release that it will continue to expand its direct custody proprietary network to meet the growing needs of clients.

"By being a direct custodian for NASDAQ-Dubai, NBAD is directly covering the three markets of the UAE in addition to our regional and international coverage through sub-custodians," said Hany Samir, head of NBAD custody.

"NBAD continues to advance its ability to meet the requirements of sophisticated domestic and international investors and put a solid stamp to our product development evolution."

Citi has been awarded a new mandate to provide hedge fund administration services to NWI Management LP, a New York-based investment adviser.

The mandate covers private investment funds totalling more than $3.1 billion in assets as of May 2013. NWI managed a total of more than $4.2 billion in assets as of 1 May 2013 for funds and accounts that generally follow discretionary global macro strategies with a focus on emerging markets.

Aviva Investors France has mandated **BNP Paribas Securities Services** for the administration of collateral for its repo agreements.

Under this new mandate, BNP Paribas will support Aviva to develop its repo activities in a constantly changing regulatory environment, an area where the custodian provides a complete line of service, said a release.

Hélène Virello, head of collateral management at BNP Paribas Securities Services, said: "This new mandate confirms our strategy of expanding our collateral management services for various underlying assets aside from bilateral OTC derivatives. These include repurchase agreements and cleared OTC derivatives."

Christian Dormeau, CEO of Aviva Investors France, said: "Monitoring counterparty risk, which is a central topic of debate in the market, is also an essential component of our asset management strategy."

"Given the strong growth of our repo activity, we wanted to outsource to an efficient, responsive service provider who would maintain Aviva Investors France's high standards for monitoring and managing the risks related to its commitments."

Societe Generale Securities Services in Italy (SGSS S.p.A.) has been appointed by Rinascimento Sicav to act as its local transfer agent in Italy, providing it with paying agent and investor relations management services with reference to investors located in Italy.

Investec has mandated **BNP Paribas Securities Services** to expand its business in the Asia-Pacific region.

Following the launch of trading operations earlier this year, Investec has begun Asian market activities using BNP Paribas' third party clearing and settlement platforms in Hong Kong.

In a recent statement, BNP Paribas explained that Investec has chosen the bank to help simplify the rollout of its operations in the region and establish cost efficient footprints in Asia.

Barnaby Nelson, head of bank, broker and issuer client development for BNP Paribas Securities Services in Asia, said: "We've worked extremely hard to build a high quality clearing platform for global brokers in Asia and this demonstrates that we have what our international partners need in the Asia-Pacific region."

Trevor Gatfield, head of securities operations at Investec, said: "Our clients have brought us to Asia and BNP Paribas has been there to accompany us as we've extended our global model in Hong Kong."

"Having a single international partner has made our expansion so much easier and it has left us free to focus entirely on delivering what our customers want from us here."

Manulife Asset Management in Taiwan has called on **Deutsche Bank** to act as fund administrator for its two new bond funds with multi-currency share class, which includes offshore RMB.

The asset manager is the first to offer such funds to retail investors onshore in Taiwan.

Brian Hsieh, the general manager of Manulife Asset Management Taiwan, said: "We are pleased to have chosen Deutsche Bank. It was important to us to choose a fund administration partner that understands our business and has the scale and technology to support our present and future needs."

"We are very proud to be the first to offer multi currency-denominated funds with an offshore RMB share class in Taiwan."

Part of its global transaction banking division, Deutsche Bank's direct securities services business has approximately €1.5 trillion of assets under custody globally and an operational presence in 33 global markets—14 of which are in Asia.

Filing away the damage

Increased corporate governance scrutiny and some hefty class action lawsuits have made custodians and their outsourced competitors sit up and take note. AST investigates

GEORGINA LAVERS REPORTS

Sometimes, custodians slip up. Late last year, Financial Recovery Technologies (FRT) explained in a release that one of its clients was previously relying on a different custodian to process securities class action claims.

The client had changed custodians prior to partnering with FRT, which created a period of time when there was a lot of uncertainty as to the filing of class action claims. FRT discovered that as a result of the custodian change and the gap in class action coverage it created, a major filing was missed by both custodians on behalf of the client.

"When a firm relies on multiple custodians or moves from one custodian to another, the accuracy of its securities class action coverage can be affected," said FRT.

"Transferring funds or accounts between custodians can cause breaks in the overall transaction data picture. The accuracy of a firm's transaction data directly affects the accuracy of claims. Incomplete or impartial data history can result in completely missed filings or incorrect filings for which the maximum recovery will not be obtained."

With ever-tightening reins on corporate governance scrutiny, as well as growing class action lawsuits, institutional investors simply cannot afford to ignore what could potentially be millions in clients' securities class action settlements.

But there are obstacles in achieving a satisfactory outcome. "Usually the deadlines to participate to a class action are less restrictive than for a corporate action and the class action offer lasts for a few weeks and months. Therefore, there is less pressure on the global custodians to provide timely notification," explains Philippe Kerdoncuff, head of global custody product at BNP Paribas Securities Services.

"However, if notification comes late, you give less time to the investors to decide to participate or not, you have less time to retrieve all historical data that are required for the filing and ultimately as for any other corporate action, you may miss the deadline and not be able to file and lose the opportunity to recover the available money."

Typically, the country that has been first up to bat when it comes to filing class action settlements has been the US. "For several years, the US has been the most developed legislature for securities class actions," says Stephen Everard, CEO of GOAL Group, a class action service provider. "Now, however, although the US is still the dominant centre, securities class action growth elsewhere around the globe is now increasing rapidly, and is predicted to mirror the growth of the US scene in the early part of the 21st century."

"The largest markets aside from the US are Canada and Australia," says Kerdoncuff. "Canada and Australia continue to grow quickly, and the most significant new market may be the Netherlands."

International diversification of class actions seems to have resulted from a combination of restrictions on jurisdiction definitions in US federal courts, along with a growing desire to develop domestic class action procedures in many countries around the globe, says Everard.

"A handful appear to be allowing international class actions to be tried in their courts, even if the securities in question are quoted on a non-US exchange, and the case involves only a minority of domestic investors."

Recent Supreme Court activity has also limited the ability of overseas plaintiffs to bring securities class action claims within the US. A particular blow for foreign litigants came in 2010 when the court ruled in Morrison v National Australia Bank that US securities laws only apply to companies listed on US exchanges.

"This wiped out the eligibility of f-cubed actions, which involve a non-US shareholder suing a non-US company whose stock was purchased on a non-US exchange, and who is bringing a case in a US court," says Everard.

"As a result, plaintiffs are now instigating litigation in more flexible jurisdictions in Europe and overseas. This means that international companies listed on multiple exchanges are now having to defend themselves against securities class actions in multiple jurisdictions. This is further exacerbated as regulators tighten regulation following the global financial markets crisis and governments institute fiercer enforcement measures."

"There is a pattern developing whereby non-US companies with ADRs (American depository receipts) are sued in the US and then a foundation is established in the Netherlands to bring suit on behalf of non-US holders of the stock," says Kerdoncuff. "Outside of the US, the Netherlands poses the greatest risk for litigation in a class action lawsuit for issuers," says Kerdoncuff. "Although Canada and Australia have active and well developed class action systems, their laws are generally only applied within those countries or to issuers with substantial contacts within those countries."

The Netherlands is among several jurisdictions where US-style securities litigation is developing and where a framework is already in place, alongside Germany, Canada, Australia and Japan, comments Everard.

> Plaintiffs are now instigating litigation in more flexible jurisdictions in Europe and overseas

"These geographies are current front-runners in the growing pressure of global class action cases looking for a home in a legislature that is able to define and prosecute a global class."

However, despite this growing global focus, US securities class actions are still increasing and Goal Group's analysis of its class actions knowledge base shows that, although non-participation rates have marginally improved since 2007, just over 24 percent of possible claims are still not being filed by eligible investors. Between 2000 and 2011, losses due to US and non-US investors' non-participation in securities class actions amounted to $18.3 billion.

But, now that global class actions are moving away from the singular and relatively straightforward focus on a single legislature—the US—to a multiple and complex series of legal systems spread across the world, custodians, trustees, fund boards and fund managers may once again feel daunted by the international monitoring, participation, claims and payments task, concludes Everard.

"However, the availability of tried and tested participation services means that fiduciaries can easily fulfill their duties to shareholders and beneficiaries, duties that are increasingly being written into fund management and custodian service contracts." **AST**

Taking what you need

Stephen Koch of Interactive Data discusses how financial institutions can exploit the LEI to its full potential

The legal entity identifier (LEI) is a welcome move towards improving the identification of participants to financial transactions. In March, the Financial Stability Board (FSB) handed off the work of establishing the processes for issuing and managing the LEI to the Regulatory Oversight Committee (ROC) of international regulators. This committee will play a key role governing and establishing the global LEI system going forwards. In parallel, progress continues at the bottom tier of the system with the registration of seven pre-local operating units (LOUs), the organisations responsible for allocating and issuing the LEIs.

There are now seven pre-LOUs that can assign an LEI: in the US, Germany, Ireland, Turkey, Palestine, Russia and France. The most recognisable of these is DTCC's CICI Utillity, the pre-LOU in in the US that was formed to assign pre-LEIs, called the CFTC Interim Compliant Identifiers, or CICIs, on behalf of the Commodity Futures Trading Commission. WMDatenservice, the pre-LOU in Germany, is the only other pre-LOU that has begun to actually issue pre-LEIs, in this case called the GEI. The others are in the midst of building infrastructure and should soon be joining these two.

At this point it is worth taking a step back to understand exactly why the industry is pushing forward with the LEI and what it could achieve. While the primary driver behind creating this identifier is the need for regulators to improve oversight of systemic risk, there are secondary drivers, which have created support among many financial participants. Financial firms are just beginning to explore the potential of this identifier beyond its initial intended purpose. While the debate may continue about the best way to implement the LEI, most participants have not only resigned themselves to its creation, but are actively supporting it.

As firms think about bringing the LEI into their workflows, there are five steps that must be considered for a successful integration.

First, every firm, if they have not done so already, should take the time to understand what the LEI is, and what it does or does not provide. It is important to understand that the LEI is intended to be an unambiguous identifier for the entities that are participants to a financial transaction. It is intended to replace the ambiguous, freeform name and address fields that most firms and regulators currently contend with. However, the LEI does not identify securities issued by a legal entity, nor does it explain the relationships between entities (for example, parent/subsidiary, affiliates or other hierarchical relationships).

Second, it is critical that each firm reviews the current state of counterparty data within their organisation. Ask yourself how entity data is currently being stored at your firm. Is it easily accessible in a separate entity database, or is it more difficult to extract because it is mixed with other reference data? If separate, is it being held in a central depository or duplicated in separate silos? Understanding where and how your counterparty data is stored enables you to better understand where your systems will have to go.

The third aspect to examine is how and where counterparty and issuer data are used today. Cataloguing current uses such as trade comparison, risk analysis and portfolio management, is essential to prepare for step four, which is defining the use cases for the LEI going forward.

The most obvious use cases for the LEI are driven by regulatory requirements. It is critical when building use cases to first identify the effective dates for compliance with applicable regulations.

Developing other use cases may be as simple as looking at how to improve existing processes by substituting the LEI for freeform entity text descriptions. For others it may be more complex as these use cases may only be partially addressed by the LEI in its current state and may require additional data. For example, it may be necessary to supplement the LEI with additional external data to understand the linkages between issuers and their securities and the hierarchy of an organisation's legal entities.

The most difficult use cases require discussions about difficult processes never undertaken or previously abandoned because a tool like the LEI did not exist. For example, organisations will be able to analyse bonds based on lead manager, guarantor, obligor or custodian, all entities currently identified in freeform fields, once these entities are identified with an LEI. This will allow them to better assess their exposure to an entity regardless of the entity's role. Additional use cases may be identified after the establishment of the LEI. It therefore makes sense at this stage to reach out to all the internal business units to identify as many use cases as possible.

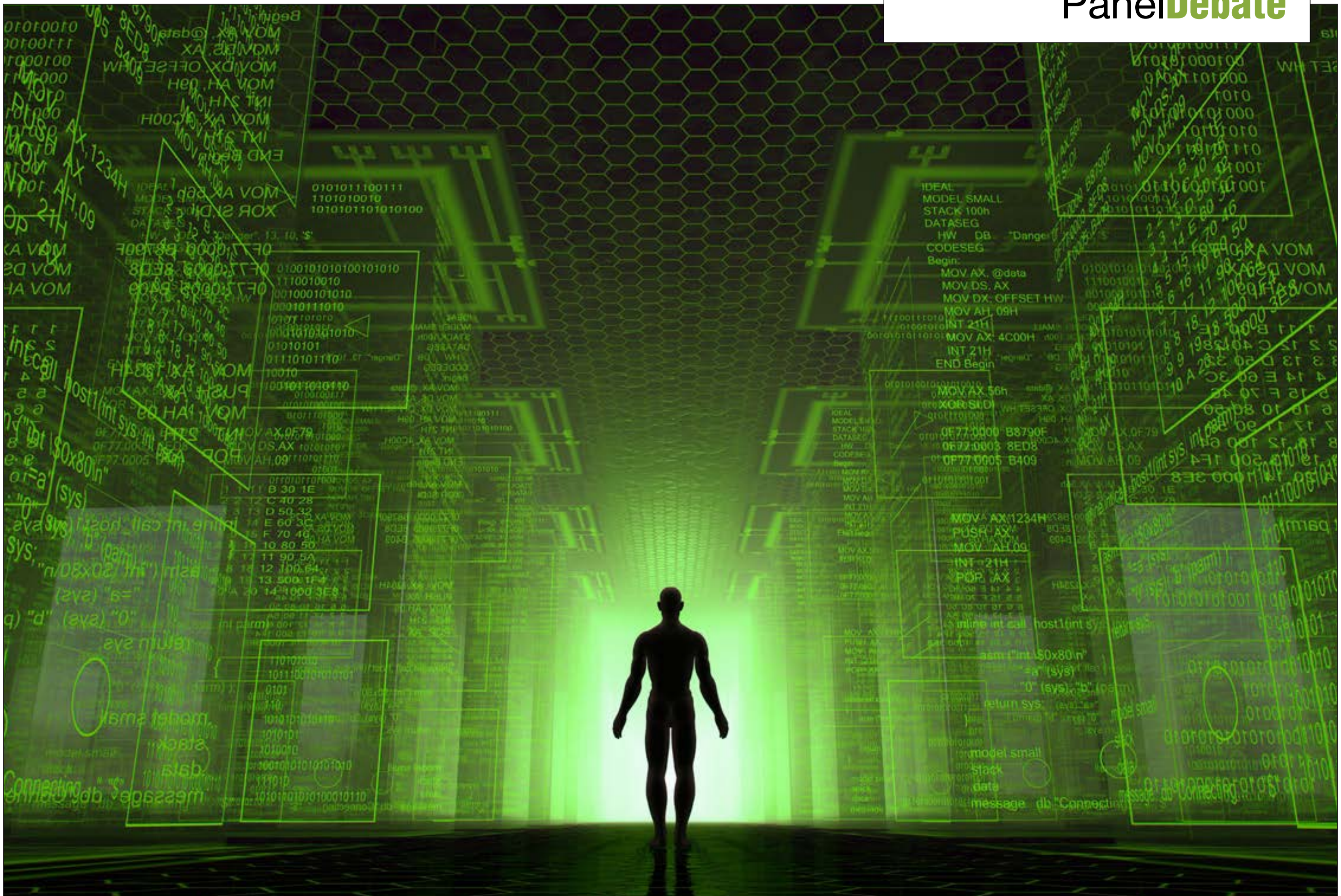
The last step in preparing for the LEI is to create a plan. With the above information collected and the use cases created, prioritising each use case is paramount. Regulation will help prioritise some of the use cases, for example, if a regulatory body is requiring use of the LEI by a particular date, then all work needs to accommodate that deadline.

The most difficult use cases require discussions about difficult processes never undertaken or previously abandoned because a tool like the LEI did not exist

Prioritising other use cases will be decided based on the current criteria your firm uses, whether that is ease of implementation, improvement of service or efficiency versus cost of implementation—keeping in mind that it may make sense to overlap development.

The LEI is not a panacea. It is not meant to be. Rather, it is meant to be a tool, and one that we believe can transcend its initial intended purpose. To fully capitalise on this identifier, though, takes preparation and planning. By following the five steps outlined above, financial firms will be in a much better position to fully tap the potential of the LEI. **AST**

Stephen Koch
Senior director, pricing and reference data
Interactive Data Corporation



The price is (nearly) right

A panel of fund administration experts debate how best to achieve top-notch valuations—and the challenges that consolidation of underlying data is bringing to the table

Nick Solt
Director
Moore Stephens Fund Administration

Keith Parker
Head of sales, Europe
Pacific Fund Systems

Paul North
Head of product management EMEA asset servicing
BNY Mellon

Keith Hale
Executive vice president of client and business development
Multifonds

Gail Weiss
Vice president and head of global business development, wealth management services
The Depository Trust & Clearing Corporation

Mark Dugdale
Editor
Asset Servicing Times

How are increased demands for transparency affecting the funds industry in Europe?

Gail Weiss: At DTCC, we are seeing that demand for investor transparency by funds is increasing transaction volumes in the fund industry. This is because, when firms trade fully disclosed, the funds are aware of the individual investor trades, as opposed to trading in an omnibus environment where the firm nets all of the investor trades together. When trading in omnibus, the fund receives one netted trade by firm. The demand for transparency by funds is forcing firms to enter trades by investor, rather than in bulk, which is increasing European trade volumes.

Keith Hale: Much of the regulatory change in the funds industry today sets out to provide greater investor protection and increase transparency. Take for example, The Alternative Investment Fund Managers Directive (AIFMD) in the hedge fund space. A few years ago, all the transparency an investor might have expected to receive from a hedge fund manager would be a simple monthly statement showing capital activity, income and balances. This is no longer enough.

With AIFMD driving the need to provide increased transparency, nowadays institutional investors demand more detailed access to the underlying accounting data, performance and risk calculations, including market, credit, operational and liquidity risk, that you would more commonly expect from a long only fund or mandate.

Nick Solt: Transparency is a key word for the funds sector globally. Governments in larger economies such as the UK and US are demanding more information from international finance centres in an effort to increase their tax take. In order to retain 'white-list' status and a reputation for excellence, places such as Jersey and Guernsey therefore take transparency very seriously. The regulators in both islands have increased their reporting demands, meaning that for fund administrators there is a requirement for better and more comprehensive record keeping and data management systems. This has an impact on costs and a key factor to any fund business is the efficiency with which the regulatory requirements are handled. In this market those fund managers and administrators that embrace transparency and develop efficient systems will be those that prosper.

Keith Parker: There has undeniably been a significant growth in the demand for reporting from investors. There are a number of contributing factors for this, most likely driven off the back of the demand for greater transparency by investors. It could be argued that a lot of the data made available to investors is superfluous to their needs and therefore unnecessary. It is difficult to adequately quantify where the line lies between just enough reporting and too much. We see the most attractive and efficient arrangement as one where the fund administrator is given the know-how and technology to customise their own reports.

Our PFS-PAXUS application provides more than 150 standard reports, but there are some clients who want highly customised reports beyond the standard offering. For them we offer an open database with a detailed data dictionary that will work with all the major report writing software. It is then up to the administrator and their client to decide on whether additional highly customised reports are necessary and cost justified, noting that we have provided an environment where these can be easily and rapidly developed.

How are fund administrators dealing with these demands?

Solt: Investment in the right systems and personnel is critical. Accounting and auditing skills and practises are proving particularly useful as they are critical to the reporting process. If the fund team has these skills present from the outset then many issues can be addressed proactively right from the formation of the fund, rather than trying to react to challenges as they arise. Fund administrators also need to ensure they have flexibility and adaptability built into their business models to allow them to meet new regulatory requirements with the minimum of fuss. Fund administrators are therefore often looking to integrate a wide range of skills and experience into their businesses. At Moore Stephens we have access to a variety of practise areas and indeed jurisdictions, ensuring we can offer clients the diversity they need.

Parker: As with most business models a fund administrator has a vested interest in the success of its clients' businesses; if their clients prosper then they prosper too as their fees will be paid. Furthermore, there is a positive correlation between the success of a fund manager and the extent of the services they demand from their administrator. Simply speaking, the more profitable a fund manager becomes the administrator is likely to benefit as a result.

Hale: The problem facing fund administrators with these increased demands is consolidation of the underlying data from the proliferation of systems and then subsequent reporting to the client. Prior to the financial crisis, traditionally administrators had a range of accounting systems and siloed data sources. Data warehouse projects were one route often embarked upon to bring together the data, but these were notoriously difficult to implement.

> Weiss: The demand for transparency by funds is forcing firms to enter trades by investor, rather than in bulk, which is increasing European trade volumes

This problem has been exacerbated by the ongoing convergence of alternative and traditional funds, driven by an increasingly institutional investor base with increasing allocations to hedge funds, retail investors looking for absolute returns and regulatory requirements such as AIFMD. Traditionally, large global administrators ran separate teams; one focusing on mutual funds and a completely separate team handling alternative funds, each using different operating models and software platforms.

What we are seeing today is a move by fund administrators to consolidate their systems across alternatives and long only funds to offer transparency across fund structures as well as efficiency of processing. This can put them in a more favourable position from which they can deliver timely data to their fund manager clients for them to service their investors, in an efficient manner, at the same time providing consistent consolidated reporting.

Weiss: In our view, the key to handling the demand for transparency is automation, which can inherently facilitate transparency. Many fund administrators have moved in this direction, however, building automation is only a solution if the data is accurate and conforms to industry agreed-upon best practices. DTCC has actively been working with the European fund industry to facilitate a better understanding of our services in this regard for the funds industry and to gain consensus as to the use of these functionalities to assist with demands for transparency.

How are fund administrators addressing the challenge of keeping costs low without compromising on quality?

Paul North: The challenge today is more complex than simply price versus quality: compliance, risk and complexity are all critical factors. While 'traditional' approaches—standardisation, automation, re-engineering and offshoring—continue to be key in addressing that challenge, they are arguably in themselves no longer enough. New technological developments will likely come to the fore—cloud computing, for example, can reduce the costs of developing and operating IT systems and of storing ever-increasing volumes of data. Better data management technologies and processes could play a major part in reducing the cost of delivering services. This may encompass new ways to visualise data that may replace reports and better ways to share and re-use data, and to enhance data quality and integrity.

Parker: We are heavily investing in our web portal product. This is built in the latest .NET asp architecture and is able to do real time queries on the database. We believe that the ability for investors and managers to see real time information is becoming more important. We have also built a real time transactional architecture into the web portal which allows investors and managers to enter certain data and have it updated immediately in the core database. For example, a fund manager can approve a fund's NAV online and have this immediately recorded in the database.

Weiss: Clearly one of the most cost efficient enhancements a fund administrator can make to save on costs is to shift from manual trades and other manual processes to an automated platform. The automation of trades and the electronic submission of data also reduce errors and improve processing performance. At DTCC, we have seen a significant uptake in both existing and new members embracing the value of our standardisation and automation services and the added benefits of electronic data submissions.

Solt: Efficiency is the current buzzword, and this is achieved by investing in the right people and the right systems to support them. Our focus at Moore Stephens has been on tailored solutions. While this might sound like more work it means that we can quickly produce the exact report that our clients, or a financial regulator, are looking for. The range of skills provided by our in-house teams make this possible and by being able to adapt our systems to each individual client, we ensure that no effort or resource is wasted.

Hale: It is clear that administrators cannot compromise on quality but they must still meet their clients' demands for transparency by giving more insight into the underlying data and risks. Therefore, efficiency is critical to the profitability and indeed survival of administrators.

The ongoing convergence of alternative and traditional funds further add to the cost burden, by running separate teams, as well as sometimes duplicate systems and operational processes. There is an opportunity to consolidate on operating model and platforms to capitalise on some of the cost savings and efficiencies that are available from moving to the right system, bringing the efficiencies and controls that are well established for long only funds into the alternatives world.

Administrators are constantly striving for better efficiency, increasing the number of funds that each fund accountant can service. Some organisations have invested in tools to verify exceptions in the results post NAV production. However, efficiency should be an inherent part of the whole process and built into every step of the NAV workflow.

This then puts the emphasis on the core fund accounting system to provide an automated checklist of tasks that need to be completed, so that the user and supervisors can be confident that the end-to-end process has been performed correctly on a timely basis, where any exceptions have been raised during the workflow rather than waiting until the end to be raised and resolved.

Underpinning this workflow exception driven processing should be an inherent set of automated controls that are part of the workflow that present to the user exceptions, with tools for their timely resolution. Finally providing supervisors and executives with a dashboard of the processing across funds, teams and locations is a major contributor to efficiency management.

What is the situation with valuations? What more can administrators do to ensure the quality of their valuations and instill confidence in their clients?

> Hale: It is clear that administrators cannot compromise on quality but they must still meet their clients' demands for transparency by giving more insight into the underlying data and risks

BNY MELLON DTCC MOORE STEPHENS FUND ADMINISTRATION LIMITED MULTIFONDS Building success

Hale: Accurate valuation of a fund is a critical deliverable for the administrator but unfortunately not all NAVs are the same. Take for example a daily long-only fund, where the administrator is required to produce the NAV to hit daily service level agreements (SLAs) often based on mark to market pricing of equities and bonds. Compare this with a weekly or monthly hedge fund, often compromised of some harder to value underlying assets, and the valuation and NAV production are quite different.

However the two are not mutually exclusive. For example, providing the client of a weekly or monthly fund with the ability to review an end of day flash profit and loss or a full indicative daily NAV can lead to less issues, discrepancies and reconciliation breaks during the final monthly NAV production and sign off process for example.

This is another reason why automating the NAV workflow and managing the exceptions as part of the process is highly beneficial, rather than waiting until after the event to identify and resolve exceptions.

Administrators that can apply daily techniques by providing regular and timely information to their alternatives clients will be well placed to instill greater confidence in their valuation processing.

North: I would suggest this is not an issue that administrators can solve by themselves. The industry as a whole needs to consider the importance of being able to provide 'good' valuations. At a more practical level, however, this is something administrators and clients need to establish as part and parcel of their specific relationship, given each client will have different needs. I am mindful of some the obligation on clients in regulations—such as AIFMD or UCITS—and the requirements this places on our clients, and hence on us an administrator. We need to work closely with our clients to ensure compliance to these requirements and this needs to be reflected in the SLAs and contracts.

Weiss: Good quality position data and pricing are key to the valuation process. An effective route we have seen fund administrators use to ensure the quality of their valuations is to leverage multiple pricing sources and build enhanced rule engines to validate and reconcile position and price information, which helps to build client trust. These rules-based systems look for variances and seek to uncover possibly incorrect information before a valuation is completed.

Solt: Valuations are a key part of the fund management process at Moore Stephens we use qualified valuers and we check and assess their credentials to give our clients confidence in the results. This is very much an audit style approach, ensuring best practise is observed throughout the process. Additionally we give clients full view of the assessment to give them piece of mind.

What are the challenges facing fund administrators in delivering a product offering that combines IBOR and ABOR?

Solt: The challenge is one of efficiency. As an accountancy based practice using either method is simple enough to do and both can be maintained and have positions easily recorded. The challenge is to undertake both approaches with the same efficiency as using just one system so that the core key data produces the information needed by investment decision makers but also maintains the back office data for accounts purposes. It puts extra pressure on record keeping resources and so comes back to the importance of investing in the right people and systems.

Hale: The majority of fund administrators operate separate systems for the Investment Book of Records (IBOR) and the Accounting Book of Records (ABOR), with separate databases, one for fund accounting and a second middle office system/s, which can have separate sets of connections surrounding applications and data providers such as market data, pricing, custody, the client, and middle and front office. Further there are often separate teams, one responsible for the ABOR and a second responsible for the IBOR.

The key challenges facing fund administrators in delivering a consistent service to their clients is overcoming the duplicate effort that comes from maintaining separate books of records as well as the costs and risk of reconciling two books. Administrators that adopt a single platform approach with a common operating model across both books, with automated controls to ensure consistency between IBOR and ABOR, are better positioned to offer consistent and timely client experience combined with the economies of scale within operations.

North: Typically administrators have dealt with the IBOR versus ABOR issue by using different platforms. This approach continues, largely driven by the investments required to maintain and

develop accounting platforms. Clients often use different platforms or suppliers to support these needs, and for large clients that operate across multiple markets and operate funds in multiple domiciles, they may use several different suppliers and accounting platforms. These platforms have been designed to support the needs of different stakeholders and the organisation of the investment process vs. the accounts of a fund or other investment vehicle. But there are today additional challenges around the need to maintain alternative books of records, notably in respect of tax records, where we see requirements around investor taxes, pooling and capital gains tax.

Weiss: A major challenge historically has been a lag between the position data in portfolio accounting systems (ABOR) and the front-office systems including operation management systems (OMS) and other decision making support tools. The data often needs to be scrubbed to reflect a variety of activities, such as corporate actions and other income distributions.

To address these data quality issues, fund administrators and their software vendors are being tasked with building complex solutions to address IBOR. These enhancements include the development of additional processes that apply corporate actions at correct times based upon time zone and that support multiple market closure schedules.

Where are funds with AIFMD's segregation of risk management and valuation functions from portfolio management? What are administrators doing to help?

North: From what we see, there have been a wide range of responses to the segregation of risk management and valuation functions, and there is still more to be done by funds to live within the letter of the regulations. There is no doubt that these requirements are adding to the complexity and costs of operating funds. The gap between requirements and reality, driven by the need to separate the function and the scope of risk monitoring that is required, means there is a potential opportunity for administrators to offer new products. There should be some economies of scale deriving from the fact that administrators will already hold much of the required data. However, the requirements are complex and so most will need to invest in new capabilities, to one degree or another. Consideration also needs to be given to administrators' rights to use and disseminate data owned by vendors.

Solt: The development of the AIFMD has been well known to all in the funds industry for some time, so all fund managers and administrators should be prepared for it to come into force. Funds will have been prepared for the expected changes including separating risk management and valuation from the management of investments. The segregation of duties can be achieved by the delegation of one of the functions, such as portfolio management, to a third party or by introducing internal controls to ensure the independence of the functions.

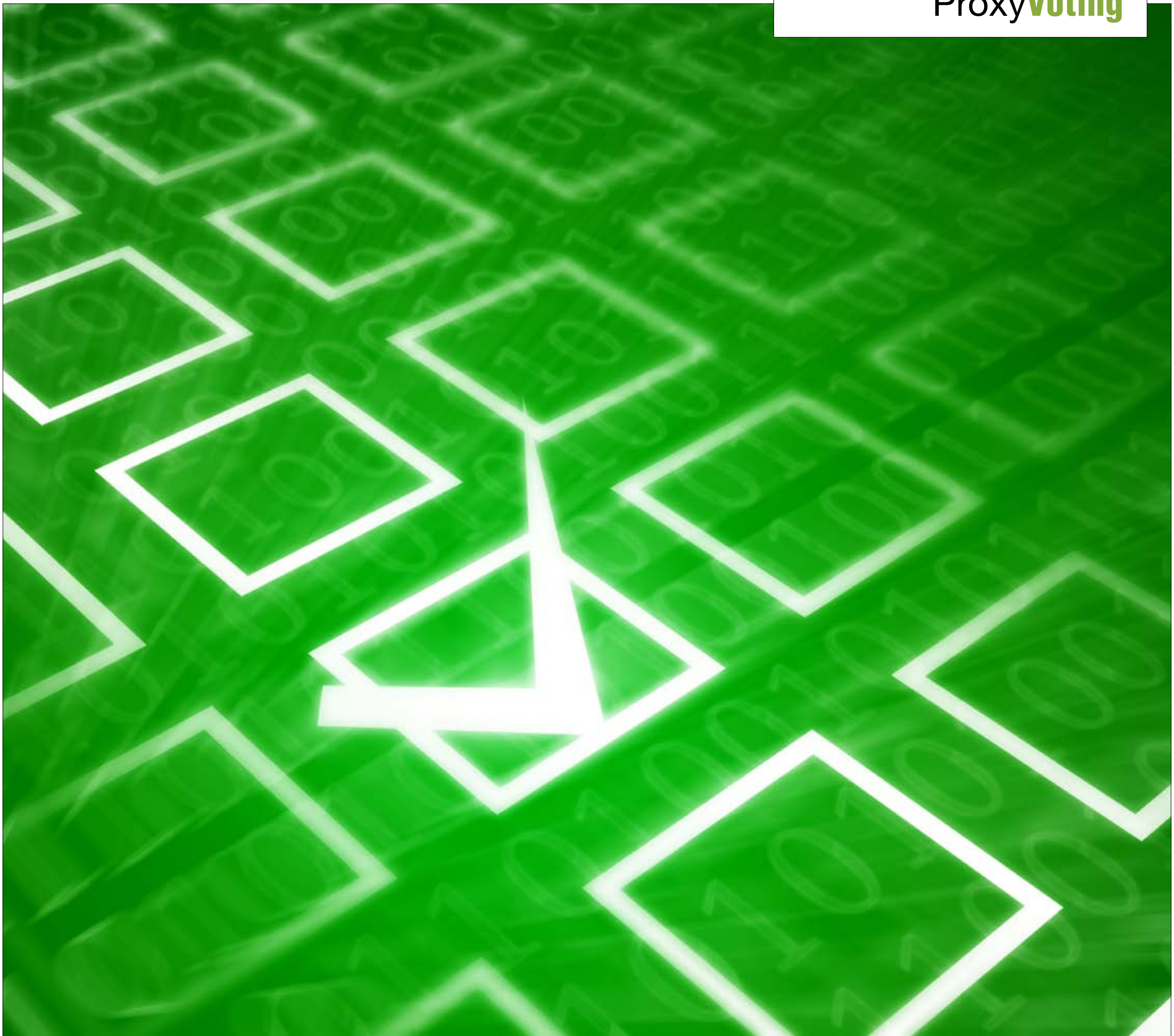
Administrators can help by advising on, setting up and monitoring those controls or providing oversight on third parties. This is very much where audit experience can come to the fore, which is where we feel Moore Stephens Fund Administration has an advantage given its connections to an audit firm.

Hale: In our recent research, risk management featured highly on the list of issues from AIFMD as having the most significant impact, following depository liability which remains the biggest concern.

The directive requires the separation of risk management from portfolio management, that the risk profile doesn't diverge significantly from the offering and the investor disclosure documents, resulting in an overall more formal set of processes and reports for risk management. This will no doubt result in additional effort and therefore cost unless automated, as well as potentially enforcing additional restrictions on the manager's investment style (or style drift).

From our research, valuation functions seem to be less of a concern than they were at this time last year, with less respondents placing valuation rules high on their list of concerns than was previously the case. The concept of the external valuer is key to the valuation provisions of the Directive. The valuation function can be performed either by an independent external valuer or by the alternative investment fund manager itself, provided that the valuation task is functionally independent from the portfolio management.

For administrators, these present opportunities. It is likely that they may move to fulfill the responsibilities in the role of external valuer and potentially offer risk management services as well. **AST**



Focus on the vote

Work is underway to bring end-to-end transparency to international proxy voting. AST takes a look

MARK DUGDALE REPORTS

As the first end-to-end proxy vote confirmation project in Europe is underway, it's clear that the focus on corporate governance and vote transparency in capital markets around the world is becoming sharper. Market participants, for the most part, are driving initiatives to improve the ways markets function, particularly the ways in which investors engage with the companies in which they've invested. Right now, market-driven initiatives are reshaping proxy voting and helping bring greater transparency—and restored investor confidence—to the process.

In the three years since the phrase was first coined in the US Securities and Exchange Commission (SEC) Concept Release, end-to-end vote confirmation has become prevalent on corporate governance agendas and an important focus of capital market participants around the world.

The SEC presented its Concept Release on the US proxy system in July 2010. It contained a number of items for which the SEC requested comment, including the advisability of providing beneficial and registered shareholders with a facility to confirm that their voting instructions had been received, and accurately tabulated, as cast. By one tally, more than 60 comment letters mentioned 'end-to-end' vote confirmation, and virtually all were unanimous in support.

In December of the same year, the University of Delaware, Alfred Lerner College of Business and Economics, Corporate Governance Center hosted a roundtable to explore an industry-wide solution for end-to-end confirmation for shareholder votes. The roundtable group consisted of 35 industry experts in the proxy process arena, including issuers, institutional investors, regulators, brokers, custodial banks, regulators, intermediaries, transfer agents, solicitors, and attorneys, and in August 2011, the group published its recommendations on the provision of end-to-end vote confirmation, stating "corporations and shareholders alike have expressed the need for shareholder elections to be unimpeachably accurate".

Recommendation to reality

Roundtable group member UnitedHealth Group (UHG) expressed interest in piloting end-to-end vote confirmation for all shareholders at its annual meeting on 23 May 2011. Broadridge worked with UHG to develop the technologies and processes. Maryellen Andersen, vice president of corporate and institutional investor relations and corporate governance officer at Broadridge Financial Solutions, and co-chair of the roundtable, explains: "The facility for UHG's meeting was successfully developed to afford all shareholders the opportunity to access a website, either directly or via Broadridge's internet voting website, proxyvote.com, and by entering a control number receive confirmation that their votes were recorded as instructed. The system functions for all shareholders whether they are retail or institutional or, for that matter, whether their shares are held in registered form, beneficially in street name, or in employee plans."

Building on the success of the pilot done with UHG in 2011, the end-to-end vote confirmation programme was extended in 2012 to a larger number of issuers. A total of four issuers—UHG, Science Applications International Corp (SAIC), Starwood Hotels and Resorts, and American Express—participated in the end-to-end vote confirmation programme. More than 1.5 million institutional and retail shareholders were provided the opportunity to access a website, either directly or via the Broadridge proxyvote.com website, and upon entering a control number received confirmation that their votes were recorded as instructed. The interest continues to grow and several issuers, including Disney, offered their retail and institutional investors end-to-end vote confirmation during the 2013 proxy season.

Out of the University of Delaware roundtable group, the End-to-End Confirmation Working Group, comprised of policy and operational representatives from Broadridge, transfer agents, intermediaries, brokers, issuers and The Depository Trust Company (or DTC, the US depository), have been meeting monthly to work on industry standardisation and testing of technological solutions for end-to-end vote confirmation. Andersen explains: "Broadridge is providing the facility for end-to-end confirmation because we believe it adds integrity to the total proxy process. The pilot with UHG demonstrated that end-to-end vote confirmation processes can be offered without change to current SEC rules and with minimal inconvenience to industry participants."

Going global—end-to-end vote confirmation pilot in Spain and beyond

Outside of North America, the challenge in providing an efficient and transparent voting process is even more pronounced. The greater number of individual markets means that the complexities of voting under these circumstances are increased since each market has its own local rules. In addition, the propensity to hold cross-border securities increases the chance that those securities are held under a nominee arrangement with a bank or broker. Broadridge has been able to mitigate these challenges by providing online voting for approximately 90 markets through its ProxyEdge platform. This allows investors the opportunity to vote their shares from anywhere in the world.

Broadridge is now looking at opportunities to introduce end-to-end vote confirmation in markets outside of the US. The company has been working with registrars to develop individual market solutions for some time now. In Spain, Broadridge and market participants are piloting an end-to-end project this proxy season. Broadridge secured the participation of several custodian clients to test the confirmation process with a registrar and three of their issuers. By providing local level account voting activity to the registrar on the vote deadline date, the registrar is able to perform a reconciliation of voting received through the intermediary chain against the voting processed and submitted through Broadridge. Generally speaking, the results of the pilot are showing that if an efficient model to transmit the right level of data as defined by the market can be agreed, confirming voting to the registered shareholder can be achieved.

Elizabeth Maiellano is senior director for product strategy at Broadridge, and is leading the global team building the transparency solution. She explains: "We feel that this is an opportunity to break through some of the challenges that are currently being faced in the industry—primarily that the registrars are unable to provide final confirmation. In some jurisdictions, market barriers can be restrictive, however, we're looking for opportunities to augment the level of transparency available through our solutions. Wherever possible, Broadridge is committed to implementing solutions that support market requirements and remove ambiguity around the vote status until there is wholesale provision of vote confirmation."

In addition to this pilot programme, Broadridge is examining this concept in four other markets in Europe and Asia. "We would like to understand how end-to-end vote confirmation could work from operational, contractual and legal perspectives in each of the local markets, and ultimately apply that understanding to the development of end-to-end solutions in other jurisdictions," says Maiellano.

Broadridge has already implemented proxy voting programmes in Asian markets. The company has been engaged in a joint venture with the Tokyo Stock Exchange (TSE) and the Japan Securities Dealers Association (JSDA) since 2005. The initiative is called Investor Communications Japan (ICJ) and is built on Broadridge's ProxyEdge voting platform. ICJ has delivered significantly enhanced efficiency to local institutional and cross-border investors by working directly with the local transfer agents to establish the legal framework for electronic processing and removing paper from the process. This collaboration has extended voting deadlines for ICJ companies up to Meeting Date-1 (MD-1), a major advance from the MD-10 cut off that institutional investors had been forced to work with under the prior system. Voting is delivered electronically and securely directly to the transfer agents, and appropriate checks are in place ensuring successful delivery and receipt of those votes. While one step short of a post-meeting confirmation, it is a major step forward in providing shareholders assurance that their votes have been correctly processed and counted.

To date, 431 Japanese companies are utilising ICJ's shareholder communications and voting service. This includes almost all of Japan's leading blue-chip listed companies, representing more than 80 percent of the market capitalisation of the TSE 1st Section. ICJ is working to extend its reach across a broader spread of Japan's listed companies.

Patricia Rosch is president of investor communication solutions international at Broadridge. She says that the next logical step in the Japanese market is to extend the process to post-meeting vote confirmations, and explains that Broadridge will be engaging with agents there to encourage them to take that final step, as well as seeking to extend comparable efficiencies out to the retail investor population. Responsibility for retail asset servicing and final vote tabulation sits firmly with Japan's transfer agents. Rosch draws parallels with the US market, where Broadridge supports proxy communication and voting for both institutional and retail shareholders and has been able to draw on its transaction processing expertise in order to support large volumes in tight timeframes when delivering shareholder materials and processing votes.

Japan is eager to continue to drive improved standards for investor communications, and embracing a solution for both institutional and retail shareholders comparable to that offered by Broadridge in North America will support that agenda. Rosch says: "The Japanese experience exemplifies how an efficient, centralised and collaborative vote management process can fundamentally transform a market and elevate corporate governance and transparency to the standard expected by both domestic and cross-border investors. Meeting or exceeding these standards can play a key role in attracting capital."

The application of end-to-end vote confirmation solutions in North American and European markets is gaining momentum. Despite the need to tailor solutions to comply with rules in each local jurisdiction, Rosch points to the efficiency that is attainable by building on Broadridge's existing platform. "Tailoring a local market solution is both efficient and cost-effective. By eliminating the need to build from the ground up, we're removing significant barriers to the evolution of the global capital market. This is incredibly exciting, and suggests that in established, emerged and emerging markets, investors can participate in company ownership with greater effectiveness and confidence than ever before" **AST**

The hidden diamond

Forget processing—it's the underlying information from handling trades and corporate actions that hold the greatest value, says John Byrne of Information Mosaic

GEORGINA LAVERS REPORTS

Could you describe the makeup of your business?

We see our business growing in two dimensions. We do post-trade processing automation software and also post-trade predictive analytics. As a company, we started out developing a multi-entity global securities processing platform designed to work in multiple time zones and markets. That started in the late 1990s, which at the time was very new and interesting. We were probably one of the first people to work with SWIFT on corporate actions messaging, which has been around for the last 12 years or so. In 2006, we put all our applications onto what people call 'the cloud' today. In the same year, we also received SAS 70 parts 1 and 2 certification, which is what you need if you're going to run secure applications in a hosted environment.

Our client base today is made up of larger buy-side firms, and custodians on the settlement side. We are global with offices in London, Dublin, New York, Melbourne, New Delhi, Singapore and Kuala Lumpur.

You are a regular feature at industry events—what has the sentiment been like at these forums?

At SIBOS last year, for instance, it seemed to be quite a subdued mood. You tended to hear reiterations of the fact that people don't see price levels really recovering in our industry and asset levels growing from where they're currently at. People particularly on the asset servicing side of the business are asking how on earth they are going to make money in the long term, especially with the increasing costs on the regulatory side. This year we are seeing a more positive outlook alongside stronger economics in some sectors and regions.

What are some recent projects the firm has been working on?

Over the last 15 months, we have been working on a project that we're very excited about called IMValue. When we built our platforms back in 1998 and 1999, we used component-based technology, designing it around our data and database in such a way that we future-proofed how we actually stored information on transactions. If you look at the Markets in Financial Instruments Directive, for example, and the drive towards increased transparency for transactions and increased information around transactions, we've been able to do that all along. For others it is causing disturbance, as they have to go back and store things that were never stored in the first place, which is very disruptive to systems. We designed our systems so they would do that from the very beginning.

Over the last 18-month period, there's been another revolution in technology driven from Web 2.0. Web 2.0 is doing what the internet always said it would do in the dotcom era, in that it is storing and using a lot of informational attributes that it's getting on users, and serving things up to them. While a many of those technologies have been around for some time, it undoubtedly crystallised with the advent of Web 2.0. The second thing is that there's been a boom on the retail internet side based on analytics. What we've done is taken proven analytics technologies and we're applying them to the wealth of data in the post-trade environment.

How are you applying this to the custody arena?

To give an example, if we're running a corporate actions application for a global custodian, there might be 800 users, of which 300 would be involved in the processing globally, all over the world. In addition, there would be 500 users that would have various oversight activities or monitoring activities that would look at the application. If you look at the newer analytics applications, there will be thousands of users, of which some will be on the regulatory side wanting to see what is happening in terms of post-trade risk. Others are just going to be on the general business side. Additionally, you're going to have lots more post-trade information pushed out to clients, because they want to see more depth and transparency.

How will this change the value of services?

If you look at the systems that have been built to do processing, what is valuable going forward isn't necessarily going to be processing—it's going to be the underlying information that people are getting from processing lots of trades and corporate actions. Talking to those in the post-trade industry, the reason that they're subdued is because the marketplace is demanding huge efficiency benefits, and we're not talking about 10 percent improvements any more.

Portfolio managers want far higher quality and timely information, as well as increased functionality in terms of pre- and post-decision analysis. In addition, those who are just looking at getting their trades settled with their custodians want much higher STP rates and won't tolerate failed trades.

The problem in post-trade is that even though people have service level agreements, quality is neither being defined nor measured. Through our IMValue service we benchmark clients on quality, efficiency and risk, recommend improvements and provide the tools for ongoing monitoring.

How will risk come into this?

We are seeing an increased demand to see risk weighted processing, and were first to market with workflow-based applications. The thing about workflow applications is that, for example, if you are running corporate actions globally, it tells you every single corporate action that you have to process. It arranges all of these tasks—some of which are automated, and some not. The only challenge with this is that it gives every task equal time and priority, but some of these tasks are in fact very routine and low-risk. The second thing we want to do is quantify risk—if there are 1100 tasks to get through in one day, people want to know what are the top-five riskiest. What we're trying to do with the analytics is two things: come up with key performance indicators (KPIs) and benchmarks looking at the key efficiency parameters, and then measuring everything that the organisation is doing against those; and we repeat the same exercise on the risk side using key risk indicators (KRIs).

We spent a lot of time coming up with a KPI and KRI set, and are rolling out a platform to capture risk, and predicting what the value of the consequences are, if something goes wrong.

The consequences for getting it wrong are complicated in this new environment, and that is what has to be calculated.

Where are you at currently with the new solution?

We have been rolling out IMValue with some of our current clients and working very closely with them to create individual KPIs and KRIs. They have been very impressed by it.

We are leading the way in post-trade analytics as we recognise there is a huge appetite in the post-trade space for this. What we are finding is that because there is so much valuable information in the post-trade area, the best source for information for an entire bank ends up in the post-trade space—it's relevant to the whole business.

I think there is a greater awareness that the informational assets are much more valuable than the underlying processing business. Custodians see their business is going to be in information and value-added analytics—rather than necessarily processing. **AST**

John Byrne
CEO
Information Mosaic

Inventive step

Geoff Hodge of Milestone Group examines the fundamental but often overlooked need for a dynamic operating model to transform business effectiveness and competitiveness in today's fund servicing sector

A combination of margin pressure and product innovation is placing asset management and fund servicing businesses under varying degrees of stress. As a result, market participants across the globe are once again seeking new ways to improve efficiency and reduce costs. At the same time, they must contend with the continued slew of regulation precipitated by the financial crisis, as well as investor interrogation of processes and strategies.

Regulators now require increased transparency and enhanced reporting in a number of areas. This includes disclosure, risk management, investor equity, capital adequacy, investment compliance and product fitness for the client. These demands are putting direct pressure on operating model design for transparency, product 'look through' and reporting capabilities.

Industry participants are seeking the next breakthrough in operating model design. It must enable them to address the challenges posed by compliance and ensuring greater transparency while remaining competitive in a maturing and leaner market. The key is to recognise the need to migrate from the static operating model of the past to the dynamic operating model of the future.

Fragmented evolution

The highly competitive fund servicing market means that product innovation is now front and centre in the race to attract fund flows. Operating models must therefore be agile enough to deal with complex and changing product demands. They must engender an efficient and transparent organisation able to deliver competitive products and service levels to clients within acceptable operating risk parameters.

The challenge, however, is that operating models in the funds industry started life fairly simply. Largely a product of the way that labour markets evolved, there were investment operations to look after direct investments and the associated trade lifecycle, as well as asset servicing, treasury and accounting functions and so on. The focus was simply 'getting the job done', with margins wide enough to support a relatively labour-intensive approach to operational functions.

Back then, the application of technology was limited to a few 'core' platforms. Over time, it evolved to accommodate increased product and functional demands, which in turn saw the introduction of a range of additional surrounding processes and tasks. Likewise, although these were initially manual, they have been progressively replaced by spreadsheets and other tactical or function-specific solutions. This somewhat ad hoc and fragmented evolution has resulted in inflexible operating models that are a global phenomenon in the investment industry today.

Tactical solutions

While such operating models may have all of the functional capability to operate the business, they are not geared up to be transparent, efficient, or quick to market with new products—not to mention the overhead associated with achieving effective operational risk management. It is typically effort and time intensive to adapt models that have evolved in this way.

Instead, what firms need in the current environment is the flexibility that a dynamic operating model can deliver in terms of accommodating change without escalating costs. They must be easy to adapt in the face of unexpected events and demands, without the need for expensive and time consuming 'transformation'. They also need to help organisations tap into new sources of efficiency, support new products and services, and respond to the demand for greater transparency—all of which must be delivered within short timeframes.

Such flexibility can release asset owners, managers, and administrators from the current generation of infrastructure, which was designed to service the business at a point in time, but ultimately has 'locked in' a high cost of dealing with change. Given the tendency of organisations to seek tactical solutions to immediate challenges, the industry has in recent years become obsessed with offshoring and outsourcing as opposed to being genuinely innovative and changing what is possible from an operational perspective.

Fund-centric approach

The 'fund-centric operating model' is a transformational approach to achieving dynamic and enhanced business performance, and is characterised by a shift towards recognising the flow of money through the product structure, and away from individual processes and functions. The approach is anchored by a single record of the fund product structure, and implies a reduced number of 'moving parts' in the business operations and technology architectures. It has an identifiable set of characteristics that differentiate it from models that are commonly used across the industry today:

- Dynamic operating models anticipate change and shift focus to the flow of money and away from functional silos;
- Performance metrics are a key tool in the design and operation of dynamic operating models;
- Traditional static operating model design will not deliver desired operational performance; and
- Dynamic models also solve common challenges relating to geographically distributed operations.

There is a compelling case that increased demand for real transformational change in fund servicing will only be met with a fresh and innovative approach to operating model design, both within and across corporate boundaries.

Operating models are no longer simply a choice of administration approach, but a key driver of execution capability that directly contributes to business agility and performance. The transformation, or pay off, for firms that embrace this type of dynamic operating model is a steady flow of benefits across their business in terms of efficiency, risk management, customer service, and the ability to deal with change without the level of associated costs that the industry has come to accept. **AST**

Geoff Hodge
CEO
Milestone Group

Riva Financial Systems: new needs, fresh thinking

Transfer agents and fund administrators should take note of Riva Financial Systems Limited, an Isle of Man-based software company with a formidable solution

Nestled away in the peaceful surroundings of the Isle of Man is a thriving niche software company that is making a big impression on the asset servicing industry. Riva Financial Systems is a software company that has developed a global transfer agency system capable of supporting multiple countries and investment products on a single platform.

A systematic approach...

Riva was incorporated in October 2002 by a group of industry professionals with extensive operations and technology experiences at some of the largest asset managers and fund administrators in Europe. Their vision called upon the creation of a flexible, cost-effective, totally integrated global transfer agency system solution to leverage best-of-class technology and servers, and the flagship product that emerged from this blueprint was Riva Transfer Agent (TA).

...and a comprehensive solution

Riva TA comprises a range of features designed to make transfer agency operations more efficient and responsive to both client needs and market changes, by allowing customers to consolidate all of their servicing requirements onto a single platform, substantially reducing costs and increasing operational efficiency.

As a modern service orientated architecture application built using best-of-class technology and servers, we believe Riva's software to be more robust, scalable, flexible and cost-effective than any other single-platform solution.

Suitable for both transfer agent and alternative fund administrator, Riva TA is a highly functional dealing and registration software solution capable of supporting the entire investor record-keeping process across multiple administration centres, investment products and currencies, all on a single platform with a low total cost of ownership. It also comprises a range of features designed to make transfer agency operations more efficient, flexible and responsive.

Riva TA offers among other features, a web enabled front-end for ease of servicing, integrated cash management and general ledger advanced functionality, integrated imaging and workflow functionality, enhanced foreign exchange processing, and interface capabilities with an open database architecture.

To fully complete its value proposition, Riva maintains a team of highly skilled business analysts, software quality engineers and developers recruited from within the financial services industry to ensure that design, implementation and support issues are always addressed in the appropriate business context by individuals with the required expertise.

Looking to the future

To-date, Riva TA has proven successful with customers in all three major European jurisdictions, including the UK, Dublin and Luxembourg, and has been successfully deployed across the entire international transfer agency operations at Franklin Templeton Investments in a project described as being "unprecedented in terms of scale and complexity".

As of March 2013, approximately $240 billion of assets were administered on Riva TA by clients of Riva, across 14 global locations covering Asia, the Middle East, Europe and the US, with deployment and implementations in other jurisdictions already under way.

Learn more

We understand that when it comes to researching shareholder record-keeping technology solutions, it can be a challenge to clearly differentiate one from another.

Should you wish to learn more about Riva TA, please contact us and we can set up a 'phone an expert' discussion, offering you an informal yet detailed conversation with one of our technical experts about any of Riva TA's features or functions. We would also be happy to arrange an on-site visit, where a Riva representative will visit you to discuss your business needs and determine whether Riva TA is an appropriate solution for you.

To learn more about Riva TA's potential within your organisation, please visit our website www.rivafs.com or alternatively please call us on +44 (1624) 850 140 or email learnmore@rivafs.com

Riva will have representatives at the FundForum International event on 24-27 June at the Grimaldi Forum in Monaco. Please contact us on +44 (0) 7624 336887 if you will be in the area or at the event and would like to catch up with us.

The Riva advantage

Riva TA is in a class of its own for several reasons:

Ghassan Hakim
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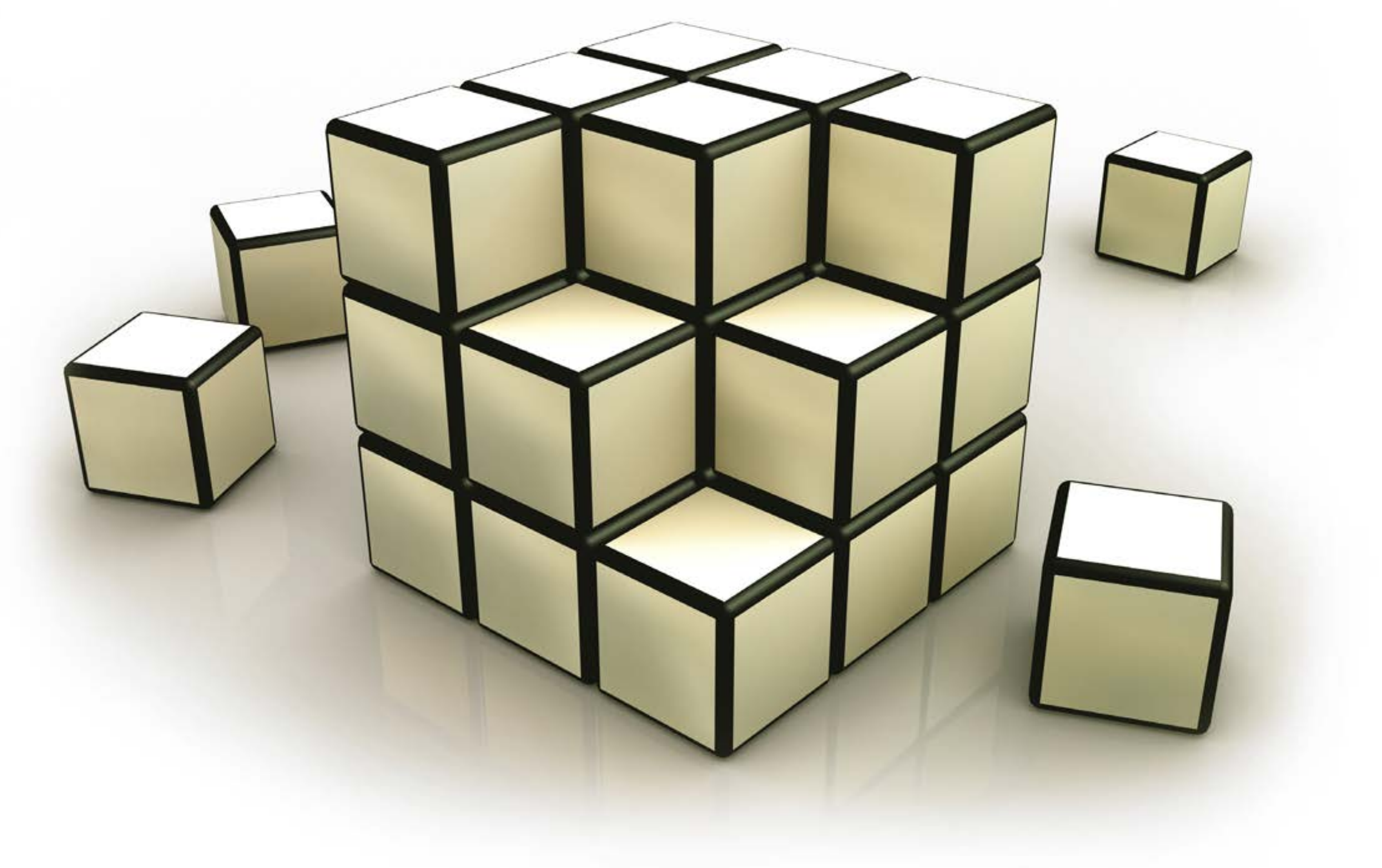

A mammoth task

An expert calls it "one of the biggest challenges of our industry". AST finds out from her and others about the effect of AIFMD on custodians, alongside other pressing issues

Marek Začal
Custody relationship manager
CSOB Bank

Simon Shepherd
CEO
MYRIAD Group Technologies

Ulf Norén
Global head of sub-custody
SEB Bank

Lilla Juranyi
Global head of custody
ING Securities Services

Fabian Vandenreydt
Head of securities
SWIFT

Georgina Lavers
Deputy editor
Asset Servicing Times

Has the eurozone crisis led to sub-custodian risk becoming a live issue?

Fabian Vandenreydt: The eurozone crisis has emphasized the need to have robust sub-custodians that can water down the harsh times that might affect their home countries. However, the focus on the network risk has been there since the 2008 global financial crisis with new regulations like Alternative Investment Fund Managers Directive (AIFMD) that have highlighted the liabilities of the custodians for errors or bankruptcies happening in their sub-custodian networks.

Lilla Juranyi: The increasing risk is not related purely to the eurozone crisis, but it is one element of the challenges of the current custody and sub-custody businesses.

It is important to understand that the lack of sufficient business scale on one side, and the increasing compliance and regulatory requirements on the other side, places great pressure on the custodians. Insufficient scale and limited growth potential will increase risk, as it may lead to some providers deciding to stop their service. If so, consolidation between two strong custodians is the best option, and can end up beneficial to the investors—I refer again to the scale. Without a good structural solution, it is a long process appointing a new custodian—especially on complex markets. The risks that should be considered are: service continuity, the potential deterioration of the service, the risk of losing skilled staff, the increasing risk of asset servicing, and corporate actions.

An indirect consequence of the eurozone crisis is the huge number of new regulations. It puts severe burden on all market players. It is not only the additional cost and time of the required system developments but sometimes unclear wording, the different interpretation or the inconsistency of various new rules, and the lack of proper market practice at the time of launching new regulations.

Simon Shepherd: It has, and this has thrown the methodologies used to manage those risks into sharp relief. In many ways, the eurozone crisis has reversed a trend of consolidation and the net reduction in the number of industry relationships, evident in the years prior to the eurozone crisis.

A combination of the crisis itself and clients managing risk by having fall-back relationships in place, or 'shadow' networks, together with regulatory pressure, has meant enhanced scrutiny of sub-custodian relationships. This has been both partly a volume-driven exercise, because of the aforementioned proliferation—but also a qualitative exercise because of the need to assess providers in a more comprehensive way.

Marek Začal: Since the recession has become a long lasting reality of the whole eurozone, sub-custodian risk, although unquestionably an important topic, is not a new issue.

It is being constantly evaluated by the network management sector, as are many aspects of the post-trading business, due to the fact that the eurozone is experiencing uneasy times and a challenging future. On top of that, sub-custodians are currently facing the trend of taking the risk of global custodians and other important clients.

Ulf Norén: I believe that the eurozone crisis has much wider implications, and is not at all helpful in restoring confidence and trust in all layers of the financial sector. It certainly accentuates everyone's focus on risk, but there has not been a direct increase in general sub-custodian risk outside of the countries that have been severely affected by the crisis. There, it is another story, and many clients have now departed local banks and resided with regional international providers instead.

To what extent do you think that client assets should be ring-fenced?

Norén: Client assets shall always be protected. That is of vital importance for the credibility of the industry. My definition is that firms and clients assets should be segregated and accounted for in a contractually binding and identifiable manner. Certain assets in specific kind of investment vehicles can also be segregated in a fashion that reflects the type of underlying investment.

Though, the current debate where there are many in favour of a 1:1 segregation per client and lowest possible levels is unrealistic. It will hamper the cross-border activity level, make cost go sky high and create inefficiency bottlenecks. In my opinion, it will not offer any increased client asset security either, rather the opposite.

Vandenreydt: Events over the last few years, especially the Lehman Brothers collapse and the Madoff scandal, have led custodians' clients to request ring-fencing of their assets. These requirements are emphasised by the UCITS V recommendations and AIFMD with an indisputable impact on the custodians' business model mostly based today on omnibus accounts. This certainly favours the emergence of different levels of service at custodians but comes with a cost for their clients.

Začal: The extent of ring fencing of assets may depend on the client's investment strategies, but also (as seen from the custodian perspective), on the regulatory conditions. The complexity of custody services also depends on the tax and legal environment of the given market to which sub-custodians have to adapt.

> Norén: The current debate where there are many in favour of a 1:1 segregation per client and lowest possible levels is unrealistic

Juranyi: No question: a client's asset safety is key. The question is how, at what price, and who takes the end liability if something goes wrong. In the absence of local legislation aimed at protecting/segregating client assets, sub-custody should take appropriate measures to ensure its proprietary assets are ring-fenced from client assets. The good news is that most countries implemented proper rules to segregate clients' assets from proprietary assets.

How will the shift to central clearing for most OTC derivatives affect your business?

Norén: There is a big risk that strong and secure collateral will be squeezed. Active players on the bank side—such as the equity finance desks—need to construct collateral programmes swapping less secure collateral for better collateral—such as corporate bonds for government bonds, or repo bonds for cash (if you believe a repo market of significance still will exist).

A likely scenario is that the buy-and-hold type of clients will be important suppliers to the OTC central counterparties (CCPs). In the discussions on omnibus general clearing member models versus segregated models, our view is that most clients will choose a completely segregated general clearing member model, which will mean that all collateral shall be transferred to CCPs in segregated client-by-client accounts. Additionally, cross netting of margins in OTC cleared/OTC bilateral and exchange-traded derivatives/cash equity will be less of a business opportunity in terms of volumes.

> Juranyi: The implementation of the AIFMD principles in the existing agreements will not happen smoothly

Widespread margin calls might become a real problem as some clients will have bilateral trades outstanding that, post-European Market Infrastructure Regulation (EMIR), must be secured via ISDA/CSA, generating a multitude of daily calls. In addition to that comes calls from clearing brokers and CCPs—and many clients work with several of those. To deal with this, we foresee a strong growth in outsourced collateral management processes, and getting that right is probably one of the more significant keys to success—or reason for failure—going forward.

Začal: As the consequence of the implementation of central clearing for most OTC derivatives, CSOB expects a liquidity boost, due to the fact all involved counterparties will have to conclude respective collateral support annexes (CSAs). This should further ease the access to more counterparties on interbank market. Also, involved market makers will most probably be encouraged to trade more on interbank markets.

On the other hand, for those big non-banking financial institutions who would not step into the clearing scheme from its beginnings, CVA (credit value adjustments) should be newly charged, which could slightly worsen their sales flow.

Vandenreydt: As a provider of secure messaging and connectivity services, we expect the shift to central clearing for OTC derivatives to have a positive impact on our business. We are currently working with several industry organisations (MarkitSERV, DTCC, RegisTR) to better help customers manage these new requirements by providing messaging and connectivity to CCPs and trade repositories for clearing and reporting of OTC derivatives. This also creates opportunities in the collateral management space. The current emphasis on central clearing changes the scope of the requirement for collateral messaging. Driven by the move to central clearing of OTC derivatives, new requirements for initial margin, tighter collateral rules for ETFs and other UCITS funds, Basel III liquidity requirements and an increase in collateralised lending, experts believe that the regulatory responses to the 2008 financial crisis could push up collateral demand by as much as $4 to $5 trillion.

What is your opinion on the latest European Commission draft of the supplementing rules of AIFMD, which applies the strictest of liability tests on depositories?

Juranyi: It is one of the biggest challenges of our industry. The purpose of clients' asset protection cannot be questioned, so the principle of AIFMD is correct. The liability under AIFMD is the most controversial and debated element. Under the AIFMD discussions, we have seen some attempts to push full liability to the custodian for everything—whether the associated risks are under the custodian's control or not.

The implementation of the AIFMD principles in the existing agreements will not happen smoothly. Each agreement already has some liability clause. It will take a lot of time and money until the parties will come to an acceptable wording and balanced compromise to add the new rules in the contract. And what will be the cost of the expanding liability? We can expect that the discussions around increasing fees will come soon.

The different type of service providers might have different liability depending at what level they are in the chain. Today it is not fully clarified yet how the liability should be in line with the service what is offered. Different liability should be taken in case of depository or custody services and the increasing liability cannot be expected free of charge.

Začal: AIFMD is a big challenge. The more if specific requirements will be passed also on QIFs (qualified investing funds) in terms of controlling duties that currently belong only to depositories. Current legislation allows decreased workload for QIF, which, of course, positively affect their costs. But, according to planned amendments, AIFMD introduces even more prudent rules and requirements for QIF, which seems to be too much. Turning back to the first question, the eurozone crisis might mirror in this case.

Norén: How many days do we have in order to respond to this? An attempt for a short answer from my side would be that AIFMD will force the depository to implement an endless series of new controls, and to assume a large amount of new duties. The industry is currently spending thousands and thousands of hours on interpreting the text and preparing itself, its client base and the regulatory authorities for implementation. There are a number of areas that we are about to address, both as individual organisations and through collaborative efforts in various associations. Among them are:

- Defining the scope of assets defined as being held in custody.
- The treatment of third-party collateral where the depository should not be held liable to restitute what is not in its actual control. The depository can, however, reasonably be held responsible for providing record-keeping services with respect to such 'out-of-network' financial instruments.
- The expanded concept of 'lost' financial instruments for which a duty of restitution would apply—to include those that are not held with appropriate segregation by brokers or those with respect to which obligations are not correctly performed by counterparties or central counterparties. If this understanding is correct, it would—along with the proposal by the European Markets and Securities Authority to make depositories liable for certain frauds perpetrated by alternative investment fund managers, issuers or counterparties, and the expanded view of financial instruments to be held in custody—represent a massive and inappropriate transfer of risk to the European banking sector and others fulfilling depository functions.
- The significant increase of due diligence missions, ensuring segregation and compliance with the rule book in cross border locations.

How will the rules change the cost of custody across European countries?

Norén: I have no doubt that the combination of all the regulatory changes and the infrastructure revolution will make the total post-trade bill higher. In fact, much higher.

Juranyi: It will bring new pricing models in the form of value based fees against today's simple bundled fee structure. I think that the bundled fee structure shall be moving into a far more realistic fee structure that would better reflect the service elements and efficiency of the transaction processing. It is not always the case today. Repair fees, cancellation fees, and fees for manual processing should be paid extra.

Target2 Securities and AIFMD, as well as other new regulations and increased capital and service requirements cannot be offered at the same price, or a lower price. The industry cannot follow the trend of pushing the fees without any economic reason, "just because we have

not reviewed the fees in the past few years". At least not without consequences.

Vandenreydt: Traditional sources of revenues (forex operations, securities lending) for the custodians have been severely affected by the economic climate

Začal: Costs might be affected by the fact that a custodian's responsibility for client assets also extends to the loss caused on the side of sub-custodians. This will have a significant impact—especially in those countries where a solid legal environment has not been introduced yet. With regards to planned changes in sub-custodians procedures, there is still a probability that depository and custody agreements will have to be modified.

From CSOB's perspective, implementation of other amendments (documentation, agreements, system and process analysis) will require another cost-related items. Not only in the legal department, but also in network and operations. The problem is that these 'market-changing' costs are mostly covered by local providers, who are then put in a very uncomfortable position with their clients. An increase in fees (reflecting these higher costs) is always perceived negatively, even by end clients, which puts more pressure onto local providers.

Shepherd: While the workload across the industry will rise, there is no reason why this should necessarily add to costs. To mitigate this extra effort, participants need to leverage technology to avoid the additional cost burden. In many ways the enhanced regulatory regime has forced a reappraisal by banks of their use of technology. Much of what will be required by new rules involves repetitive activity—activity that lends itself to automation, storage and rapid retrieval of information. Using manual processes and disparate technologies will not help. Interestingly, banks which have come under time pressure and which have, historically, relied on in-house development have been forced to use third party software to hit deadlines. As the quality and the comprehensive nature of these 'external' solutions has become apparent, so banks have become more comfortable working with vendors to generate solutions which address this problem.

Vandenreydt: Traditional sources of revenues (cash deposits, forex operations, securities lending) for the custodians have been severely affected by the economic climate. New regulations and liabilities are negatively affecting their profitability. It is reasonable to expect that the actors who want to continue offering custody services will have to start charging new fees for services they were already providing for free (ex: around intra-day liquidity) or to increase the traditional safekeeping fees. Price for value is clearly on the agenda and we foresee a trend in unbundling the fees per service rendered.

What do you see as the present challenges for the network management and post-trade industry?

Vandenreydt: The role of the network manager has subtly changed since the economic downturn, shifting from being an RFP gatekeeper/project manager and relationship manager to that of an operational risk controller. The main challenges for network managers today is to make sure that their network of sub-custodians is able to cope with extreme market conditions. The focus is therefore on preparing fall-back scenarios (eg, a secondary depository per country ready to take over in case something happens to the primary one, segregated accounts opened at the CSD level), spending more time in reviewing the risk of the agents and in some markets, come with the right business case to internalise the risks by directly connecting to the CSDs.

Post trade continues to be under increased scrutiny. New regulations combined with the impact of failed trades on intraday liquidity and collateral process and the relentless focus on cost in the back and middle offices are some of the major challenges. In that regard, automation is a good solution, but when you look at market there are still 40-60 percent of trades that are not getting affirmed. With a relatively long tail of market participants to automate, getting to that 100 percent automation is paramount, but remains a challenge.

Shepherd: The key challenges include the volume and accuracy of data, relationship and cost management as well as response times and the immediacy of information. The sheer volume of information that needs to be stored and referenced, either continuously or at some point in the future, is a critical challenge. Technology is the only solution to cope sensibly with this problem. Providing cost-effective solutions too, will be part of this challenge and this will inevitably mean banks will shy away from in-house development. Cost and time to market will be the main considerations as banks try and put solutions in place quickly and cleanly. Links between front, middle and back office will need to improve, as will the provision of electronic information by providers. Participants lacking the ability to receive and to process data electronically, with minimal manual intervention, will be an increasing feature. The provision of high quality reports, often at short notice, will also be challenge.

Začal: Generally speaking, the post-trade industry is challenged by an overwhelming amount of amendments and new requirements in the legislative and technological domains. The network management also must carefully monitor the performance of its local providers. A strong and stable provider is an absolutely vital component for the whole business (if you recall the recent and sudden news about ING selling its sub-custody business in the CEE region). A global name is not a guarantee in this case.

Thinking locally, the Czech Republic market will be facing a significant portion of mostly technological challenges in the nearest future. After implementing the XETRA platform at the Prague Stock Exchange last year, the market started to implement an automated pre-matching procedure, which aims to eliminate telephonic processes. After that, market participants are expected to be pushing the local CSD to switch to the SWIFT communication platform. Another major project will be introduction of a CCP. Above all, a brand new Civil Code will come into force at the beginning of 2014. Significant changes might be thus expected not only in the Czech post-trade business but also in various aspects of our daily lives.

Shepherd: Much of what will be required by new rules involves repetitive activity—activity that lends itself to automation, storage and rapid retrieval of information

Juranyi: The network management industry should put more of an effort in to properly understand the new regulations and market requirements, and adopt those in its market review processes. System development might be required. Network managers should give more proactive support to their stakeholders to explain the new

market initiatives, including the consequences; and assist with setting up a strategic direction.

It is very likely that the post-trade industry landscape will change: CSDs are looking for their role under T2S, and local custodians should understand how the settlement under T2S will affect their business, and where to put focus in terms of asset servicing. The fact that a global custodian created a CSD shows all of us that we are living in a changing landscape. Last but not least, I believe that consolidation might continue in the industry.

Norén: Many institutions in the post-trade industry, no matter how they are branded, stand in front of what I define as being the toughest challenge ever in the history of this fine industry. Challenges could be:

- Dealing with the cost issue where C/I numbers will increase. At the same time, revenue levels under unchanged volume will continue to drop, unless models are changing.
- Sharpen up, understand and expedite tax issues as virtually all jurisdictions are bound to do at least something in that field—even if it as not as damaging and senseless as the European Financial Transaction Tax.
- Navigating a playing field that will be further blurred with CSDs becoming competitors, or disappearing or appearing in cross-border networks, with clients looking to self-service part of activity and with banks striving for increased levels of global reach. Recognising and acting on trends to sustain and remain competitive is crucially important.
- Complexity is increasing, capital will become a scarce and carefully guarded resource, yet still the post-trade provider must provide liquidity and credits.
- In a time of pressure, quality can never be a status quo—it must continue to get higher and higher.
- There are very few signs that there are positive indicators for volume growth—rather the opposite. But, growth must happen. That will be at the expense of competitors. It will be important to be the predator, not the prey.
- Compliance, regulatory interference and changes and infrastructure changes will all be huge drivers and of course, not being compliant, having misinterpreted regulatory implementation, or failing to have a viable T2S model, will be the end of you, or at the very least damage you badly.

Outsourcing, offshoring and technological challenges—what can we expect to see in the coming year?

Začal: It seems that modern preferences for outsourcing/offshoring are no longer so attractive as they used to be. On the other hand, choosing to outsource depends on the size of potential business or activity. In the long term, in-house IT development might save companies and their management from weakening their position when negotiating outsourcing prices, for example. In light of current development in financial markets, autonomous governance could be applied in other areas of corporate management, not only in IT domain.

Vandenreydt: Tougher market conditions will continue to bring change to the industry. Some it will be good, positive change, while other changes will remain a challenge for some parts of the industry. Offshoring is changing for the better. It now includes elements of process redesign and technology, as opposed to the old process where these functions were just moved to lower cost labour arbitrage locations. This change creates an opportunity for the industry to improve processes and the cost structure of operations functions. Outsourcing is also becoming more prevalent for a multitude of financial industry segments, particularly in the investment management to custodian space. Asset managers are outsourcing their back and/or middle office functions to custodians. With such deals, asset managers make economies of scale and outsource a good part of their operational risks and technology development burden on the custodians. The challenge here is on the custodians. They'll have to find a way to keep up the pace between products and services innovation needs and regulatory pressure for transparency and accountability.

Norén: The reality that we have started to enter into will mean more outsourcing, and that processes that are too vital to outsource will be offshored to locations where we can obtain scale advantages and cost efficiencies, while at the same time reduce error rates down to a minimum. As a whole, I believe that the industry must look much more at collaboration in areas where the competitive advantage of doing something as individual organisations is negligible. Why duplicate such processes in multiple organisations and accumulate cost when it can be done once and then white-labelled? I think this will be true for all involved layers in the value chain, and that the silos we see today between competitors, IT providers and CSDs in post-trade operations will, to some extent, will be erased.

Juranyi: Scale, standardisation and efficiency: these all of the words that get a bigger emphasis in future operations. Outsourcing or centralised hub operations can be an option—but these are not miracles. If the outsourcing or creation of a hub is not managed properly, we'll see increasing costs, but not the expected gain of efficiency and quality improvement. We should understand at the start when thinking about outsourcing, that it requires funding, and that the benefit might come only later. Each organisation has to carefully consider which type of operating model serves its business the best and which functions might be outsourced, if any. Corporate action processing might be such an example. However, currently we might not see much outsourcing, as it would require a sub-custodian to take on more risk and liability, as clients would expect or demand that the sub-custodian take on the responsibility/risk of the third-party provider.

Shepherd: The technological challenge speaks for itself as the determination to generate in-house solutions dissipates; in-house solutions are simply not generated quickly or cost-effectively enough to warrant this approach. All too often the vested interests of large IT departments gets in the way of the most sensible solutions. The emphasis will shift from putting substantial resources into in-house development to the management of external solutions' providers. This change will vastly reduce overhead and improve the quality of the end solution for the banks, as well as leveraging industry best practice on a much wider scale.

> Začal: In-house IT development might save companies and their management from weakening their position when negotiating outsourcing prices

The outsourcing and offshoring debate is, however, far from over and there appears to be no definitive assessment of good, bad or indifferent. Previously outsourced activities are frequently brought back in-house, however, the scale of some proposed outsourcing solutions seems to grow ever bigger, which suggests the jury is still out. Activities that have been offshored are likewise being brought back onshore or sometimes 'nearshored'. It is clear that the—often substantial—additional management overhead does not justify the overall effort of offshoring; the frequent drop-off in quality of offshored services also suggests that the effort is not worthwhile. Banks would be better advised shifting their focus onto improved management of 'partner' technology firms, with whom they can work very closely, very effectively and locally. This removes the need for huge in-house development resource and keeps the business knowledge on-shore and close to the provision of the solution. AST


Time Flight Destination
15:10 OTP 8361 BUCHAREST
15:20 WAW 8369 WARSAW
15:30 SVO 0418 MOSCOW
15:35 BUD 5372 BUDAPEST
15:40 PRG 0623 PRAGUE
15:50 KBP 102 KIEV
16:00 SOF 462 SOFIA
16:15 BUD 5372 BUDAPEST
16:30 PRG 0623 PRAGUE
17:15 KBP 102 KIEV
17:20 BTS 0667 BRATISLAVA
17:30 SOF 462 SOFIA
18:10 OTP 8361 BUCHAREST
18:20 WAW 8369 WARSAW
18:30 SVO 0418 MOSCOW
18:35 BUD 5372 BUDAPEST

Industry appointments

Northern Trust has appointed **Fiona Moore** as head of fund administration for its exchange traded funds (ETF) business across Europe, the Middle East and Africa.

She will be based in Dublin and will be responsible for managing all ETF administration activities for Northern Trust's clients across the region. She replaces Liam Butler, who was appointed head of Northern Trust's hedge fund servicing group in March.

Moore joined Northern Trust as part of its acquisition of Bank of Ireland Securities Services in June 2011.

As a part of the €60 million deal, Northern Trust took over the fund administration, investment operations outsourcing and custody business of the Bank of Ireland Group.

At Bank of Ireland Securities Services, Moore was most recently a senior relationship manager in its global fund services business.

Fiduciary, funds and corporate services provider First Names Group has appointed **Morgan Jubb** as its group CEO.

Jubb will replace the current CEO Declan Kenny, who will now be group executive chairman. Jubb has worked with Kenny in driving the group's acquisition strategy, so far securing fund business Moore Management and reaching an agreement to acquire trust and corporate services provider Basel.

Since arriving in Jersey in 1999, Jubb has worked for Walbrook Group, Barclays Wealth and Mourant International Finance Administration (MIFA).

Kane LPI Solutions has named **David Cafferty** as head of compliance advisory services.

Cafferty will be based in Dubai and be primarily responsible for growing Kane LPI Solutions' compliance practice in the Middle East and North Africa region.

Prior to joining Kane, Cafferty was senior compliance advisory specialist at Clyde & Co in the United Arab Emirates.

SIX has named **Alexandre Zeller** as the new chairman of its board of directors. The decision was made on 29 May at the general meeting of shareholders.

Zeller succeeds Peter Gomez, who will be stepping down from the role after seven years to focus on publishing and academic projects.

Most recently, Zeller was CEO of HSBC Private Bank in Switzerland and regional CEO of HSBC Global Private Bank EMEA.

BNY Mellon has recruited **Jeff Pamplin** as head of client service management in EMEA for its alternative investment services (AIS) business. He will be based in Dublin and report to Carol Andrews, head of AIS EMEA service delivery.

Pamplin joins BNY Mellon from State Street, where he led the integration of their Goldman Sachs Administration Services acquisition.

Prior to working at State Street, Pamplin spent ten years at Goldman Sachs Bank Europe as EMEA manager, responsible for fund accounting and investor services.

Asset Risk Consultants (ARC) has appointed **David Meader** to launch the firm's new fund solutions division in the hope of strengthening the company's offering in the funds sector.

Most recently at Corazon and Collins Stewart Wealth Management, he is also a former chairman of the Guernsey International Business Association.

Annalisa Winge Bicknell has left SEB for BNP Paribas Securities, where she is now regional head of sales and relationship management for institutional clients.

She joins from SEB where she was asset servicing consultant for the Nordics, Luxembourg and Germany. Throughout her career, her focus has been on asset management, custody, international clearing, fund administration, treasury and intermediary services.

Previous roles include head of international sales at Northern Trust, Nordic regional manager at Clearstream Banking in Luxembourg and relationship manager at Morgan Stanley. She began her career at Barclays. **AST**

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