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Hedge fund administrators on the up

Single manager hedge fund assets under administration (AUA) have grown by 13 percent in the first half of the year and asset growth has been ubiquitous across both small and large firms, in an encouraging report for the sector.

In eVestment's Q2 2013 survey, AUA growth of hedge fund administrators was significantly improved from the 6 percent AUA increase experienced in the second half of last year.

State Street Alternative Investment Solutions, Citco Fund Services, BNY Mellon Alternative Investment Services, SS&C GlobeOp, and Citi Hedge Fund Services ranked from one to five respectively in size. Out of the five, BNY Mellon saw the most growth since Q4 2012, rising by 26 percent. Out of the 38 companies surveyed, ODB Fund Services recorded the biggest decline, with contracting growth of -57 percent since Q4 2012.

"We did not see any shifts among the top ten in rankings based on total single manager hedge fund AUA for this survey period," said the survey. Viteos Fund Services, Deutsche Bank Alternative Fund Services, Orangefield Columbus, and ISIS Fund Services, all outside of the top 10, each moved up two ranks over the first half of 2013. No firm moved up three ranks or more.

Among the participants, 17 firms submitted the number of new fund launches and and liquidations within their client base. New fund launches totalled 394, outpacing liquidations, which totalled 200 in the first half of 2013.

However, most of the firms submitting launches and liquidations data were outside of the top 10 by total AUA.

Compared to the high volume of inter-administrator M&A

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New private equity waterfalls at BNY Mellon

BNY Mellon has created an enhanced distribution 'waterfall' capability as part of its private equity fund services.

Distribution waterfalls in a private equity fund establish how proceeds from realised investments will be divided between investors and the fund manager. It's also through the distribution waterfall that fund managers and principals receive their performance and incentive fees, or 'carried interest'.

"Waterfall calculations, which are governed by the language found in Limited Partnership Agreements, are one of the most complex aspects of servicing private equity funds," said a BNY Mellon statement.

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Slightly more investors exit hedge funds

The SS&C GlobeOp Forward Redemption Indicator for September 2013 measured 4.21 percent, up from 4 percent in August.

"Forward redemptions increased slightly in September, with the bulk of activity reflecting quarter-end requests," said Bill Stone, chairman and CEO of SS&C Technologies.

The SS&C GlobeOp Forward Redemption Indicator represents the sum of forward redemption notices received from investors in hedge funds administered by SS&C GlobeOp on the GlobeOp platform, divided by the AUA at the beginning of the month for SS&C GlobeOp fund administration clients on the GlobeOp platform.

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Hedge fund administrators on the up

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activity during 2012, the first half of 2013 was relatively subdued. In December 2012, Orangefield Group announced the acquisition of Columbus Avenue Consulting; North Street Group acquired Hedge Fund Solutions, (rebranded North Street Global Fund Services) in May 2013, and Mitsubishi UFJ Trust and Banking Corporation (MUTB) acquired Butterfield Fulcrum in June 2013.

New private equity waterfalls at BNY Mellon

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"Today, most private equity firms and fund administrators rely on labour-intensive manual methods to calculate and report distribution proceeds."

"This major new offering marks the beginning of the end of spreadsheet calculations for private equity funds," said Alan Flanagan, global head of product management for alternative investment services at BNY Mellon.

"Our automated and integrated waterfall solution brings the benefits of a more efficient, controlled environment, and that means improved risk management and more transparent reporting for investors and fund managers alike."

The enhanced capability captures the algorithms and parameters used to calculate a private equity fund's distributions. The service is incorporated with BNY Mellon's private equity accounting platform, which assists with distribution processing and hypothetical liquidation modelling. BNY Mellon clients who opt for the service will also receive more detailed reporting with the new waterfall capability.

Slightly more investors exit hedge funds

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Forward redemptions as a percentage of SS&C GlobeOp's assets under administration on the GlobeOp platform have trended significantly lower since reaching a high of 19.27 percent in November 2008. The next publication date is 21 October 2013.

World forum of CSDs meet in Dubai

The World Forum of Central Securities Depositories met in Dubai to discuss a way forward for regional cooperation in the central securities depository (CSD) industry.

The objective of the forum is to provide the five regional CSD associations to exchange information on cross-regional and global developments.

Eddie Astanin, chairman of the forum, and also chairman of the executive board of the National Settlement Depository in Russia, said: "The imperative role played by CSD in the financial markets is being widely recognised following the global financial crisis."

"It is through forums such as [ours] that the CSD community is able to make representation at an international level regarding the importance of CSDs as financial market infrastructures and the value we bring to the market."

The WFC Board confirmed that its next conference of the World's Central Securities Depositories (WFC 2015) will be held in Cancun, Mexico from 19–22 May, 2015.

CLS Group is same-day on dollars

CLS Group, which provides risk mitigation services to the global FX market, has expanded its offering to enable members to settle same-day US dollar and Canadian dollar trades.

Same-day settlement in the Americas has been launched in response to demand from CLS members. These trades had not previously been eligible for CLS settlement due to the cut-off times in the CLS main settlement session.

CLS is actively considering other currencies for expansion of the service, with the Mexican peso targeted for inclusion in the Americas SDS session. Initially there will be 17 participating member banks using the service.

David Puth, CEO of CLS, said: "We have seen significant demand from our member banks for a service that mitigates settlement risk for same-day FX transactions."

"By establishing an additional service that captures payment instructions submitted after customary CLS cut-off times, we are continuing to deliver on our mission to enhance financial stability by providing risk mitigation services to the global FX market. SDS is a major step forward in enhancing the risk mitigation, liquidity, operational and IT efficiencies delivered by CLS."

Mondial awards mandate to CACEIS

Germany-based investment company, Mondial Kapitalanlagegesellschaft GmbH, has selected CACEIS to perform the depository function for its real estate special funds.

Mondial's funds include investments in commercial estates such as for local suppliers, logistics or student hostels.

"CACEIS is the perfect match for our business, especially regarding the bank's expertise in the field of real estate," said Cornelius Hell, managing director at Mondial KAG mbH.

"We especially appreciate CACEIS's diverse range of services and its client-orientated approach."

Holger Sepp, co-head and member of the management board of CACEIS in Germany, said: "We are delighted that Mondial has seen the value in our real estate expertise and now we are looking forward to building a strong business partnership."

Euroclear UK & Ireland attracts more fund managers

F&C Investments, Liontrust Fund Partners and

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Old Mutual Global Investors have signed up to Euroclear UK and Ireland's investment fund service.

John Trundle, CEO of Euroclear UK and Ireland, said: "We are seeing growing momentum in the UK fund community to reduce the risks and costs associated with fund transaction processing. The combination of automated order routing services fully integrated with delivery-versus-payment settlement, offers Euroclear UK & Ireland's clients a unique and effective means to achieve these objectives."

Gary O'Brien, head of client services at Old Mutual Global Investors, said: "We expect to see real improvement in our transaction settlement, cash and fund unit balance reconciliations, re-registrations and portfolio transfers as a result of the electronic and automated features of Euroclear UK and Ireland's investment fund service."

Andy Olding, head of group fund services at F&C Investments, commented: "Reducing risk and increasing cost efficiency for our clients is crucial for F&C. We look forward to the benefits that a fully automated, end-to-end transaction flow will bring to F&C by using Euroclear UK and Ireland's investment fund service."

Jeff Digweed, head of transfer agency at Liontrust Fund Partners, added: "Migrating to the Euroclear UK and Ireland settlement service has been achieved quickly and efficiently. The teams involved, including IFDS, RBS and Euroclear all worked well together and we were ready to test and process our first transactions in record time."

Broadridge and Santander complete pilot voting process

Broadridge Financial Solutions and Santander Investment/Corporate Services in Spain have completed a pilot process for vote confirmation.

The pilot took place during 2013 proxy season and, together with Broadridge, it included the participation of six custodians that use Broadridge's global proxy management service; Santander Investment in its role as registrar for Spanish share-issuing companies; and three participating issuers.

The pilot results proved that Santander Investment—in its role as a share registrar—accurately received a range of voting instructions through the legal chain of intermediaries including both global and sub-custodians, and was able to confirm that the shares voted were executed at the meeting.

Elizabeth Maiellano, senior director of product strategy for Broadridge, said: "End-to-end vote confirmation has become an important area of focus within capital markets, and presents an opportunity for greater integrity throughout the overall proxy process, which in turn will lead to improved investor confidence."

"Wherever possible, Broadridge is looking for opportunities where its solutions and domain expertise can help raise the level of transparency and remove any ambiguity concerning vote statuses."

Patricia Rosch, president of investor communication solutions international at Broadridge, added: "Broadridge has harnessed its relationships throughout the voting chain to help bring incremental transparency to the international markets. We are making plans to continue support for this pilot in the 2014 proxy season, in both Spain and other international markets."

SGSS is next in line to buddy up with SWIFT for T2S

Societe Generale Securities Services (SGSS) is set to sign a memorandum of understanding to adopt SWIFT's Value Added Network solution to connect to T2S.

SGSS selected SWIFT's solution to benefit both from SGSS and SWIFT's common involvement in the T2S project as well as its long-standing relationship with SWIFT, in particular the ISO 20022 format-related working groups.

In a release, SGSS explained that the firm decided to adopt SWIFT's technology in order to reinforce its "strategic goal of using a fully T2S compliant network solution for the secure exchange of business information in ISO 20022 format, capable of supporting future growth while ensuring minimal integration risk."

NAB wins Prime Super contract

National Australia Bank's (NAB) asset servicing business will continue to provide custodial services to Prime Super.

Prime Super has been a client of NAB Asset Servicing since 2007 and has $1.6 billion in assets under custody. The new five-year contract comes after a competitive tender process.

Lachlan Baird, CEO of Prime Super, said: "Prime Super values long-term relationships and we are pleased that after a competitive tender process, NAB can continue to act as the fund's custodian. We continue to acknowledge the full scale of their resources as part of the broader NAB Group and hope to continue to leverage these in the future."

Christine Bartlett, executive general manager of NAB Asset Servicing said: "As Australia's largest custody provider, we have the backing of NAB, one of the biggest and safest banks. We can leverage from the wider range of NAB products and importantly, we can leverage from the largest rural network of any Australian bank."

"This, combined with our proven risk management framework, experience across a broad mix of asset classes, and deep industry experience sets us apart from our competitors. We are delighted to partner with Prime Super and look forward to working together to create quality outcomes for their members."

CSD.Austria and NSD launch Russian securities link

CSD.Austria, the Austrian Central Securities Depository (CSD) operated by OeKB, and National Settlement Depository (NSD), Russia's central securities depository, have launched an international direct link to the Russian securities market.

Austrian and international custodians holding securities accounts with CSD.Austria will now be able to conduct direct settlement of Russian securities and safekeep them using CSD.Austria´s foreign nominee account opened with NSD.

The new link with NSD became possible after recent amendment of Russian legislation allowing foreign CSDs to open foreign nominee accounts with NSD.

CSDs with direct links with NSD will be able to provide their clients direct access to Russian on-exchange and OTC markets in respect to all types of Russian securities, as well as to information services and ruble settlements.

Georg Zinner, head of the OeKB capital market services business unit, said: "We are proud to offer to our customers the direct settlement of all Russian securities. The original securities are held by the CSD.Austria directly with the Russian CSD. This effectively shortens the line of depositories involved and considerably increases custody quality."

Eddie Astanin, chairman of the executive board of NSD, added: "CSD.Austria's decision to open an account with NSD reflects the progress made in integrating Russia's financial market into the global post trading infrastructure and contributes to a reduction in investors' costs for access to the Russian stock market, particularly for investments in shares of the Russian companies."

SGSS opens up in Bulgaria

Societe Generale Securities Services (SGSS) has expanded its custody and trustee services in Eastern Europe by providing a new custody platform in Bulgaria.

The SGSS platform will be located in Sofia within Societe Generale Expressbank, a subsidiary of Societe Generale Group.

The new custody platform will enable SGSS to provide custody services in Bulgaria to local and international institutional investors.

Daiwa adopts Torstone Inferno for Myanmar

Daiwa Institute of Research (DIR), the research and consultation arm of Daiwa Securities Group, has adopted Torstone Technology's Inferno platform as the back office post-trade processing element for Myanmar's (formerly Burma) new securities industry.

Inferno provides multi-asset post-trade processing and integrates all the applications and controls needed by operations, finance, middle office, risk and compliance into a single but highly modular system.

DIR is working with The Central Bank of Myanmar and Tokyo Stock Exchange to establish the infrastructure for the stock exchange and help develop a capital market in Myanmar.

Koichi Suzuki, senior executive managing director of DIR, said: "DIR is committed to making a continued contribution to the sustainable economic growth of Myanmar by providing advanced, secure solutions for the new capital markets. Our relationship with Torstone means that we can deliver first rate, enterprise-class software to the new market participants and a highly cost-effective cloud-computing model, from the outset."

Brian Collings, CEO of Torstone Technology, added: "The plans to introduce a stock market are moving fast, but after several months of development our cloud-based application is ready. To be chosen to provide the back office processing in DIR's front to back office solution, which will be used by brokers in this new trading place, is testament to the operational efficiency and depth of cross-asset functionality of our software."

Clearstream connects to T2S via SWIFT

Clearstream has chosen SWIFT's value added network solution to connect to T2S. The firm plans to migrate fully to T2S in wave three in September 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.

Mark Gem, member of the Clearstream international executive board, said: "Clearstream selected SWIFT to connect to T2S because, having utilised SWIFT network services for years already, we knew this would offer us—and in turn our customers—the right level of resilience and reliability for connectivity in the future T2S world."

"We trust SWIFT as the proven connectivity specialist to do the part of the T2S work it is best at, namely messaging and financial telecommunication, so that we can focus on our core business engineering. SWIFT also offers us the potential to provide additional value-added services such as standards management and testing to further enhance our T2S offering."

Alain Raes, chief executive of EMEA and Asia Pacific at SWIFT, added: "We are delighted that Clearstream has chosen SWIFT to connect to T2S. The confidence of such a major player in our T2S connectivity solution is a significant endorsement, and we thank Clearstream for its confidence that SWIFT's is the most reliable, cost effective and strategic solution."

Omgeo and DTCC create the people's repository

Omgeo has partnered with the Depository Trust & Clearing Corporation (DTCC) to establish a user-governed global repository to store and communicate the 'golden copy' of standing settlement instructions (SSIs) for all products and geographies, with the ultimate aim on standardising and centralising key client reference data functions and placing them under user governance.

Omgeo ALERT will be the SSI repository and communication hub, coordinating and distributing SSIs between trade counterparties and supporting settlement across all markets and asset classes globally.

The initiative is aimed at global custodians and prime brokers in ensuring that they can update and maintain accurate 'golden copy' SSI details automatically on behalf of their clients.

"The [initiative] is a tangible example of the efforts being made by the industry to standardise and centralise key client reference data functions and place them under user governance, with the result that the post-trade area of the financial system will be more efficient, less risky and less costly," said Andrew Gray, managing director and head of core business management at DTCC.

"It is well known that inaccurate, non-automated SSIs are a primary reason for trade failures, and this initiative will significantly contribute to significantly improving the control environment in this critical area."

BNP Paribas sets up custody shop in Colombia

BNP Paribas Securities Services has become a local custodian in Colombia.

The firm has also secured an operating licence from the Superintendencia Financiera de Colombia, the Latin American nation's financial supervisor.

The move will allow BNP Paribas to provide post-trade services to international banks and investors wishing to invest in Colombia, while supporting the international expansion of banks, brokers and institutional investors based in Colombia and other fast-growing Latin American countries.

The firm is also aiming to take advantage of a recently introduced law in Colombia requiring all local investors to appoint a local custodian.

Claudia Calderón, head of BNP Paribas Securities Services Colombia, said: "This launch is an important milestone in our commitment to helping our clients understand the landscapes of, and maximise their investment opportunities in, their most important destination markets."

"It also opens up the possibility for us to help locally based investors tap the global financial markets via our global custody network and multi-market expertise."

Calypso opens in Dubai

Capital markets platform provider Calypso Technology has opened an office in Dubai. This expansion is the result of a growing client base in the Middle East region.

The office is located in the Dubai International Financial Centre, and will serve as a sales and marketing base as well as a professional services hub for the region. The territory had previously been managed from Calypso's Paris office, but with the recent on-boarding and growth of new clients including Riyad Bank and Emirates NBD, a local presence was required.

Charles Marston, Calypso's CEO and chairman, said: "In our fifteen years of operation, we have always deemed it invaluable to be close to our clients, so establishing a Middle Eastern presence is a natural progression. We have been in the region since 2007 and through research and practical experience, we have a firm understanding of market trends and requirements, and have become more integrated with its financial community."

The Dubai office is Calypso's 20th office globally, and follows three prior office openings this year alone.

BNY Mellon profits from NAB alliance

BNY Mellon has capitalised on its new alliance with National Australia Bank, assuming responsibility for administration of the private equity holdings for Telstra Super, a NAB customer.

NAB and BNY Mellon recently strengthened their relationship to deliver an expanded range of asset servicing products and services to Australian customers. The basis of the new alliance reaffirmed NAB's and BNY Mellon's long standing custody relationship that dates back almost 20 years.

BNY Mellon has now assumed responsibility for the administration of Telstra Super's private equity holdings, as well as providing exposure and risk reporting on this portfolio of securities.

Michael Chan, Asia-Pacific head of BNY Mellon's asset servicing business, said: "Superannuation funds continue to be challenged by growing regulatory demands and are turning to their custodian to service the array of complex new funds, structures and strategies being introduced."

Schroder uses Milestone for fund oversight minutes

Milestone Group, a fund processing solutions provider, has seen its pControl platform for fund oversight chosen by Schroder Investment Management in Luxembourg.

The solution enables the asset manager to automate the critical daily NAV validation process, which involves processing up to 1400 prices from its global fund range within a 45-minute timeframe.

Prior to the deployment, Schroders ran price validations and checks manually, receiving and entering files into spreadsheets.

Gary Janaway, operations director at Schroders, said: "The implementation went well, and since the deployment, pControl has provided us with a one stop shop for the validation of fund price data, meaning that our staff can now focus on managing exceptions, instead of crunching data."

Chapman's Eye on the market

A significant lack of interest

There is an old Latin American central bankers' saying, which arose at the same time as Brady Bonds and the Latin American debt crisis of the early 1980s, which goes along the lines of: "It's against my principle to pay interest, and against my interest to pay principal."

Nowadays, the lack of interest on debt or, more accurately, dead cash balances 'loaned' to banks overnight—NII, or Net Interest Income to give it its technical name—has had a huge impact on the profitability or otherwise, of the major custodial banks. The reduction of NII, due in part to better managed balances, but primarily to a reduction in interest rates, has reduced bottom-line profits by as much as 40 percent, meaning savings have had to be found elsewhere—via headcount reductions, minimised IT spend, offshoring or, conversely, geographic retrenchment.

Once rates start to return—at the start of the year, it was felt that it would be another four years or so before we'd see a rise, but as we stand today it looks like a modest rise of 25 or 50 basis points could be seen within 18 months or so—then banks will start to regain the 'true' confidence and spending power that was the hallmark of the nineties and noughties. When that happens, we can then expect to see a concerted upward spiral of hiring, with multiple competing offers, buyouts and guarantees returning.

However, everything in life is a trade-off, and the flipside of this windfall for the banks is that for individuals, a rise in interest rates will significantly and negatively affect their general level of wealth, given their overdrafts, loans and tracker mortgages.

Despite what the general population feels about the wealth of 'bankers', the truth is that debt is a friend to most people, whatever their income, in that it sticks with them closely. Invariably,the more you earn the more you spend, and a combination of school fees, cars, foreign holidays and mortgage repayments can weigh heavily upon your shoulders. Debt can be a great and useful friend in that it allows you to buy a car, house, holiday home or fund a holiday. On the flipside, it can be a millstone around your neck and an extended period of unemployment can drag you quickly and deeply into the mire.

As Paul Clitheroe, the Australian financial commentator once said (with a quote that applies equally to financial institutions as to individuals): "There are plenty of ways to get ahead. The first is so basic I'm almost embarrassed to say it: spend less than you earn."

Being an honourary Scot, I can only agree with those parsimonious sentiments.

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

Paul Chapman, managing director, HornbyChapman Ltd

Don’t sue the messenger

Tania Dupoy of Goal Group gives insight into investor losses from a reclamation perspective—and how custodians can swerve their day in court

Goal Group, which offers class actions and tax reclamation services, has revealed in its latest update report that between 2000 and 2012, investor losses through non-participation in securities class actions rose to over $18 billion. Just over $4 billion of this un-reclaimed amount can be attributed to European investors.

Historically, non-participation in US securities class actions has cost investors and funds dearly. Between 2000 and 2007, Goal Group analysis showed that non-participation by European and other non-US investors was much higher than for US-domiciled investors. However, non-participation rates have radically improved outside of the US since 2007, with Goal Group’s analysis of its class actions knowledge base showing that global non-participation is now between 23 percent and 24 percent, with marginal differences between US and non-US eligible investors.

Nevertheless, a new worldwide trend is evident. Global class actions are moving away from the singular and relatively straightforward focus on a single jurisdiction—the US—to a multiple and complex series of legal systems throughout the world. As a result, custodians, trustees and fund managers may once again feel overwhelmed by the international monitoring, participation, claims and payments task. There is even a possibility, as securities class actions globalise, that non-participation rates could start to rise again. This is in light of some custodians limiting the scope of their class actions service to a selected group of countries.

The latest data also shows that although the volume of US securities class action settlements had fallen in 2012, settlement values had risen after a dip in 2011. The volume of filings in 2012 has been broadly maintained, despite the tailing off of credit crisis related cases. These findings suggest that filings and settlements are likely to show steady development across the rest of the decade.

Any level of non-participation presents fiduciaries (trustees, custodians, fund managers, etc) with a major legal headache, as experience in the US shows they may be sued if they do not ensure investors participate in class actions. Therefore, as fiduciary responsibility to ensure effective participation in relevant securities class actions and to recoup investors’ rightful returns is increasingly recognised. Responsible parties can no longer ignore the opportunity to claim international damages to which they are legally entitled. For example, many custody request for proposals from major pension funds now include these responsibilities as a requirement for a class action service. Many non-US legislatures require participants to register at the beginning of a case. Any level of non-participation presents fiduciaries with a potential legal risk; therefore it is a necessity that all those with such responsibility are familiar with securities class action legislation across the world.

Analysis has shown that the typical European share portfolio has become strongly international. The average weighting is currently at 60 percent in domestic shares and 40 percent in foreign shares. These weightings have highlighted to European shareholders (and responsible fiduciaries) that they could be left out of securities class actions in the US or in any other foreign legislature unless they take an active role in a lawsuit.

Keeping track of the opportunities to make a claim, and the processes required to do so successfully can be a complicated and daunting task however. Institutional investors have, in some cases, believed that the cost and time involved is likely to outweigh the benefits. Although this is often not true, it perhaps explains why 23-24 percent of claims that could be filed by entitled parties, are left unprocessed.

However, there are now specialist service providers that can automate the complex process of class action participation across international legislatures at a relatively low cost. The pressure of the process can be dramatically eased by such support. For example, specialist providers work on a global basis, covering class actions in all markets, while managing ongoing relationships with various legal firms worldwide and a network of paying agents. AST

First stop: Africa

Alan Naughton of Standard Chartered tells AST how the bank is moving beyond its primary perception as a sub-custodian

GEORGINA LAVERS REPORTS

What is Standard Chartered's focus for 2014?

We have been perceived primarily as a sub-custodian bank in Asia, the Middle East, and Africa, but want to make it clear that we also provide securities services locally (through our local offices) to asset managers, insurance companies and pension funds for their local investment fund businesses

Recently, we set up a depository bank in Luxembourg that will allow us to offer a full suite of investor services to Luxembourg funds. This is in response to increasing client demand for the bank's support of Luxembourg domiciled UCITS structures distributed in our footprint markets of Asia, Africa and the Middle East.

We are not aspiring to be a global custodian. We are an international custodian with services in 39 countries. We do not provide local services in developed countries in the Americas or Europe, and nor do we intend to be so. We're focused on supporting clients operating in or looking for opportunities in Asia, Africa and the Middle East, and that is where all of our time and investment is going at the moment.

It is a combination of being on the ground to support the large local banks and their clients seeking growth in these regions, and also being on the ground to support our clients who operate in those countries

How are you moving away from being primarily known as a sub-custodian?

By collaborating strongly with our clients to deliver a holistic approach to service provision where we offer a fully integrated link between custody, cash, clearing and foreign exchange across our footprint markets.

I think there is room for many models. The traditional point-to-point model that many of the large custodian banks operate in terms of procuring domestic market services may not change materially. Equally, broker/dealers having direct access may not change materially in the short term.

But, particularly in the smaller markets, the desire to have regional access and to be able to quickly and efficiently add markets is certainly a trend that we are seeing.

Do you worry about global custodians revoking sub-custody mandates with you?

Yes, we do. And there has been some development on that front with some of the custodian banks. Generally they may decide to insource in some of the more mature markets, where it is possible—with automation and standardisation—to be able to do that. But it really does depend on whether these banks have the expertise and infrastructure on the ground to develop these operations. Part of it is driven by regulation. We all know the regulatory acronyms. Whatever regulation you can care to name, they are driving developments in order to mitigate the risks banks face as a result of supporting their end-clients.

However, I suspect that the number of custodians bringing sub-custody in-house may be limited, because it requires a huge amount of time, investment and infrastructure to be able to do that. So yes, some have done, and I expect some will do a little more in certain of the markets we operate in. But equally, the current risk-diversification requirement of many institutions, that means they can't be wholly reliant on one provider, means that firms will have to have live contingency arrangements. This will throw up different opportunities.

What are your views on UCITS V and its taking of liability provisions from AIFMD? What will this mean for emerging market funds?

I think there is a risk that you may see as a result of the increased regulation, whereby the responsibility of liability and risk transfers. I am sure that this may not be what was originally intended, but this is what will likely happen.

You may see a reduction in appetite from the European-regulated funds, because the risk-return and risk-reward may not necessarily be there. I think we'll have to see how this one works out. The principles around UCITS V are intended to ensure that the client has full asset protection, segregation, that you can identify the stocks and shares they own, and that these stocks and shares are available to them in the event that they need to get hold of them.

These are the basic principles that we operate to in any event. The emerging markets will continue to fluctuate, and we can see that there has been a little bit of retrenchment in terms of emerging market investment flows as a result of the threat of The Federal Reserve easing off. But over the longer term we continue to expect growth in these markets.

We are seeing growth in local fund business in many of the countries in which we operate, particularly in the likes of Hong Kong and greater China driven by the anticipated mutual recognition of funds. You could well see a lot of assets migrating out of UCITS funds into domestic Hong Kong funds, as managers think about what they need to do in order to access greater China distribution opportunities.

What's the most unusual market you've got into?

I think all markets have their own subtleties and quirks. If you were to look at India, South Korea or Taiwan—they all have some very unusual characteristics that set them apart, even though the principles may be similar. The ones that I find particularly interesting for the future are the African markets. We are focusing very heavily on Africa, for a number of reasons. Earlier this year we announced the acquisition of the trust and custody business of Absa Bank in South Africa. There were a couple of very good reasons for doing so—particularly the fact that it was a natural fit for both firms in terms of our strategic objectives, and we already had a small business in South Africa. We were looking to grow. We had, and still have, extensive coverage across many of the material markets in sub-Saharan Africa, and will be looking to expand further. In the last 3 years we have gone from 17 to 39 markets, as others have been retreating.

It is a matter of public record that the bank is investing heavily across the continent. Angola and Mozambique are countries that we're looking at from a banking perspective, and we are getting back into Myanmar, where we were a very sizeable bank years ago. Equally, several other frontier markets are very much on our radar.

What processes need to be worked on with regards to Africa?

There are some similarities to issues we had in the Middle East. In the Middle East, many of the countries had previously operated a broker custody market; there wasn't necessarily the need for segregation. If you look at Saudi Arabia, it's still very much direct holdings on the exchange, so there are lots of differences—it's a T+0 market, you can't get any better, but there are still challenges.

In Africa, there are significant infrastructure challenges. Power generation—the lights go out quite regularly. Some of the practices in terms of moving title of securities from one party to another—it's not always simultaneous. A lot of these things vary by country, and you still have to be aware of them. There isn't a 'United States of Africa' to impose commonality of regulation. You've got the East African bloc, West African French-speaking bloc, South Africa, which is closely linked with Namibia—various grouping between the 54 countries, but no 'one market'. You have to look at each individually. It will take time, because there isn't the liquidity that exists in more developed markets. While there's a lot of foreign direct investment, the securities market investment, outside of South Africa—is not of the size that you see elsewhere. But again, that will change over time.

Foreign direct investment has been a huge benefit. Interestingly, FDI in South Africa from the UK is roughly seven times greater than FDI from the US, and China dwarfs everyone else—their investment in South Africa has been phenomenal, across mineral, arable and other resources

What were some recurring themes at Sibos, and how did they match up to your perceptions?

The Africa forum, which was chaired meticulously bv Goolam Ballim, the chief economist, at Standard Bank, was entirely consistent with what we're seeing. The things that stood out from the presentation were the stark statistics: the average age of a European is 40, and the median age of an African is 20. Fifty percent of the population of Nigeria is aged 17 or less. By 2050, 50 percent of the top 20 countries in the world (ranked by population) will be African countries.

And by 2050, Nigeria is projected to be the third largest country after India and China. The latter is starting to age, and India is still growing and will, in a matter of years, overtake China as the largest country in the world by population.

'The Africa story' seemed to be continuously recurring as a theme at Sibos. It is a frequent discussion with clients, and banks and investors alike are asking how to take advantage of the opportunities that appear to be there. Everybody's trying to figure out what they should be doing. Because we've been in sub-Saharan Africa for 150-plus years, and have 9000 staff over 20 countries, I think people naturally gravitate to us a source of information.

We are very focused on Africa, more so compared to other banks (with the exception of Standard Bank). The other theme was around coverage between the different corridors of investment and trade. We are in China, the Middle East, and Africa: that is our heritage. The trade flows between China and Africa have gone up exponentially over the last decade, and patterns would indicate that this will in turn lead to growth in the financial services industry. **AST**

Alan Naughton
Global head of product for intermediaries and investors for transaction banking
Standard Chartered

Keeping up with the South Africans

AST takes a look back at what's been happening in the South African market, from SGSS mandates to Standard Chartered's Absa Bank acquisition

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The industry

Strate and **Euroclear** signed a letter of intent to fix the currently fragmented processing of mutual fund transactions in South Africa.

The initiative aims to establish a fully electronic environment for the industry and investors in local funds.

The current administrative processes associated with the South African mutual fund industry are disjointed, with no automated way to link cash payments with fund unit orders in a low-risk environment.

Through the collaborative initiative with Euroclear, Strate is looking to work with the local industry to explore the implementation of an electronic and centrally hosted mutual fund settlement and custody platform for the South African market.

Strate and Euroclear will also investigate options to centralise record-keeping as well as create added benefit by improving settlement and payment efficiencies.

The core element of the intended initiative is the provision of a platform where mutual fund transactions are processed on an automated basis from order routing to settlement and asset servicing.

This end-to-end solution aims to be sufficiently robust and resilient to serve as an infrastructure for both domestic and international market participants, with settlement conducted in central bank money for South African investors.

According to Monica Singer, Strate's CEO, there are inefficiencies and risks at present in the mutual fund industry. "The fund unit and cash components of mutual fund subscriptions and redemptions in the South African market are credited or debited several days after cash has been received for settlement. We will investigate how Strate can improve this process, potentially centralising fund ownership registration and delivering a safer and more efficient means to enable our local fund industry to grow."

She added that the next steps to be taken include engaging with local stakeholders to define the required functionalities as well as the timing for implementation.

Lieve Mostrey, chief technology and services officer of Euroclear, said: "Sharing our decades of experience in fund processing for domestic and cross-border transactions with Strate and its clients is an efficient and cost-effective way to add value to an important emerging fund market."

"As we begin a new partnership with Strate, the South African market can be sure that the primary objective of our collaboration is to deliver greater operational efficiencies while reducing risk. We also envisage that this initiative will attract other markets to share the same technology in order to achieve economies of scale for their fund markets."

Speaking at the Committee on Payment and Settlement Systems and International Organisation of Securities Commissions' joint panel discussion at the 2013 Sibos conference, CEO of South African central securities depository, Singer, argued that the principles-based route is the only one that works where she believes that CPSS-IOSCO cannot, realistically, prescribe things (as would be the case with 'rules-based' legislation). It is rather 'best practice' considerations that help a local market identify areas to focus on in order to provide a robust financial market infrastructure.

According to Singer, the principles have put all financial market infrastructures on par with one another— from central counterparties to central securities depositories— giving them equal weight and encouraging them to comply with the same set of principles for the benefit of the global financial market.

The principles for financial market infrastructure were issued by CPSS-IOSCO in April 2012. Jurisdictions globally are currently in the process of incorporating them into their regulatory frameworks to foster the safety, efficiency and resilience of their financial market infrastructures. In

South Africa, there is already legislation in place to support the PFMIs called the Financial Markets Act, which became operational at the beginning of June 2013.

The mandates

Peregrine Equities, part of the Peregrine Group, selected Societe **Generale Securities Services** (SGSS) in South Africa to provide it with custody services.

SGSS already provides securities lending and borrowing and global custody to Peregrine Equities, as well as futures clearing services to Peregrine Derivatives.

The group's derivative, equity and prime services entities are housed within Peregrine Securities, which is a member of the Johannesburg Stock Exchange.

SGSS in South Africa was additionally mandated by Trifecta Capital Services to provide custody services.

The services will initially be provided in South Africa, with further implementation planned in other jurisdictions where Trifecta Capital Services is present.

SGSS was retained by Trifecta Capital Services for its expertise in providing securities services in South Africa and its expanding presence in sub-Saharan Africa. It also recently extended services in Mauritius, Ghana and Tunisia.

Trifecta Capital Services is a global leader in outsourced services for private and public sector clients, with offices in South Africa, Kenya and Europe.

It delivers outsourced services in revenue management, asset return, transfer secretarial services, corporate actions and shareholder administration to private and public sector clients, which include banks, telecommunication companies, insurance and assurance companies as well as fund administrators and governments.

Trifecta Capital Services administers more than two million accounts annually.

The acquisition

Standard Chartered bought the South African custody and trustee business of **Absa Bank**.

This acquisition builds on the "significant" investment Standard Chartered has already made in its African franchise, said the firm. As well as organic investment, the group acquired First Africa, an African M&A advisory business, in 2009 and Barclays' Africa custody business in 2010.

The bank also announced the opening of two new wholesale banking corporate offices in South Africa, in Cape Town and Durban in April 2013.

Over the past two years Standard Chartered has sought to develop a profitable custody model across 21 sub-Saharan African countries, launching custody operations in South Africa earlier this year.

Diana Layfield, CEO of the Africa region said: "Africa is an important strategic opportunity for the bank and for our clients, offering excellent economic growth and increasingly strong trade links with markets in Asia and the Middle East. This deal will improve the range of services we offer to clients in the region. It builds our capabilities and is in line with our strategy to support our organic growth with selective acquisitions."

Karen Fawcett, group head of transaction banking at Standard Chartered, said: "The successful acquisition of Absa Bank's South African custody and trustee business will enable Standard Chartered to rapidly build on its custody capabilities across Africa. I am confident that today's announcement will strengthen our proposition, and establish us as a core bank to our clients in and investing into Africa."

Standard Chartered's Africa business has delivered average annual growth of 15 percent for the past five years. In 2012, the region generated income of $1.6 billion, up 15 percent, with the wholesale bank generating $1.1 billion, up 16 percent. Eight markets delivered more than $100 million of income for the year, with Kenya and Ghana joining Nigeria in delivering over $200 million.

"[We] intend to maintain this overall rate of growth for the region, aiming to double revenues from Africa over the next four to five years on a constant currency basis," said the firm. "To achieve this, the group will invest more than $100 million in new branches over the next three years, accelerate its investment in mobile payments technology, and hire new staff. It will also invest in new areas such as Islamic banking and mortgages, to improve the service we can offer to our clients."

The announcement follows Standard Chartered's launch of an integrated direct and regional custody platform for its investor and intermediaries clients, testifying to the bank's commitment to continue building out capabilities to meet clients' needs.

Technology

South African third party administrator, **Maitland**, selected **SunGard's** Investran to help automate the firm's investment accounting process and investor reporting operations.

The automation of key processes will help increase Maitland's business efficiency to better service its clients and enable agile growth into new markets.

Investran's single platform will help Maitland facilitate internal collaboration, support investor relations and automate accounting.

Bruce McGlogan, head of private equity and real estate fund services at Maitland, said: "We operate at the highest technological and governance levels and Investran offers a comprehensive support model backed up by skilled resources that will enable us to deliver on our service commitments."

"We found that its broad functionality and the fact that it is a highly configurable product allows ease of customisation for our clients both locally and globally and helps us achieve greater business agility as we look to grow into new markets."

This year Maitland also chose **Milestone Group's** pControl platform to enable it to provide an enhanced administration service to multi-manager clients in South Africa.

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

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

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

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

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

South African fund administrator **Curo Fund Services** also selected **Milestone's** pControl platform to service multi-manager and life clients.

Using pControl, Curo hopes to be able to offer a superior, more efficient administration service across NAV/unit pricing, cash allocation and rebalancing, unitised order management and income distribution.

Curo will also leverage pControl's integrated reconciliation, accounting and data manager capabilities, delivering process transparency and audit trail across the board for multi-manager and life clients.

"Efficiency, value and transparency are the most important things to us and our clients", said Hank Pienaar, managing director of Curo. "As the funds industry in South Africa matures, it becomes increasingly important to deliver on all these fronts. This is a significant step for Curo, with pControl's inherent flexibility providing a solid platform for enhanced automation across the business."

Paul Roberts, managing director in the EMEA for Milestone Group said: "South Africa is an increasingly active market for Milestone Group, and pControl's ability to solve multiple business challenges on one fund-centric platform is attracting increased attention. It is a compelling option for organisations seeking greater control coupled with greater efficiency." **AST**

Frontier developments

AST talks to Standard Chartered's Hari Chaitanya, regional head of investors and intermediaries in Africa, about evolving frontier markets

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How are frontier markets evolving in a post-trade environment?

There has been significant positive developments within sub-Saharan Africa's markets over the last decade, and there is a genuine commitment to address the infrastructural challenges in the region. Almost all sub-Saharan markets now have a functioning infrastructure, as far as capital markets are concerned. This basically means that you have a stock exchange and a central depository.

Both Kenya and Botswana have introduced automated trading systems in the last two years. Nigeria is currently replacing its automated trading system, having already lifted restrictions on short-term government securities. Nigeria is expected to introduce securities lending capabilities in the longer term.

Looking at Southern Africa, Angola hopes to open a stock exchange by 2015, and Zimbabwe plans to introduce a central securities depository (CSD) in the short term.

Markets, including Zimbabwe, are looking at how they can keep improving, in terms of compliance, with all G30 recommendations and other international benchmarks. We are seeing greater alignment between securities regulators in the region, and with the international trade body of the International Organization of Securities Commissions (IOSCO).

Overall, I think there is a lot of positive progress in the development of Africa's capital markets, but naturally, you have to distinguish South Africa from the rest of the African continent. South Africa is the most developed and sophisticated financial market in Africa, with world-class infrastructure, and fully aligned with the changes being adopted in developed and other large emerging markets. The rest of Africa—which is what some may refer to as a frontier market—still has some work to do. But I believe regulators in most African markets are committed to developing their financial sectors, and are making progress towards adopting new changes to attract and facilitate improved domestic and foreign investment.

What do you think the future holds for sub-custody businesses in the region?

The future of the sub-custody business is definitely promising. Demand for Africa is strong and has exceeded pre-financial crises levels. Sub-Saharan Africa is on track to deliver more than 5 percent growth from 2012 to 2013, and Africa's growing investor interest is reflected in areas such as foreign direct investment and activity in the securities market. We have seen substantial flows in debt markets across East Africa, Nigeria and Ghana. South African asset managers have been increasingly looking for investment opportunities in offshore markets, and prefer to operate via single providers for both domestic and offshore assets. By comparison, other African markets are primarily dominated by global and domestic investors investing in local markets.

Increased interest from foreign and regional investors is now driving demand for sub-custody services, attracting more international and domestic banks into the sector. Standard Chartered Bank launched their securities services business in 2010 and today is one of the largest securities services providers on the continent, with a footprint across 18 markets. We aim to provide more options to foreign and domestic investors in South Africa, following our acquisition of Absa's South African custody business in April 2013.

What do you believe is an acceptable liability for custody and sub-custody providers?

I think that liability is a particular challenge for the region, given the region's capital markets are still evolving. Other than South Africa, which is developed in terms of infrastructure and regulation, the rest of the region still has some catching up to do.

There are many areas where foreign investors would like to see improvements, such as settlement risk, corporate actions and governance. Sub-custodians working as agents for their clients, typically do not take liabilities arising from market inefficiencies.

To what extent will global regulation affect the post-trade industry?

Strate, South Africa's CSD, has made a significant contribution in mitigating risk, bringing efficiencies to the South African financial markets and improving its profile as an investment destination. Strate's recent initiatives include a clearing house for listed derivatives, participation in Clearstream's global liquidity hub, segregated accounts and a move to a T+3 settlement cycle.

But considering the rest of Africa is still making progress in developing their capital markets environment, new global developments around automation or derivatives are not really applicable because a lot of these products are not yet available.

The majority of African markets remain focused on improving their settlement processes, and working on areas such as settlement guarantees, corporate actions and improving operational efficiencies (eg, CCI processing in Nigeria). Markets such as Kenya and Nigeria have plans to introduce derivatives products to provide more options to investors.

But having said that, regulators in the region are fully aware of global developments. There is a lot more dialogue going on between the regulators in the region, and with their counterparties internationally. An efficient market infrastructure is a pre-requisite for attracting global investors.

What kinds of players are looking for increased exposure to the African markets?

Africa is now attracting the attention of institutions, either investing directly in the market or in a variety of structures (exchange-traded funds, listed notes, etc). Apart from international funds from OECD markets, there is an increasing trend of intra-Africa investments. Increased allocation from domestic pension funds in key markets such as South Africa, Nigeria and Ghana will help in widening local and regional capital markets. Another positive trend is that global institutional investors see Africa as having the greatest overall investment potential of all global frontier markets, and plan to increase their asset allocation in African markets from 1 to 5 percent by 2016.

Increased investor interest in emerging market local currency debt has helped advance the understanding of, and interest in, local currency debt in Africa. Significant efforts are being made by several key countries in Africa—an example of this is the African Financial Markets Initiative (AFMI), an initiative of the African Development Bank (AfDB), which is looking to develop capital markets to increase local debt issuance, spur investor interest, strengthen participation, and promote capital transformation across the region. **AST**

Hari Chaitanya
Regional head of investors and intermediaries in Africa
Standard Chartered

Growing pains

Major players are feeling the need to venture into frontier markets with predicted growth in order to stay competitive—but can smaller African economies cope with this influx? AST asks experts on the continent

BNP PARIBAS SOCIETE GENERALE Securities Services strate South Africa's Central Securities Depository Standard Bank

What regions in Africa are you focusing on, and why are they of interest to you?

Bogart Miheaye: We are focusing on the Sub-Saharan African region. Nigeria, Kenya and Ghana are among the top five markets that appeal to our clients. We have seen assets under custody grow in the last two years because our clients are feeling more comfortable with risk, political stability and the market infrastructure.

Philippe Huerre: Societe Generale as a retail bank has been present in Africa for many years, both in North Africa and the sub-Saharan region. This foundation enables us to set up securities services in a smooth and efficient manner whenever our clients require them and, of course, when the regulatory framework and market infrastructure come to maturity. As a result, Societe Generale Securities Services has been progressively developing as a custodian from South Africa to North Africa over the past 25 years.

Monica Singer: The African economy is developing at a rapid pace when compared to other countries internationally. The recent report from the African Development Bank highlights that Africa is the fastest growing continent globally and that one-third of Africa's countries have GDP growth rates of more than 6 percent.

With growth equating to greater opportunities, companies in South Africa and abroad are expanding their footprint into Africa. In line with Strate's philosophy of collaboration and partnership, we are always looking to partner with other African countries in any forum of sharing, be it technology or know-how.

We have some very strong networks and relationships across the region and believe that financial market infrastructures (FMIs) can share information with one another for the benefit of their own markets and the industry as a whole.

From a Strate perspective, we have three different initiatives that we are currently involved in within Africa. Firstly, the central bank governors within the Southern African Development Community (SADC) have initiated a project to integrate the banking infrastructures. This initiative focuses specifically on the movement of cash from one country to another to ensure that the cash settlement obligation can be fulfilled. As such, the central securities depositories (CSDs) in the regions have identified a gap in the securities processing component that accompanies the cash movement, specifically related to CSD integration within the SADC region. Through the Committee of SADC Stock Exchanges (CoSSE), of which Strate is a member, a working group has been formed to look at cross border settlement in the region. The working group has devised a model for securities settlement, which is currently under discussion.

Secondly, other markets have approached Strate to understand or incorporate the use of the CSD technologies being used in South Africa for their own jurisdictions. We are in talks with the Namibian Stock Exchange (NSX) to provide Strate's existing CSD infrastructure to settle its non-dual listed transactions, as Strate has already been settling their dual-listed stocks for over a decade.

Finally, aligned to our philosophy of collaboration and knowledge sharing, Strate has been a member of the Africa and Middle East Depository Association (AMEDA) for approximately seven years. Established in April 2005, AMEDA is a non-profit organisation comprised of 25 members from 21 countries that are made up of CSDs and clearing houses in Africa and the Middle East.

AMEDA's main purpose is to be a forum for the exchange of information and experiences among its members in the spirit of mutual co-operation and to promote best practice recommendations in services like securities depository, clearance, settlement and risk management. Its goal is also to support local markets in their efforts to adopt securities market regulations, while considering their specific circumstances and to serve as a dialogue channel with other organisations worldwide.

Within AMEDA, there is a focus on the Principles for FMIs (PFMIs), which were published by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO), in April 2012.

Jurisdictions globally are in the process of incorporating the PFMIs into their regulatory frameworks to foster the safety, efficiency and resilience of their FMIs. In South Africa, there is already legislation in place to support the PFMIs called the Financial Markets Act, which became operational at the beginning of June 2013.

As an active member of AMEDA, Strate is extensively involved in sharing information and its experiences relating to the CPSS-IOSCO Principles. In 2012, Strate undertook a voluntary self-assessment of the then draft principles and it is currently completing an official assessment against the final 24 principles in conjunction with its local regulator, the Financial Services Board. It is awaiting the results of its assessment from its regulators and is working with AMEDA members to encourage them to follow the same route.

Mark Kerns: Africa is at the very core of the Standard Bank Group strategy. Standard Bank (also trading as Stanbic) first began operating in South Africa in 1862 and has grown to become the largest bank in Africa by assets and earnings. We have operations in 18 African countries and representation in the world's leading financial centres, such as New York, London, Singapore and Beijing.

With approximately $450 billion in assets under custody and administration, Standard Bank is the largest custodian on the African continent. Our investor services strategy is to provide custody and related solutions to both local and foreign institutional investors across Africa.

Over the past decade we have leveraged the scale, technology and product capabilities resident in our

"In the not too distant past, investment interest was almost entirely concentrated on Africa's resources. Today, interest is as much in the growing consumer markets of the larger economies as well as the significant infrastructure spend that is required in these markets"

Mark Kerns, head of investor services, Standard Bank

> Corporate and Investment Banking
THE SOLUTIONS YOU NEED TO STAY CONNECTED IN AFRICA
Investor Services from Standard Bank
Doing business in Africa can be complicated. If you need access to custody and related services, you need to find a partner who knows the continent like their own backyard. Because Africa is our home, Investor Services from Standard Bank offers you a breadth of capability across 15 African countries. So whatever your investment activity on the continent, we have the expertise to make your business work.
They call it Africa. We call it home.
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South African operations to build our franchise across the other 14 markets where we provide custodial services in Africa. This has allowed Standard Bank to become a true regional player with access to a full range of investor services capabilities that complements our core custody offering.

Standard Bank Investor Services' primary focus is on sub-Saharan Africa where we have an on the ground custody presence in 14 markets. Nigeria and Ghana continue to dominate the West Africa region, with Kenya and Uganda being the dominant markets in East Africa. Additionally, there is increasing client interest in Zambia, Mozambique and Tanzania, and we have plans to set up a custody operation in Angola.

What kinds of players are looking for increased exposure to the African markets?

Huerre: Typically in frontier markets, multinational companies are eager to set up industrial partnerships, which may require custodian services when participations are listed locally. Due to the historical links between France and Africa, many French companies are therefore present and Societe Generale accompanies clients both with their banking needs and securities service requirements. In emerging countries where stock exchanges have reached a reasonable magnitude, asset managers dedicate an increasing part of their emerging markets allocation to Africa, generally using the services of a global custodian. This is now particularly true as the traditional BRIC (Brazil, Russia, India and China) markets seem to be losing some of their attractiveness.

Singer: Businesses across numerous industries—from construction to information technology—have been attracted to the African growth story for a number of years. Many international banks are entering the market alongside a large number of local South African financial institutions. Indeed, many South African banks have already established and are successfully operating business in other parts of Africa for some time now.

Kerns: We see a range of investors outside the African continent looking for exposure in Africa. Client types include pension funds, hedge funds and unit trust/mutual funds, from Europe and the US. These clients generally access the African markets through global intermediaries. However, there is a growing trend for pan-African funds (real money funds and hedge funds) to access the market via regional players such as Standard Bank.

In addition to European and US investors, we are also seeing investors from within the continent investing in other African markets. Similarly client types include pension funds, unit trust funds and hedge funds.

Why do you think there has been a number of recent announcements from large banks that are expanding on their African franchise?

Singer: With Africa as the fastest growing continent, improved economic governance and a better business climate has become appealing to the global financial community. Africa has a huge amount of growth potential that the large banks are tapping into; the continent is rich in resources and there is also a large amount of infrastructure development across all sectors.

Kerns: A rise of economic change is underway in the region. In the not too distant past, investment interest was almost entirely concentrated on Africa's resources. Today, interest is as much in the growing consumer markets of the larger economies as well as the significant infrastructure spend that is required in these markets. This combined with improvement of the regulatory environment has drawn the interest of many banks wanting to pursue expansion strategies to access the Africa growth story.

Huerre: Africa is a frontier market with a long-term perspective for growth and is therefore an area that needs to be developed by all major players that wish to remain among the competition in the future.

Miheaye: In my opinion, some markets like South Africa and Nigeria are already saturated with more than four local players. At a regional level, Standard Bank and Standard Chartered Bank will remain the major players. Our approach is to appoint regional providers rather providers focused on specific markets.

How are smaller banks coping with this influx?

Miheaye: In Ghana, Societe Generale has recently acquired a majority interest in SSB Bank and so they have changed the name of their local franchise from SG-SSB to SG Ghana Limited. This, together with the influx of other banks, especially from Nigeria, is worrying for the majority of banks in the country, including the big names. Many people don't believe that the size of the country's economy is big enough to sustain all these banks.

Before the end of last year, Bank of Ghana raised minimum capital to try to encourage consolidation, but that didn't happen. The smaller banks, either on their own, or through foreign bank partnerships, raised the minimum capital requirement. In the near future the Bank of Ghana will probably raise the minimum capital requirement to push for consolidation, as was done in Nigeria some years ago.

Huerre: Of course, the entrance of international players in such specialised activities may be seen as a threat to local players, but globalisation and converging international market practises, with initiatives such as the Committee on Payment and Settlement Systems (CPSS) and IOSCO's joint review, mean that local markets are going to change over time and that development will need to be accompanied. To do so, this will require having strong capacities, both in terms of resources and experience, to face those challenges and only international or regional actors may be able to do so.

Singer: Smaller banks are being innovative, offering niche services to the market. The South African banks across the board have very well established businesses, each with a strong client base, so the competition is intense.

> "Smaller banks are being innovative, offering niche services to the market. The South African banks across the board have very well established businesses, each with a strong client base, so the competition is intense"

Monica Singer, CEO, Strate

LIQUIDITY ALLIANCE

A SUSTAINABLE SOLUTION TO COMBAT THE GLOBAL COLLATERAL CHALLENGE

The Liquidity Alliance is a partnership of market infrastructures that will deliver an efficient and effective collateral management value proposition for the global industry.

The founding partners – ASX (Australia), Cetip (Brazi), Clearstream (Luxembourg), Iberclear (Spain) and Strate (South Africa) – are combining decades of market expertise with world-leading collateral management technology to provide their customers with state-of-the-art services.

The Liquidity Alliance partners look forward to integrating new members and to promoting links with international markets.

The Liquidity Alliance: a global solution to a global challenge.

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Having said that, we may see some consolidation in the industry—similar to that reported during April 2013, of Standard Chartered acquiring Absa Group's South African custody and trustee operation.

Kerns: The technology, expertise and capital that come along with the larger banks have forced smaller banks to become more focused and innovative. Naturally smaller banks tend to be more nimble and flexible than the larger banks, which provide them with an advantage in certain segments of the market.

What kind of investment is being made from a custody perspective on the continent?

Kerns: Standard Bank has invested significantly in deploying a shared technology platform that supports all of the bank's settlement, safekeeping and corporate action processing across our custody network in sub-Saharan Africa. This platform is also used to run Standard Bank's Regional Custody Network (RCN) solution, where clients can contract directly with our South Africa entity to access the 15 markets we support in Africa. Our single platform allows Standard Bank's investor services business to achieve economies of scale while establishing centres of excellence.

In addition to the custody platform Standard Bank has invested in a multi-entity securities lending system and an accounting system to support the current needs of the South African markets as well as the future needs of the African markets outside of South Africa.

The significant growth of the business across the region, including South Africa, has resulted in Standard Bank expanding the size of the investor services teams in various countries—in certain cases upwards of 30 percent in one calendar year. Standard Bank is also attracting and investing in the right people to create the necessary depth and expertise that are required to service an increasingly complex and diverse client base.

Miheaye: In terms of technology, many years ago, the continent had a few stock exchanges. New stock exchanges have opened in Zimbabwe, Zambia, Malawi, Mozambique, Tanzania, and Rwanda. Recent development in Nigeria has also been noted, ie, the implementation of the SWIFT platform within the CSD (CSCS). As a next step, the market will discuss the application of SWIFT messages between the CSD and the participants to replace the current business process.

Singer: One of the highlights this year is the plan by the SADC to extend its common electronic payment system to all 15-member countries as described above, which is expected to increase trade, tourism and investment.

During July 2013, the SADC Integrated Regional Electronic Settlement System (SIRESS) was successfully implemented in a live environment for the four countries of the Common Monetary Area, namely: South Africa, Namibia, Lesotho and Swaziland. The system makes the payment element of intra-regional trade much easier and more efficient.

Huerre: As it is always the case in emerging countries, there is no intermediate path: you have to set up the best of breed services both in terms of technology and expertise. Investments are therefore aligned to international standards using the local bank's foreign exchange and cash facilities and replicating the securities platform and processes that are already used in other countries.

How would you compare custody in South Africa to other countries, and are any catching the country up?

Huerre: In terms of financial market infrastructures, South Africa is without a doubt more advanced than most African countries. Nevertheless, it does share its experience, as do other well advanced countries like Egypt or Morocco through the AMEDA, and promotes the development of synergies. SGSS, as a member of AMEDA, also actively contributes its experience and expertise to foster this development. This support will no doubt facilitate and even significantly increase chances for narrowing the gap at the very least for the fastest developing markets or those who are able to dedicate consistent resources to doing so.

Singer: In terms of South Africa, the country can be regarded as one of the best in the world. In the World Economic Forum's The Global Competitiveness Report 2013-2014, South Africa was ranked third for 'financial market development' out of 148 countries. It has maintained the same rank as that noted in the previous year's report.

South Africa's financial market infrastructures, such as Strate, were established to enhance investor confidence and the country's profile as an investment destination, as they continue to bring efficiencies and mitigate risks. This has been evident over the past few years as the country continues to be placed on top of the leader board in terms of financial market development.

I believe the survey is evidence that South Africa's rank places it globally as one of the countries to be benchmarked against, proving that both local and international market players can be confident in South Africa when investing in the country.

Notably, South Africa was ranked first within the financial market development pillar for both its regulation of securities exchanges and legal rights index, as well as second for availability of financial services and financing through the local equity market. It is also placed third for soundness of banks within the financial market development pillar in the report.

Fortunately for other African countries, while they are trying to catch up to some of the more developed markets, they have the opportunity to set up strong financial market infrastructures based on the knowledge and experience of others. They don't carry legacy systems that take years to change and can move much faster than some other markets.

> "Societe Generale's acquisition of a majority interest in SSB Bank in Ghana, together with the influx of Nigerian banks, is worrying for the majority of banks in the country, including the big names. Many people don't believe that the size of the country's economy is big enough to sustain all these banks"

Bogart Miheaye, regional head of network management, Western Europe, Middle East and Africa, BNP Paribas Securities Services

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Miheaye: The custody business in South Africa is much more developed than the rest of sub-Saharan Africa in terms of market infrastructure as well as the settlement process. The custody business in the rest of sub-Saharan Africa is not fully developed as yet from a market infrastructure perspective. South Africa has a much more extensive product set. In markets like Nigeria we are seeing new products like securities lending being introduced but the market is still manual in many respects.

Kerns: South Africa is generally considered a developed market in terms of custody services and this is largely due to the size and activity of the market, the market infrastructure, the regulatory environment, the size and sophistication of custody providers and the competitive landscape in the market. Overall, the South African market can be viewed as mature and saturated as far as custody is concerned.

Other markets in Africa are by no means mature and they are certainly not saturated in the context of custody. The major differentials are size, market infrastructure, sophistication of providers and the level of competition. These factors are lagging significantly, however with the growing investment activity in these markets the landscape is changing and improving at a good pace.

Foreign exchange controls have been relaxed in South Africa for the last five years now—what effect has this had on the asset servicing business in the country?

Huerre: We've experienced tremendous activity in South Africa as a result of the relaxed foreign exchange controls, but not only exclusively due to this. It must be said that this is of course one of the prerequisites to developing a market place, in addition to a favourable legal framework and suitable infrastructure. South Africa also does seem to be the preferred entry point for international investors to the sub Sahara region. In response to this trend, SGSS decided to set up a hub in Johannesburg to service different countries such as Ghana, where we recently opened an office, and progressively add to our network in response to client demand.

Kerns: The relaxation of exchange controls in South Africa, which kicked off in the mid 1990s, led to a growth in offshore investments by South African investors. Following this there has been a bigger need for custody services in markets outside of South Africa and with the inflow and outflow of funds thereto, a need for banks and particularly custodian's banks to affect the necessary controls and regulatory reporting required to support this activity.

There was further relaxation of exchange controls in South Africa in 2011, which effectively provided for an increase of five percent in foreign investment limits as it relates to investment in African markets. This has led to South African institutions establishing and increasing their exposure to other markets in Africa and correspondingly a need for a regional custody capability to support the investment activity.

Standard Bank has been well positioned to service the custody needs of South African investors following the relaxation of exchange controls in the past years. In 1998, Standard Bank established a global custody alliance with BNY Mellon, which allows South African institutional investors to access BNY Mellon's global custody offering through a Standard Bank. In 2004 to 2005, Standard Bank established a regional custody network solution for investors looking to access multiple Africa markets through a central contract and relationship. Collectively these solutions have enabled Standard Bank to satisfy the changing custody and underlying asset servicing needs that have arisen from the relaxation of exchange controls in South Africa.

Miheaye: The relaxation of foreign exchange controls impacts domestic investors primarily. According to Standard Bank they have not seen a huge difference in the outward investment of their domestic clients and therefore a bigger need for global custody services and related asset servicing for that matter. There is, however, a growing need for custody services in the African markets, as South African institutions are increasing their investment in African markets.

Do the multitude of different exchanges across the continent present a challenge?

Kerns: The multitude of exchanges in the region presents a challenge to investors wanting to access the African markets and gain the necessary exposure. The challenge lies with the size of the individual markets, the liquidity, the inefficiencies this presents and the cost of getting in and out. Correspondingly as custody providers, it does not always make economic sense to establish custody capabilities across all markets. However, at Standard Bank we believe in the growth of the region and have invested in various small markets with a view that these markets will grow over time and the economics will follow.

Miheaye: Market infrastructure is globally quite advanced in Africa, compared with 20 years ago, when there were few exchanges and central depositories. The infrastructure and the regulatory environment are driving our clients' strategy to invest in the continent.

Huerre: For an investor, it may be tricky and costly handling multiple exchanges. This is precisely why they may find it in their best interest to call upon a global custodian to provide a simplified access to a particular region and/or beyond. This case scenario is on the whole true for Africa where the global presence of a custodian is definitely crucial. There have been initiatives towards the unification of various markets, some with positive results, such as the BRVM stock exchange in west Africa, while others are still at the analysis phase, as is the case with Arabex.

The lack of overall regulation and homogeneity within the area, however, still remains a major hurdle.

> "There have been positive initiatives towards the unification of various markets, such as the BRVM stock exchange in West Africa, while others are still at the analysis phase, as is the case with Arabex"

Philippe Huerre, head of international departments, Societe Generale Securities Services

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Industry appointments

Fiduciary, funds and corporate service provider First Names Group has appointed **Andrew Ryan** as managing director of its Irish operation.

Ryan has been promoted to managing director after working as finance director for 12 years. He will take over from Oonagh Hayes, who will move to the group role of director of corporate director.

Commenting on his new appointment, Ryan said: "I am delighted. First Names Group has achieved so much since it became independent of IFG PLC last year."

"I am excited about the future and I'm looking forward to contributing to the growth of the business whilst crucially ensuring we continue to provide unrivalled client service."

Morgan Jubb, group CEO since 2013, added: "Ryan's drive and determination has really impressed me and I'm sure under his leadership the Irish business will continue to go from strength-to-strength."

BNP Paribas has made several key appointments to strengthen its securities services franchise in Asia Pacific.

Mostapha Tahiri has been promoted to head of BNP Paribas Securities Services Singapore, replacing Arnaud Claudon who has been promoted to the newly created role of global head of depotbank and fiduciary services based in Paris.

Tahiri joined the Singapore office in 2009 as the head of asset and fund services for Asia and has been at the forefront of the bank's drive to grow the business in the region.

Jonathan Xie has joined as head of asset custody, BNP Paribas (China). Xie brings experience in investment management and investment banking, with extensive experience working with Chinese and international financial institutions.

Most recently, Xie was deputy head of Haitong International Asset Management based in Hong Kong.

Angely Yip has joined the firm as sales director for North Asia (exculding Japan), based in Hong Kong. Yip is an asset servicing specialist with more than 17 years experience in roles encompassing operations, client servicing, relationship management and sales.

Before joining BNP Paribas, Yip held various senior positions at asset servicing firms including Clearstream, J.P Morgan and most recently, Citibank.

Finally, **Yuki Teshima** has joined BNP Paribas's Tokyo branch as a senior relationship manager.

Prior to joining BNP Paribas, Teshima held relationship management roles at Brown Brothers Harriman and BNY Mellon.

Lawrence Au, head of BNP Paribas Securities Services in Asia Pacific, said: "We are excited to announce the appointments of these high calibre industry professionals, which will certainly extend our market leadership in the region where we are already widely recognised for outstanding product innovation and business solutions."

"Their experience in global custody, fund services and investment management, together with their excellent knowledge of the Asia marketplace and global practices, make them ideal candidates for these positions."

Prime brokerage boutique, Global Prime Partners (GPP), has expanded its European sales team with the appointment of **Colin Bridges**.

Bridges will work closely with Kevin LoPrimo, head of hedge fund services at GPP, to dvelop and support the firm's growing list of prime brokerage clients across Europe.

Prior to joining BPP, Bridges spent five years at BNP Paribas working on the equity-financing desk.

Julian Parker, CEO of GPP, said: "Bridges brings much needed sales support to GPP at a time of above average growth in the smaller hedge fund space. His experience and background are very relevant to the emerging managers arena and we are extremely pleased to be able to welcome him to [the firm]."

Commenting on his appointment Bridges, added: "GPP's dynamic management has delivered outstanding growth in the past few years. I am excited to be joining a firm that is so clearly and strongly establishing its footprint in the European prime brokerage market." **AST**

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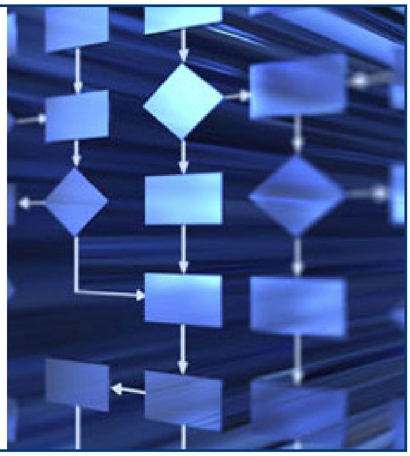

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