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UK approval means new European clearinghouse is just around the corner

The go-ahead has been given for clearinghouses EMCF and EuroCCP to form a new pan-European cash equities clearinghouse.

The Office of Fair Trading (OFT), the UK's consumer and competition authority, recommended an unconditional clearance for the two clearinghouses to combine to form a new pan-European cash equities clearing house that builds on the strengths of both firms.

Announcement of the merger first came in March of this year, when current owners of EMCF—ABN AMRO Clearing Bank and NASDAQ OMX—and current owner of EuroCCP—the Depository Trust & Clearing Corporation (DTCC)—along with BATS Chi-X Europe, entered into a memorandum of understanding to become equal shareholders in the new combined clearinghouse.

The new entity, to be called EuroCCP, will be headquartered in Amsterdam, with client-facing functions located in London and Nordic coverage provided from Stockholm.

The future shareholders intend to appoint Diana Chan, who is CEO of EuroCCP, to the same role in the new entity. Jan Booij, who is CEO of EMCF, will become COO.

Chan said at the time that the new clearinghouse will lead the way in encouraging greater competition between all cash equity clearing houses while driving down costs.

"Following the launch of four-way interoperability, the industry must now consolidate in Europe to achieve economies of scale and respond to the changing needs of market participants. Combining our organisations will accomplish this."

readmore p3

Northern Trust's third quarter reveals AUC growth

Northern Trust's assets under custody have increased by 10 percent year-on-year, and 5 percent sequentially, for its third quarter results this year.

AUC for 3Q 2013 for the bank was recorded at $5.24 trillion. Global custody assets were $3.01 trillion, and assets under management were $846 billion.

Custody and fund administration revenue was $239.4 million for the quarter, increasing by 12 percent year-on-year, and by 2 percent sequentially.

Trust, investment and other servicing fees were up 8 percent year-on-year due to favourable equity markets and new business but declined 1 percent versus the prior quarter due to higher money market fee waivers and lower securities lending revenues, said the bank.

readmore p3

Foreign currency to thank for BNY Mellon's AUC growth

BNY Mellon recorded a 4 percent increase in assets under custody year-on-year for Q3 2013.

Assets under custody and/or administration amounted to $27.4 trillion at 30 September 2013, an increase of 4 percent compared with the prior year and 5 percent sequentially.

The year-on-year increase was primarily driven by higher market values and net new business, while the sequential increase primarily reflects higher market values and the positive impact of foreign currency rates, said the custody bank.

readmore p3

New European clearinghouse is just around the corner

Continued from page 1

Of the UK approval, Chan said: “We are grateful to the OFT for reaching a swift decision in relation to combining EMCF and EuroCCP and we are pleased that their conclusions support our own assessment that bringing the two companies together is in the best interests of competition in the clearing of European cash equities.”

Jan Booij, CEO of EMCF and COO designate of the new company, said: “We will now focus on completing the transaction and delivering the best practices of both companies to all of our customers as well as providing sustainable competition to the European clearing market.”

The transaction is now expected to complete as soon as all other regulatory approvals for the new shareholders have been received.

Northern Trust’s third quarter reveals AUC growth

Continued from page 1

Lending revenue declined by 5 percent year-on-year, and 27 percent sequentially. This was due to the seasonally high second quarter, said the bank.

Foreign currency to thank for BNY Mellon’s AUC growth

Continued from page 1

Investment services fees totalled $1.7 billion, an increase again of 4 percent year-on-year, but unchanged sequentially.

The year-on-year increase primarily reflects higher clearing services fees resulting from, among others, higher mutual fund and asset-based fees and volumes, and higher asset servicing revenue.

Sequentially, higher issuer services revenue driven by seasonally higher depository receipts revenue was offset by a seasonal decrease in securities lending revenue, lower activity and lower expense reimbursements.

Additionally, higher money market fee waivers decreased investment services revenue both year-on-year and sequentially.

SunGard adds Philippine broker to network

First Metro Securities Brokerage Corporation has joined the SunGard Global Network (SGN) to become the network’s first broker based in the Philippines.

First Metro Securities will now be able to provide the SGN user community with direct access to trade securities listed on the Philippine Stock Exchange.

“According to World Federation of Exchanges data, the Philippine Stock Exchange was one of the strongest performers in the Asia-Pacific region in 2012, with a 39 percent growth rate for the year,” said president of First Metro Securities Brokerage Corporation, Gonzalo Ordoñez.

“[The stock exchange] is now attracting investors globally and First Metro Securities is committed to helping the exchange expand. To continue growing [the stock exchange] and to help solidify our position in the region, First Metro Securities is utilising the SunGard Global Network to offer our clients reliable technology and fast connectivity, and to leverage SunGard’s strong ASEAN regional expertise.”

“The ASEAN region continues to attract interest from investors globally, who are keen to take advantage of persistent growth, increased economic liberalisation and the rise of its ‘consumer market society.’ SunGard believes the expansion of financial firms to help serve regional and foreign market participants will likely continue steadily,” said Philippe Carré, global head of connectivity for SunGard’s capital markets business.

According to year-to-date data from the exchange, First Metro Securities ranks 16th among the total active trading participants on the exchange. First Metro Securities is a wholly owned stock brokerage company of First Metro Investment Corporation, the investment banking arm of the Metrobank Group.

Russian CSD takes up legal identification

National Settlement Depository (NSD), Russia’s central securities depository, has begun to act as a pre-local operating unit that provides assigns pre-legal entity identifiers to Russian legal entities.

It became possible after 1 March 2013, when the regulatory oversight committee assigned a four-digit pre-LOU prefix to NSD, allowing the company to provide the appropriate services to legal entities.

NSD developed the special software for this purpose, approved the appropriate tariffs and documents regulating NSD’s interactions with legal entities in respect of providing these services.

Pre-LEI is a preliminary legal entity identifier assigned in accordance with ISO 17442 and used for identification of legal entities in the interim Global Legal Entity Identifier System (GLEIS) established by ROC until the launch of the per-

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manent GLEIS, when pre-LEIs will become the official LEIs.

The assigned codes will be used as a universal legal entity identifier in local and international markets and will allow the participants to make transactions in the financial markets of the US and Europe where these codes are becoming the mandatory data used by the companies during reporting procedures.

G20 made a decision on formation of the global system of identification of financial transactions participants for increasing transparency in financial markets and strengthening control over systemic risks.

The global identification structure is being created by the Financial Stability Board, and authorised Russian agencies are also involved in this process.

BBH has new corporate actions system

Brown Brothers Harriman (BBH) has created a corporate actions tool, InfoActionSM, to target institutional asset managers.

"To process corporate action events correctly and timely is hard enough across multiple portfolio managers and multiple securities," said BBH senior vice president, Timothy Bosco.

"For an institutional asset manager, the additional variable of multiple custodian banks makes it a real problem. Different banks have uneven service levels, disparate data standards, and diverse deadline requirements and communications protocols. Frankly, it can be a nightmare."

InfoAction automates and streamlines two critical corporate actions workflow functions: notifications and responses.

It aims to highlight inconsistencies across disparate data sources; capture securities holdings positions; and submit simultaneous election responses to multiple parties, among other risk reduction, instruction, and reporting features.

Alter Domus channels admin into France

Alter Domus, the fund and corporate services provider dedicated to private equity houses and real estate firms, has set up operations through a dedicated fund administration entity in France.

Laurent Vanderweyen, CEO of Alter Domus, said: "France is a critical market with huge potential for Alter Domus to extend its offer to our clients, building on the success of our current platforms in the Channel Islands and Luxembourg."

"The establishment of such operations is fully in line with our firm's strategy to vertically integrate our value proposition and allow our clients access to local services and expertise."

CFH Clearing takes aim at broker market

The interbank prime of prime solutions provider, CFH Clearing, has created new products aimed at tier one and two brokers.

The suite of products is called ClearVision, and is made up of tools such as ClearAllocate, a block trading tool for fund managers.

CEO Lars Holst said: "Over the past five years we have been fortunate to work closely with some of the leading brokers in the world and it became obvious to us that they were consistently looking for the same two things: control and transparency in both their liquidity offering and their technology partner."

ClearVision connects to CFH Clearing's pool of tier 1 banking relationships, but can also be delivered with the broker's own liquidity and independently of CFH Clearing.

The ClearVision STP tools have been developed over the last five years, and were originally intended for internal use at the firm. CFH Clearing rebranded from CFH Markets in June 2013.

BNY Mellon and CIBC Mellon create lending giant

BNY Mellon and CIBC Mellon have merged their securities lending desks in a move that will make BNY Mellon's securities finance business one of the largest providers of lending services in the world.

The merged group now includes trading offices in New York, Pittsburgh Toronto, London and Hong Kong.

BNY Mellon's global markets expertise will be available to CIBC Mellon clients providing new opportunities for incremental revenue in markets around the world; and CIBC Mellon's niche expertise in the Canadian market will be available to BNY Mellon clients, providing the potential for improved returns on Canadian securities.

Rob Ferguson, senior vice president of capital markets at CIBC Mellon, said that the alignment of the trading desk teams represented the culmination of years of working together.

CIBC Mellon is the long-established Canadian joint venture with Canadian Imperial Bank of Commerce.

"This integration enhances client service across both organisations, with the significant resources and scale of two globally recognised securities lending programmes. The BNY Mellon and CIBC Mellon project teams have worked closely to ensure a seamless integration for our respective clients."

James Slater, global head of securities finance at BNY Mellon, said: "As an enhancement to BNY Mellon's global leadership position within the securities finance industry, this integration builds on our respective strengths, broadens our capabilities in the markets we serve and provides our clients with an ever-increasing level of trading expertise and even deeper coverage."

Part of BNY Mellon's global collateral services division, the securities finance business encompasses more than $2.5 trillion in lendable assets and outstanding loan balances of approximately $250 billion.

CIBC Mellon's programme represents more than 120 clients with approximately CAD$500 billion in lendable assets and CAD$60 billion on loan, making it the largest securities lending programme in Canada.

Sandell switches out fund administrator

Sandell Asset Management has switched its current fund administrator out in favour of SS&C GlobeOp, which will provide the firm with a range of fund administration, risk and regulatory support services, including support for the (FATCA)and Form PF.

"All areas of our organisation, from risk management through to trading, operations and even marketing and investor relations will benefit from the move to SS&C GlobeOp's advanced technology platform," said Rick Ecklord, senior managing director of Sandell Asset Management.

"The integration of risk and customised reporting will further enhance our ability to provide investors with detailed and integrated risk analytics and reporting. SS&C GlobeOp's expertise and commitment to continuous technology investment is what we are looking for in a long-term partner."

SS&C GlobeOp will provide an end-to-end service for regulatory compliance which includes the aggregation and mapping of data, reporting and electronic filing for Form PF and ensuring the availability of timely and accurate data for FATCA compliance.

"Sandell Asset Management was attracted by our ability to offer a fully integrated service based on the latest technology at a competitive price. The flexibility of our platform allows us to tailor the services offered to meet the exact needs of our clients efficiently and cost effectively," said Bill Stone, chairman and CEO of SS&C Technologies.

"We're pleased to be providing fund administration, risk management and regulatory support to Sandell and look forward to building a long-term partnership."

Securities services revenue drops at Goldman Sachs

Goldman Sachs announced $340 million in revenue for its securities services division in Q3 2013, a decline of $36 million from the previous quarter and $52 million year-on-year.

In percentages, Q3 results fell by 10 percent from the last quarter, and 13 percent year-on-year.

The firm attributed lower revenues to the sale of its hedge fund administration business in 2012. State Street agreed in July 2012 to pay $550 million for the hedge fund administration unit of Goldman Sachs, making State Street the biggest servicer of hedge funds in the world, overseeing nearly $900 billion in alternative assets.

The deal did not include the prime brokerage business at Goldman Sachs. However, the firm declined to break down 3Q results for that particular division.

Complacency threatens to rock reconciliation

Industry-wide complacency and unsystematic monitoring are hampering efforts to achieve smarter operational efficiency for optimising enterprise reconciliation, said a new survey.

CEB TowerGroup analysts and SunGard questioned 117 senior operations and IT executives in primarily Tier 1 and Tier 2 institutions. They found high levels of confidence in enterprise reconciliation capabilities, with 70 percent of respondents claiming to maintain and monitor an inventory of all their global reconciliation activities.

But in reality, well over a third of these (37 percent) are only doing so on an ad hoc, unscheduled basis, with large gaps in enterprise coverage of mainstream cash, payments and securities workflows.

Overall, the survey found that managing the quality and effectiveness of enterprise-level reconciliation is an ongoing challenge for firms, citing a lack of operational maturity and fragmented automation as obstacles to an optimised, scalable and operationally efficient enterprise reconciliation environment.

SunGard recommends that in order to help mitigate the potential for poor customer service and system inefficiency that firms need to actively maintain an inventory of reconciliation tasks and automate the monitoring and optimisation of all processes within it. This is based on the following findings:

Fragmented enterprise reconciliation: Firms recognise the complex challenge that reconciliations best practice represents, especially given high levels of functional, operational and technology fragmentation. Fifty-one percent of survey institutions report 10 or more different systems performing reconciliation functions; a quarter use more than 20 systems across their global enterprise.

Confidence in core capabilities but many blind spots: executives are only well-informed and confident about their reconciliation practices across a narrow subset of mainstream core activities and asset classes.

They report the highest amount of confidence in completing general ledger and balance sheet reconciliations, and the core reconciliation of cash, foreign exchange and securities.

But 25 percent lack insight into how their institutions perform custody and broker reconciliations, and nearly 30 percent "don't know" how they reconcile mortgages, loans, derivatives and commodities.

Contradictory evidence of optimisation efforts: a reconciliations inventory is probably the most important tool for improving reconciliation performance, and a surprisingly high number of firms (70 percent) claim to have one. Far fewer, however, are getting true benefits and maximum value from their inventory by monitoring the actual execution of tasks against it in real time.

Only 17 percent of respondents carry out automated performance monitoring at an enterprise level, with 14 percent still relying on spreadsheets and other manual processes. For another 40 percent, there is no centralised management of maintenance tasks—casting doubt on just how much rigor and discipline is really applied, and showing that firms overestimate the maturity level of their enterprise optimisation capabilities.

Institutions understand that improving performance across more reconciliation types and asset classes is an extremely useful and realistic goal. Adopting a centre of excellence model was the preferred investment strategy for improving the reconciliations function for 26 percent of respondents.

Alternative delivery models such as software-as-a-service (SaaS) and business process outsourcing (BPO) are a significant and growing trend, with more than a fifth of respondents expressing a preference for not-on-premises strategies.

Gert Raeves, research director of CEB TowerGroup, said: "True enterprise reconciliations may not have arrived quite yet, but the tools and opportunities for optimisation are already at the industry's disposal. To reduce blind spots on their reconciliation map and optimise reconciliation processes right across their business, firms need to implement an enterprise-wide reconciliations inventory along with organisational changes and technology improvements."

Richard Chapman, director of product management for SunGard's IntelliMatch business, said: "Within financial institutions, reconciliation centers of excellence are service providers and they are responsible for delivering multiple and complex sets of processes on a daily basis and a global scale."

"To optimise the performance and cost-effectiveness of this activity, we believe they should tackle the three main challenges of fragmentation and delivery quality to help ultimately meet their goal of achieving smarter operational efficiency."

BMA announces fourth annual regulatory forum

The Bermuda Monetary Authority (BMA) has announced that its fourth annual international regulatory forum will be held on 19 November at the Fairmont Hamilton Princess Hotel.

The keynote speaker for the day event will be Dame Amelia Fawcett, chairman of the hedge funds standards board.

Panel sessions will cover banking and asset management issues in the morning and insurance developments in the afternoon.

Other topics up for debate will include banking supervision and global financial stability, regulatory priorities vs. business development in the asset management arena, and global regulatory initiatives for commercial insurance and implications for the Bermuda market.

Speakers will include commissioner James Donelon, president of the National Association of Insurance Commissioners, and Sir Andrew Large, former deputy governor of the Bank of England.

Chapman's Eye on the market

A classy column

Back in pre-Big Bang days, the stereotypical view of an average 'City' person was of a pinstriped gent in a bowler hat and pinstripe suit. It was accepted that after one's stint had finished in the army, a London City career soon followed and the front office—be it stockbroking/jobbing or investment management—was populated almost entirely by ex-public school, British army or civil service alumni with all support services or 'back office' functions performed by low-paid, poorly educated workers and a strict dividing line, based tangibly but subliminally on class existed.

Outside of the City, and at broadly the same time, the best depiction of this was the famous sketch with John Cleese, Ronnie Barker and Ronnie Corbett, whose varying statures, modes of dress and accents marked them out as upper class, middle class and working class respectively.

This image of the City's stratified structure has endured for some time but for a number of reasons—Big Bang itself, changing social mores, the practical pursuit of profit—has broken down to a point where it is neither negligible or relevant and only exists in the minds of folks such as the Occupy movement who did such damage to St Paul's and Finsbury Square last year.

Nowadays, you are likely to find a representative cross-section of society if you look into any financial sector—M&A, trading, asset management, asset servicing or compliance—and the City is a better place for it. To all intents and purposes, in its inexorable pursuit of profit, the City is blind to a person's background and an ability to deliver—be it revenue or savings—takes precedence over their background or upbringing. In some ways, the City is now an exemplar of egalitarianism. Only recently, in a more exotic foreign location, a highly qualified and senior salesperson with a lengthy track record of sales success was rejected for a new role as he didn't have a university degree!

However, while these outdated structures and perceptions have all but disappeared, the City also remains somewhat representative of some of the negative elements of the population at large with all of its foibles. While progress has been made, let us not kid ourselves that certain 'isms' don't exist. Given their taboo nature, I'll leave you to work out exactly what they are, but it behoves us all, as part of responsible, professional industries, to work hard to eliminate them in all their forms, be they explicit or implicit.

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

Paul Chapman, managing director, HornbyChapman Ltd

Mandate Mangle

Alcova Asset Management has selected **Northern Trust Hedge Fund Services** to provide a full range of administrative and middle-office outsourcing services to its quantitatively driven, equity market-neutral fund.

"Fund managers are increasingly looking for solutions that support real-time data delivery," said Liam Butler, head of Northern Trust Hedge Fund Services Europe. "This helps them meet demands for transparency particularly as they implement various global regulations."

"We were looking for a partner who had made an industry leading investment in technology and built an integral middle-office service from day one," said chief operating officer and partner at Alcova Asset Management, Russell Hart.

"Northern Trust, through its global scale and experience in providing specialist hedge fund administration, demonstrated an understanding of the intricacies of our strategy and met all our requirements."

Madeleine Senior, head of custody and fund administration sales for Northern Trust in Europe, the Middle East and Africa, said that the bank's advanced technology solutions support Alcova's differentiated approach that is equal parts quantitative and discretionary and are designed to evolve with them.

Northern Trust's Hedge Fund Services group provides specialist administration services to approximately 800 funds across more than 150 client managers from its client servicing locations in Dublin, Limerick, London, Luxembourg, Guernsey, Chicago, New York and Hong Kong.

Societe Generale Securities Services (SGSS) has been appointed by S.C. Fondul Proprietatea to act as its custody and depository agent bank in Romania.

The fund was established by the Romanian Government in 2005. Eligible claimants who lost property under former communist governments were awarded shares in the fund in lieu of compensation. It has been managed by Franklin Templeton Investment Management Limited UK, Bucharest Branch, since September 2010.

Societe Generale, through its subsidiary BRD, has been providing securities services in Romania for over 13 years.

SGSS overall offering in Romania now includes both local and global custody, clearing and settlement services across all asset classes and depository bank services.

Fondul Proprietatea is a joint stock company operating as a closed–end investment fund without a set lifetime, incorporated in Romania and trading on the Bucharest Stock Exchange since January 2011.

The fund's investment objective is long-term capital appreciation via investments, primarily in Romanian equities, with strict adherence to the principles of value investing. The portfolio is heavily weighted in the power, oil and gas sectors through a number of listed and unlisted, privately-held and state-controlled entities.

CIBC Mellon has been kept as the asset servicing provider for the Halifax Herald Limited, publisher of The Chronicle Herald newspaper.

CIBC Mellon will continue to provide custody, accounting and benefit payment services for the Halifax Herald's pension plan. The Halifax Herald will also receive online investment information delivery via CIBC Mellon's Workbench platform.

"CIBC Mellon has been dependable, responsive and tightly focused on our needs, especially through some significant organisational changes over the last year," said Ian Scott, vice president of operations, Halifax Herald Limited.

"We conducted a full review of our options before reaffirming that CIBC Mellon's outstanding investment servicing technology and dedicated local service model make them the best choice for us and for our pension plan members."

"The Halifax Herald Limited is deeply committed to Atlantic Canada and to delivering strong, accurate and responsible reporting to those who depend on its work—values we very much share here at CIBC Mellon" said Jeff Alexander, director, business development and relationship management, for the Atlantic region at CIBC Mellon.

"We are proud to continue our partnership with this storied institution, and we look forward to continuing to support them as they work for the plan members and pensioners."

Standard Chartered has picked up a custody and fund administration mandate with Al Mal Capital, an investment institution in the United Arab Emirates.

Tariq Qaqish, head of asset management at Al Mal Capital, said: "We are pleased to partner with Standard Chartered for our award-winning Al Mal UAE equity fund, Al Mal MENA equity fund and Al Mal Saudi Shariah funds."

"Together we will seek to enhance the return for unit holders by providing optimal, cost effective services. As a leading investment bank, Al Mal Capital is committed to exceptional relationship management and continuously strive to improve our levels of service towards our valued customers."

"We believe our newly established partnership with an esteemed institution like Standard Chartered will pave the way for such enhanced interaction and hence satisfy our ultimate goal of client satisfaction."

Stewart Adams, regional head of investors and intermediaries for transaction banking at Standard Chartered, said that the partnership will enable Al Mal Capital to better focus on their core fund management activities.

Molding water

Ras Sipko, COO of Koger explains how to automate your private equity waterfall

Common feedback from private equity funds when questioned about running pro it/performance allocations is that they have a process that works, mainly driven by the use of spreadsheets. While it is certainly easy enough to build out the required accounting methodologies on an excel spreadsheet is it the best way to handle this critical work? When pressed further on the topic the overwhelming refrain is complex calculations like private equity waterfalls cannot be easily automated and it must be an expensive proposition to not only build these, but provide ongoing support.

Breaking down the complexities of these calculations allows for a high level view into how these can be formulated to be effectively used through automation and allow for a process required to provide unique calculations on a fund by fund basis. However, just looking at the typical layering of private equity waterfall tiers is not enough as there are endless options with regards to not only which are applied but when in the calculation. But first let's take a look at the primary elements or tranches of these distributions and examine a common distribution model.

The typical order these tranches are applied to a calculation is as follows:

- Repayment of investors up to the point where they have received all of their captal contributions.
- Repayment of investor's percentage share (typically pro rata) of fund expenses inclusive of management fees.
- Payments to investors that represent their agreed preferred return.
- Payment to the fund sponsor or general partner, which represents the first portion of performance allocation by the fund, commonly referred to as the 'catch up'.
- Payments of the carried interest split (typically 80:20). This would be 20 percent of any remaining profits payable to the sponsor or general partner with the remaining 80 percent of profits being paid to the investors.

While this may seem straightforward the complexity underlying this is based on additional elements within the limited partnership agreement. For example, looking at the first tranche, while the intent is to return in full the original capital contributions to investors this could be affected by items such as: the methodology chosen, eg, whole fund or deal by deal basis; additional tiers of carried interest; any clawback provisions; or whether or not opt out clauses are available for investments. While the list above is not exhaustive, any one of these can affect each of the five tranches identified with all tranches having the potential to be affected based on the terms of the fund agreement leading to uniqueness of each fund's final performance.

In order to automate these fee calculations, you need to not only have a base methodology in place but also a flexible system in which to make specific changes to the base calculations, along with the expertise to implement these formula changes specific to each fund's documents. This requires a dedicated staff whose role is to support these business needs exclusively. All of this automation exists today in Koger's PENTAS Private Equity system, which allows Koger's clients to eliminate spreadsheets and run a fully automated process.

Additionally, the ability to fully report on these at both the fund and limited partnership level through automated distribution methods creates a risk averse process with successful audit and due diligence reviews allowing funds a better opportunity to raise capital. Koger's PENTAS system allows for complete control over these critical administrative tasks for large global administrators or standalone managers. You will benefit from the support that both the Koger team and their software solutions offer. **AST**

Along the watchtower

Gaetan Gosset of Euroclear and Margaret Harwood-Jones of Standard Chartered discuss challenges behind OTC clearing in the Asia-Pacific region, as well as the progress of cross border collateral management

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

Margaret Harwood-Jones: It can be hard to generalise, but evolution mainly depends on the market and local infrastructure, as well as appetite to attract cross-border investment.

In Asia only Bangladesh, Pakistan, Sri Lanka and Vietnam are truly designated as 'frontier'—other active markets are either 'emerging' or 'developed'—and even these four are relatively long-established and sophisticated relative to frontier markets in Africa and the Middle East, where we are also present.

There are other markets not yet even classified as 'frontier', such as Cambodia, Laos and Mongolia in Asia, that are of interest to investors looking for the next big growth opportunity, but not yet fully structured for cross-border investment –either due to lack of available liquidity or lack of appropriate regulatory environment, and/or because of insufficient trade/post-trade infrastructure.

For these markets Standard Chartered plays a role on the ground, advising and working with regulators and other authorities to ensure that the developing infrastructure meets the future standards required by our investor and intermediary client base.

Our goal, wherever feasible, is to establish a custody capability in all markets within our core regions as soon as the necessary market liquidity, regulatory controls and broader post-trade infrastructure are in place.

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

Harwood-Jones: A great deal of challenge. Reduced margins, increased contractual liability, increasing regulatory focus, and continued consolidation of the client base is making investment and scale critical for survival. The existing trend to move away from standalone sub-custodians, and toward regional providers, will likely keep reducing choice for service buyers.

The first priority for sub-custodians in delivering a regional proposition will be towards normalising flows, hence our own substantial, multi-year investment in core infrastructure to provide consistent delivery for multiple markets across and between regions—protecting clients from local market nuances where possible and simplifying access to asset growth opportunities. There will be extended capabilities right across the value chain, by way of local/regional fund administration, securities lending, collateral management and liquidity solutions, etc.

As an emerging market bank, we are continually focused on extending our presence and providing thought leadership and market advocacy across our core regions, leveraging our broader wholesale bank capabilities and insights in ways that can truly benefit our securities services clients.

Our clients are often driven by a need for simplified and rapid access to new markets and look to us to reduce their barriers of entry, typically by leveraging an existing master custody agreement to facilitate the addition of new markets, but also through the provision of regionally hubbed capabilities using the same connectivity for new countries of investment. This can allow genuine speed to market. For example, it enabled the addition and availability of Rwanda to our regional African network in less than a month, such a short timeframe being necessary in order that our clients could benefit from a significant IPO opportunity in 2011.

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

Harwood-Jones: Liability needs to be reasonable and linked with the services provided under the direct control of the custodian.

It also needs to be commensurate with the level of reward being generated—too little margin at too high a risk is unsustainable. This is the key challenge facing sub-custodians today but also applies all the way along the post-trade service chain. All parties from global custodian to sub-custodian to market infrastructure need to recognise, balance and appropriately assign risk and reward—not just default to a position where liability is merely passed down the chain.

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

Gaetan Gosset: The G20 meeting in Pittsburgh in 2009 arrived at a consensus by our world leaders, some of whom are from Asia, for new financial regulation worldwide. This overarching plan is being translated into new laws, directives and recommendations in the US and Europe, some of which contain extra-territorial dimensions that either affect Asian investors going abroad or foreign investors coming to Asia. One of the clear areas of focus by regulators is the use of collateral, which has moved to centre stage in the mitigation of risk.

As a result, Asian market participants are now accelerating the shift from unsecured to secured transactions. And market infrastructures are devising new services and cross-border partnerships to support the increasing demand for collateral domestically and on a cross-border basis.

Harwood-Jones: Trends in global regulation typically evolve from west to east—what is becoming the norm in the US and Europe ultimately migrates to the east in some shape or form.

Fragmentation of regulation across Asia with different standards of operation and enforceability makes a uniform approach challenging, at best.

Clients expect service providers to be both their eyes and ears on the ground in local markets, but also their representatives with the authorities and their 'advisors' with regards to the impacts on their own investment activities and compliance—this is not a contractual arrangement, but certainly increasingly a commercial requirement.

Further, if clients are affected by regulation at their own local level outside of Asia then service providers are impacted whether directly through regulation or indirectly on a purely commercial basis—contractual changes emanating from the Alternative Investment Fund Managers Directive (AIFMD) being a relevant and current example.

Again, the key issue here is at what point do the responsibilities and liabilities cease to make sense relative to the business opportunity? Regulatory complexity increases the cost and risk of doing business. In an era of shrinking custody margins and significantly enhanced regulatory focus, how can such resource-intensive regulatory support be appropriately monetised by custody and clearing providers in a way that makes sense to all parties?

What are some of the challenges behind OTC clearing in the Asia-Pacific region?

Gosset: Asian markets are equipping themselves with new central counterparties (CCPs) and trade repositories, which will take time since assessing risk tolerance levels and managing collateral are complex tasks.

A side effect of the proliferation of Asian CCPs may force investors to retreat from smaller markets to limit their contributions to CCP margin requirements, which may further fragment collateral pools. To become or remain competitive, CCPs are expanding their collateral eligibility rules.

They are also leveraging the expertise and systems of triparty collateral providers, such as Euroclear Bank, to ease their ability to transfer the right collateral to the right place at the right time while centralising the management of collateral.

Harwood-Jones: The nascent state of the OTC derivatives market in Asia, coupled with the proliferation of CCPs, introduces new structures but brings with it material challenges.

The lack of interoperability across multiple jurisdictions creates fragmentation of what was once a truly global marketplace. This fragmentation increases the cost of doing business and introduces significant complexity.

As the number of CCPs increases, one would expect economies of scale to decrease.

The current era is widely thought to be the most challenging for the investor and corporate community in many decades as they address the three main requirements (associated with CCP clearing) imposed upon them: the clearing of certain trades via a CCP; the reporting of derivative transactions to trade repositories; and increased margin/capital requirements for trades not cleared via CCPs.

Areas of immediate focus should be:

- Understanding the regulatory classification of your organisation, ie, is it a financial or non-financial counterparty?
- Appointing one or more clearing members.
- Seeking collateral solutions. Ensuring availability of sufficient eligible collateral to fulfill initial and variation margin obligations
- Logistics. Ensuring connectivity to the right post-trade operations and technology staff and infrastructure to cope with the new demands and complexities of the future state environment.
- Connectivity to and use of the right technologies to effectively manage new risk methodologies.

Clearing members are likely to use significant amounts of capital, the cost of which is likely to be passed back to the end client in pricing. This will undoubtedly make clearing previously bilaterally traded derivative instruments significantly more expensive for end clients.

The demand for clearing services could exceed supply. Many market participants could be left searching for a broker to clear their trades and report them to a trade repository.

Bifurcation of capital could be a challenge some clients need to address as some trades are centrally cleared while others are traded bilaterally. This will likely lead to increased costs which clients and investors will ultimately pay.

If the buy side has not yet chosen their clearing broker(s) they need to do so now. If they do not understand the capital implications of cleared

> Managing collateral effectively in this new environment is no simple proposition. It requires a level of expertise that few firms may currently possess or are prepared to acquire

Margaret Harwood-Jones
Managing director and global segment sponsor for intermediaries and investors for transaction banking
Standard Chartered

versus non-cleared derivatives, this needs to be calculated and assessed.

It is important to note that there are benefits to addressing the challenges referenced above, as the industry will undoubtedly benefit from increased standardisation, automation, transparency and enhanced risk management

How is Asia advancing with cross-border collateral management?

Gosset: Cross-border collateral transactions are picking up in Asia. Collateral management awareness has grown tremendously over the past three years and the tsunami of new regulations has made it even more important. Non-Asian counterparties are diversifying their trading counterparties for risk mitigation purposes, as well as the range of assets in which they invest to secure higher yields, which has a positive impact on Asia.

The most active markets are Australia, Japan, Hong Kong and Singapore, but increasingly South East Asian market securities and counterparties are coming on board. The two main limitations are the time it takes for new market participants to get familiar with internationally accepted triparty collateral management contracts (eg, the global master repurchase agreement) and local market restrictions preventing domestic assets from being used on a cross-border basis.

Harwood-Jones: It's a challenge the industry is trying to address as regulations evolve. The plethora of regulatory changes (the US Dodd Frank Act, Basel III, etc) are forcing banks to focus strongly on the efficient use of collateral. As a result, there is a shifting collateral landscape for our clients. Managing collateral effectively in this new environment is no simple proposition. It requires a level of expertise that few firms may currently possess or are prepared to acquire.

We have seen, and will continue to see, many organisations partner as they seek to leverage proven industry platforms and capabilities in order to address some of the challenges and streamline access to liquidity and optimise utilisation of domestic inventory. For example, the Hong Kong Monetary Authority has signed agreements with the international central securities depositories, which will enable easier access to collateral.

Our partnerships with both Clearstream and Euroclear enable us to provide cross-border collateral management and optimisation solutions to our clients across our footprint. This makes it easier for our clients to cover their global exposures from a single collateral pool on a real time basis whilst overcoming the industry challenge of collateral fragmentation.

Many buy-side firms are concerned about how they manage collateral in the new CCP environment. The challenges are exacerbated by the idiosyncrasies of each CCP as they have different collateral and reporting requirements.

Collateral scarcity will likely be one of the biggest drags on investors' business models. CCPs will at some point need to review and broaden their collateral eligibility criteria, without going too far down the collateral curve. Until they do, collateral scarcity and the need to transform collateral will remain a challenge the industry has to overcome.

If the buy side do not fully understand how they will transform non-CCP eligible collateral into eligible, they need to make it a priority. If they do not understand how posting initial and variation margin will fundamentally change their portfolio valuations, this has to be an immediate focus. **AST**

> Non-Asian counterparties are diversifying their trading counterparties for risk mitigation purposes, as well as the range of assets in which they invest to secure higher yields

Gaetan Gosset
Director of product management in Asia Pacific
Euroclear Bank

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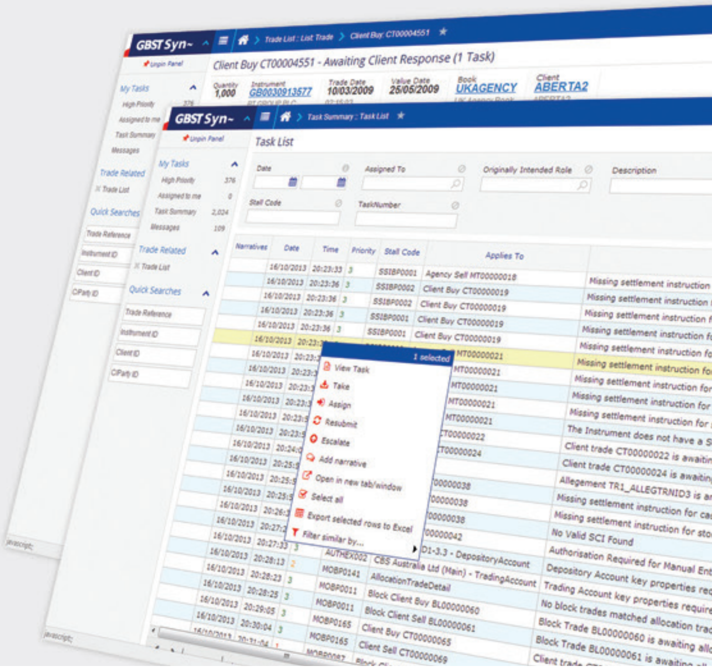

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Laying the bait

Post-AIFMD, Malta witnessed heightened interest from EU fund managers in redomiciling their offshore investment schemes to Europe, says Valetta Fund Services's Joseph Camilleri

Four years ago, on 30 April 2009, the European Commission published a draft directive for alternative investment fund managers (AIFMD), a legislation designed to regulate the asset managers of alternative investment schemes.

However, the measures therein are also indirectly applicable to alternative investment funds (AIFs). Meanwhile, the directive has been implemented on the 22 July 2013, and alternative fund managers are required to fully comply with these established terms within a year, that is, by 22 July 2014.

The AIFMD seeks to regulate EU AIFMs managing EU and/or non-EU AIFs, as well as non-EU AIFMs managing one or more EU AIFs and non-EU AIFMs which market one or more AIFs in the EU, irrespective whether such AIFs are EU AIFs or non-EU AIFs.

The AIFM may be either an external manager, which is the legal person appointed by the AIF or on behalf of the AIF and which through this appointment is responsible for managing the AIF or, where the legal form of the AIF permits an internal management and where the AIF's governing body chooses not to appoint an external AIFM, the AIF itself, which shall then be authorised as an AIFM (ie, a self-managed AIF).

This means that the only instance that falls outside the scope of the directive is the one in which neither the manager nor the fund have an EU link.

There are many factors that have led the EU to address the need for greater transparency and investor protection in the maze of AIFs. Among these, there was the need to achieve a harmonised European regulatory system for AIF managers. In other words, and with particular reference to Malta, all investment funds that are: non-UCITS retail funds; non-UCITS self-managed schemes; professional investor funds (PIFs); and private funds—and all their managers—are covered by this directive.

AIFMD provides a lighter regime for AIFMs where the cumulative assets under management of the AIFs being managed by the AIFM fall below a threshold of €100 million and for AIFMs that manage only unleveraged AIFs that do not grant investors redemption rights during a period of five years where the cumulative AIFs under management fall below a threshold of €500 million. De minimis AIFMs are exempt from most of the requirements of the AIFMD, and are only required to comply with very limited requirements under the AIFMD.

The objective of the directive was to address 'systemic risk', an intrinsic characteristic of alternative investment funds. However, the directive is perceived to have a protectionist objective, albeit unstated. This has prompted a number of EU-based fund managers, managing non-EU funds to re domicile their offshore funds to an onshore jurisdiction wherein Malta featured prominently as a suitable domicile for such business in view of the presence of the Continuation of Companies Act that was enacted in 2002.

In fact, the Maltese Companies Act in 2002 had introduced the Continuation of Companies Regulations well before AIFMD was designed, which enabled foreign companies, once they are redomiciled from a foreign State to Malta, to proceed with their existence as legal entities in Malta. The legislation provided (and still provides) that a legal entity may be redomiciled in both directions, that is both to and from Malta.

This legislation has certainly been of great benefit to the Maltese economy since there were several companies from different countries across different economic sectors (commercial, holding, real estate activities, treasury services and other sectors), which have opted to re domicile to Malta. Undoubtedly, the flow was much more prominent in redomiciliations towards Malta rather than from Malta to other states.

Shortly after the first draft of AIFMD was issued, and following the first reactions about the possible impact of the directive on the alternative funds sector, there were a number of EU operators of offshore funds that re domiciled their fund platforms, from offshore centres, to the EU jurisdictions in order to sustain the business model revolving around the promotion of hedge funds in the EU marketplace and at the same time retain the performance history of the redomiciled fund as a result of the uninterruption of the legal entity.

There are other alternatives to the formal re domiciliation which is explained above. In fact, other managers opted for other paths to set up their investment schemes in Malta. These solutions include:

- The structuring of master/feeder funds intended for EU investors, having the feeder fund set up in Malta, in turn investing in a master fund which is based in an offshore jurisdiction;
- EU cloned funds of offshore funds—creating new funds cloning the structures of offshore funds, there again to cater for investors in the EU market; and
- Asset swaps between an offshore fund, and one created in Malta having similar characteristics to obtain a similar result as a redomiciliation of a fund, where assets and investors migrate from country A to country B.

> "The Maltese Companies Act in 2002 had introduced the Continuation of Companies Regulations well before AIFMD was designed"

To this effect, notwithstanding that it has been argued that AIFMD brings about costly measures, both in order to adhere to the rules and also to meet several onerous obligations imposed on the fund managers or the self-managed funds (should this be the case), the ability to distribute AIFs cross border in Europe is markedly a highly important benefit. **AST**

Joseph Camilleri
Head of business development division
Valletta Fund Services

Leave it to the middle man

AST explores the move into middle office outsourced services with Denis Orrock, the CEO of GBST Capital Markets

Are custodians geared up with sufficient IT infrastructure to offer these services in single and multi-market mode, or do custodians or sub-custodians need to look at embracing technology change in order to service their customers in the post-trade space?

As providers of custody and sub-custody services look to increase revenues, they either look to win new clients off their peers or to develop and deliver new services or extend existing ones. An area that is gaining significant attention and indeed traction from a number of global custodians is provision of middle-office services, to their broker dealer clients. Now, although many have well architected custody systems, they lack the necessary workflow and transaction management functionality to move further up the post-trade life-cycle in provision of such middle-office services. It must be remembered that the custodian or service provider is now offering to take on more of the broker's operations than simply clearing and settling that broker's trades.

To deliver this middle office service, the provider looks to:

- Operate the brokers existing back-office platform, assuming it has a sufficiently proficient middle-office functionality;
- Invest heavily in developing its own middle-office solution; or
- Look to migrate clients onto third-party centralised multi-entity, multi-market middle-office platform.

In order to reduce total costs of middle-office services, the middle-office functions need to be highly automated and exception management kept to an absolute minimum. The timeliness of exceptions is also critical to middle-office function as brokers typically have significant SLAs (service level agreements) with their end clients with regards to the time it takes them to receive their allocation notifications. In the pursuit of middle-office service provision, custodians and sub-custodians need to ensure that their processing is more efficient than their broker clients.

The general trend we're seeing, across Asia in particular, is one where there is acknowledgement that traditional custody systems are lacking the level of functionality that is required to support these time critical middle-office functions; as such, providers are investing in their technical infrastructure to deliver cost effective centralised multi-entity, multi-market middle-office functions on platforms that can readily complement their existing custody platforms.

We see these middle-office services gaining the attention of customers but are they looking for regional solutions, or simply single market?

Again, if we took Asia as an example, we are seeing brokers looking to achieve a variety of initiatives across various markets. It's not necessarily one size fits all, nor does it have to be an across-the-board adoption of outsourced middle to back-office services by any one organisation. Clients can look to outsource specific markets or a group of markets. With custodians and sub custodians typically having regional exposure it only makes sense for them to offer their clients a multi-market solution and solve a broader cost centre problem for their clients.

However, that does not necessary mean throwing the baby out with the bath water either. There is certainly a general desire from some brokers to maintain their own middle to back-office infrastructure in their hub markets. In Asia, that's generally Japan and/or Hong Kong/Singapore. That presents a tremendous opportunity for the service provider to look at those non-hub markets on a combined regional basis and putting forward an even more compelling proposition.

How are the frontier markets evolving in the post-trade environment with regards to service provision? Given green field opportunities, are they developing broader service adoption?

I would not go so far to say that the frontier markets will drive the broader adoption of outsourced middle to back office services. It's more the consolidation of the mid-size regional markets onto a standard technology platform and service delivery that is driving the adoption of these services. However, given that the frontier markets don't necessarily have well entrenched operational infrastructures, middle-office services in particular can be more readily delivered as an extension to a regional platform.

Are custodians and sub-custodians struggling to build economic service deliveries due to lower volumes in frontier or developing markets?

In these frontier or non-hub markets, given their relative lower volumes in comparison to the hub-markets, it actually makes economic sense for brokers to outsource as much of the middle to back-office function and turn the fixed operational costs associated with their own back-offices into a variable cost. If we assume that the outsource service provider can spread their costs across more than one client, and indeed across multiple markets, using a single platform, then their effective cost per transaction reduces across all their clients, across all their markets. This assumes that their technology platform enables them to readily scale the business without increasing operational overhead across these multiple clients and markets. This allows even the lower volume markets to be cost effective propositions for both parties. AST

“It's not necessarily one size fits all, nor does it have to be an across-the-board adoption of outsourced middle to back-office services by any one organisation”

Denis Orrock
CEO
GBST Capital Markets

Regulation, risk and real-time data

CCPs must find new analytical solutions to survive and thrive, says co-founder of Quartet FS, Georges Bory

In recent years, central counterparties (CCPs) have had the challenge of adapting to a diverse range of regulations, which have forced many to reassess their risk management and valuation activities. The regulations have had a visible impact on the day-to-day operations of CCPs, by significantly increasing trading volumes. When combined with an increased need for granularity in risk assessment, this has placed huge strain on existing technology systems and the way each CCP manages their analysis and risk procedures. For CCPs to survive and thrive in the new data intensive and highly regulated landscape of clearing and settlements, they are focusing on finding new analytical solutions.

Although the US Dodd-Frank Act, as implemented by the Commodity Futures Trading Commission (CFTC), has been the main driver of the increased workload for CCPs, other regulations have added to the burden, such as the European Market Infrastructure Regulation (EMIR), customer gross margin rules and associated Legal Segregation with Operational Commingling (LSOC) chapter. By changing the ways that CCPs are required to analyse risk, for example, by dictating that risk be measured against individual customer accounts, rather than at a clearing member level, these regulations have greatly increased the volume and granularity of the analysis CCPs need to perform.

To deal with these ongoing changes, while maintaining their competitiveness, CCPs can choose between two tactics: investment in analysis staff or investment in analysis technology. With regulations set to impact more and more on CCPs, making the right investment choice will pay dividends in the future. Should CCPs efficiently manage the changes, there is an opportunity to generate more revenue and expand into other regions, attracting more clients which need real-time swaps clearing, risk management and reporting as part of their compliance strategies.

What's the risk?

As CCPs contend with the fast pace of the markets, end-of-day or intra-day risk evaluation processes are no longer proving adequate. A change in any of the number of data points that make up the risk profile of a portfolio needs to be assessed and acted on as quickly as possible, to prevent fluctuations impacting negatively on their positions. Portfolio risk is typically calculated by using mark to mark (MtM) valuations to ensure market values match margin call requirements. This method demands real-time analysis of millions of trades and market data points across different source systems—something which limits clearing institutions operating under IT infrastructures capable of only analysing one source stream at a time and generating batch-oriented outputs. Legacy OLAP and SQL-based relational database models are not an option for a competitive CCP any longer because of the speed of analysis and complexity of indicators now required for accurate and compliant risk monitoring.

Technically, that's not okay.

Batch-orientated streams fulfilled their role when trading processes were slower and less efficient. A half hour batch process approach worked well to provide a snapshot of market positions, particularly as the market was relatively unlikely to shift too far in that time. With the advantages that improved communications networks and trading technologies have given the financial industry, however, legacy database models have been left floundering. With the granularity of risk analysis increasing and response times lowering, risk monitoring has become a complicated and time-intensive exercise for relational systems. This has already led CCPs and financial organisations to increase the size of their risk teams to keep their analytical performance at acceptable levels, which has engendered a significant increase in staff costs.

A new wave of analytics

An in-memory analytics platform, such as the ActivePivot system, has the potential to solve the dual challenge of risk management and legacy technology. This type of data analytics solution stores and calculates data in a centralised location in a computer's memory, avoiding the system lag that can be incurred when data is fetched or sorted prior to calculation. Through the move to a centralised real-time analytics engine, risk analysts can better manage the organisation's risk exposure and react to market changes effectively. This is because they are able to slice and dice risk aggregations across all asset classes in a holistic view—accelerating some of the manual tasks often undertaken by a risk management team. This has a direct impact on productivity, as analysts can use the system more intuitively, analysing data as the markets move, rather than working with pre-aggregated views or pre-canned reports. It also means that fewer analysts are needed as the extra calculation work is done by computers.

Doing things differently

As regulations continue to bite, and the derivatives markets continue to fluctuate, finding a scalable, cost-efficient solution for CCPs to manage risk is key to their future business prospects. Real-time portfolio risk calculations not only provide a solution to internal resourcing and regulatory challenges, they introduce improved risk assessment capabilities so that CCPs can offer a broader range of services to their existing members and potential clients. By investing in the right kind of technology to optimise risk processes and ensure analysts have access to timely and holistic views of risk exposure; CCPs can redirect their attention to providing the best possible service in an extremely competitive marketplace. **AST**

"As CCPs contend with the fast pace of the markets, end-of-day or intra-day risk evaluation processes are no longer proving adequate"

Georges Bory
Co-founder and managing director
Quartet FS


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The first sniff of a revolution

STP is improving, infrastructure is evolving and new products are on their way. Three transfer agency experts discuss how to capitalise on the Asian fund operation market

Euan McLeod
Head of transfer agency, Asia Pacific
International Financial Data Services

Sébastien Chaker
Managing director and head of Asia
Calastone

Ghassan Hakim
CEO
Riva Financial Systems

Georgina Lavers
Deputy editor
Asset Servicing Times

How are Asian fund operations and transfer agency progressing in 2013? What new developments are of note?

Ghassan Hakim: As expected, 2013 has seen the momentum towards automation continue to gather pace within Asian fund operations as international asset management companies expand into the area and bring with them their standardised distribution models and processes.

The largest transfer agency providers in the region have also stepped up their efforts to motivate and recognised the need to incentivise industry participants to move away from manual processes and embrace automation.

Infrastructure in the region has evolved too—one example of which is the Taiwan Depository and Clearing Corporation (TDCC), which continues to actively work with fund managers, service providers and distributors with the ambition of achieving high STP rates of automated order flows.

Euan McLeod: 2013 has seen a number of changes in the fund operations and transfer agency environment, really carrying on from 2012. The passport developments have gained momentum as have levels of STP in many locations. New products continue to grow and new regulations and legislation occur that present additional challenges to comply with and keep the process as smooth as it can be for our clients and their distributors and investors.

The Foreign Account Tax Compliance Act (FATCA), the renminbi qualified foreign institutional investor scheme (RQFII), new anti-money laundering and know-your-customer (AML/KYC) ordinances and reporting have all had impacts on our product offering this year.

Sébastien Chaker: We believe that Asian fund operations are the beginning of a revolution in terms of trade automation. After a decade of unsuccessful attempts to automate fund orders in markets such as Hong Kong, Singapore, Taiwan and South Korea, we are finally seeing very strong progress happening—especially in Singapore and Taiwan. Based on our pipeline of distributors and fund managers we see this momentum accelerating in 2014.

As it has been the case in Europe, transfer agents that will be the quickest to take advantage of this trend will be the winners in Asia, as automation rates become a key transfer agency outsourcing selection criteria for fund managers.

What are the key challenges for transfer agency providers in this region?

Chaker: As labour costs increase in the region, the lack of automation becomes a major challenge. When in the past, transfer agents could just boost staff numbers to cope with the increase of transactions, in the absence of automation, agents now have to look at short-term alternatives such as offshoring operations in low labour cost countries. These solutions are costly to implement and do not address the risk, scalability and poor service level issues generated by manual trade processing.

McLeod: Within the region you have a mixture of third party providers providing transfer agency services and asset managers that have retained this function in house. For both a number of the challenges are the same, which markets to be in, system functionality and maintenance costs, regulatory change and requirements, new product launches and improving STP levels.

These challenges are not dissimilar to what is faced in other markets around the world but some of them have disappeared over time as models, regulations and processes have standardised across regions such as in Europe.

STP is always a challenge but significant progress has been made in Taiwan through the TDCC initiatives, and also in Hong Kong and Singapore, using industry utilities such as Calastone and SWIFT.

The diversification of Asia as a region will always present challenges for transfer agents. Varied and changing regulations puts pressure on system upgrades and costs for both internal providers as well as third parties.

The diversification of the markets, including the products and regulatory environments within the region, is not only a challenge but a benefit as well. The region represents an array of new markets and new opportunities to tap into the growing AUM of countries within the region.

Hakim: Transfer agency providers in Asia have a number of challenges to overcome as Asia remains a very fragmented market with little to no unification between countries, which itself presents difficulties when service providers attempt to automate processes. Low levels of trade automation remains a real factor and many Asian fund distributors and managers still rely on manual processes and fax communications.

There is also a lack of proven global transfer agency system solutions available to local transfer agents that are able to cater for the myriad of complicated local regulations within the region. The more traditional systems that are available can be expensive to maintain, are limited to one market, and quickly become obsolete in such an environment of regulatory change without significant investment.

> “**Chaker:** After a decade of unsuccessful attempts to automate fund orders in markets such as Hong Kong, Singapore, Taiwan and South Korea, we are finally seeing very strong progress happening”

However, there are benefits to the region. With strong economic growth rates, attractive economic and demographic fundamentals, a relatively low cost labour market and a generally stable political environment (although this changes from country to country), it is understandable why there is a strong focus on Asia at the moment, however in order to take full advantage of the opportunities available in Asia it is essential to have a detailed understanding of the fragmented markets that the region is made up of, while also preparing for the likely passporting trend currently in progress.

What are the differences in servicing local versus offshore funds?

Hakim: The issue is not the type of funds themselves but servicing the type of investors purchasing these funds. Clearly servicing local investors requires in-depth knowledge of the language (including various dialects), culture,

investment perspective; the environment tends to be more retail oriented, requires scalability and compliance with local regulations which have a tendency to change on a more frequent basis than their more established counterparts domiciled offshore.

Offshore funds tend to have a more sophisticated institutional or high net-worth investors whose servicing needs will vary from the retail focus in terms of reliance on technology, speed, processing efficiencies, error corrections, reporting and so on.

Chaker: The fund transaction processes do vary a lot between different markets. This often makes it very difficult to combine offshore and local funds on a single platform.

McLeod: For offshore funds UCITS are the dominating brand, domiciled across Ireland or Luxembourg. Local funds can be anywhere, from Hong Kong, Singapore to Taiwan to Malaysia and Thailand to touch on just a few.

> “**McLeod:** Local language, reporting, taxation, cash handling and regulatory challenges all exist in the local fund ranges”

UCITS are standard; with AML KYC requirements most likely being the single biggest issue for transfer agents around servicing them. For domestic funds, every country has their individual localisations, there is no one size that fits all and a factory approach to servicing is not effective.

Local language, reporting, taxation, cash handling and regulatory challenges all exist in the local fund ranges. For Luxembourg and Ireland the offshore products are standardized now. Adapting to new products or regulations is infrequent to a large extent on the offshore model. The individual local requirements, be it cultural, regulatory or individual, represent a much harder ask to meet without that local knowledge and expertise which is so critical in delivering the right product to our clients and their investors.

Do you see any impact from the various passport schemes in challenging the UCITS product domination in some markets?

McLeod: We are already seeing an impact in the markets where the passport schemes are most advanced. We see the strong possibility of the greater China passport between Hong Kong and China coming about in the non-too distant future. With this we have seen a number of the larger global asset management houses start to create or contemplate establishing Hong Kong domestic fund ranges.

The Association of Southeast Asian Nations (ASEAN) passport in South Asia is also creating interest. With the same effect, both asset managers and administrators looking at how they can be best positioned to support this new legislation and how to support their investors (or clients) in it.

Given the complexities of currency restrictions, different regulatory bodies across jurisdictions and even geographical and language challenges, these passports are no small objective. As such, the administrator who is not ready to support them, should they come about, is in danger of being left behind quite quickly.

We believe there is a place for these passports within the region but not as a replacement of the UCITS product in many markets where they are so dominant. UCITS are an established brand that is trusted and recognized, as such it will be some time, if ever, for them to be dislodged as the primary choice of funds in certain Asian countries.

Chaker: In the short term we believe that UCITS products will continue to progress in the region as the only true, recognised cross-border instrument. In the longer term, as a potential passport scheme or as bilateral agreements between countries emerge, UCITS progression maybe affected in some specific markets. However, we believe that UCITS will continue to play an important part in fund distribution in Asia.

Hakim: The progressing development of the regional passport scheme concept is a step forward but there is still a long journey ahead before the UCITS product domination is realistically challenged. The UCITS brand is internationally recognised and trusted by asset managers, service providers and investors alike, with a proven history dating back to 1985. One has to wonder though if the two regimes would end up actually complementing each other, offering local investors an array of choices and exposure to various markets. Depending on the regulatory landscape, we could see an increase in funds of funds offerings combining our traditional UCITS with ‘Asian’ UCITS.

Do you think that transfer agency providers can ever offer a truly regional service model?

Hakim: It is still quite a leap of faith to imagine a situation where transfer agency providers in Asia were able to offer a truly regional service model, and as such a single pan-Asian market is generally considered to be a very unlikely proposition at this time particularly as there is no authority pushing for standardisation between the various countries. As such, Asia remains a very fragmented market with providers operating a mix of insourcing and outsourcing models, in order to gain the detailed local market knowledge they require and cater for the myriad of complicated local regulations.

Our role, as the system solution provider, is to keep designing and implementing solutions that allow our clients to meet their demands cost efficiently whilst remaining business agile and operationally efficient. In such an environment it is easy to see why the opportunity to utilise the benefits of a comprehensive single transfer agency solution capable of servicing the multiple product types across multiple jurisdictions with a single investor view is very attractive.

McLeod: To provide a truly regional service you need to be able to offer both onshore and offshore capabilities across many counties in Asia. That means an investment in on the ground people, premises and a regional technology model that can support across languages and functionality whilst providing consolidated and country by country reporting data.

This is a very complex model and I don’t believe anyone can claim they are a fully regional provider with everything covered and wrapped up.

Can it be achieved? Certainly. Will it? Yes. By when and by whom I can’t say, but the will to do so must be there and must be based on providing a regional scalable model where transfer agency is a product lead, and not just a component of a bundled service.

Chaker: Yes, we are convinced that existing technology can address the various requirements of each market. However, we believe that a certain level of standardisation in terms of market practices across Asian markets will be required to achieve this objective.

How has STP changed in the Asian market region in the last 12 months?

Hakim: STP rates are steadily rising in the more mature markets. However, in less mature markets comparatively lower wages have historically meant that manual processing was the cheaper option when compared to the (relatively) expensive changes required to implement STP technology. However, this model is inevitably changing in line with the effects of wage inflation in the region and the reducing costs of implementing STP technology as more platforms enter the market offering standard message formats.

Wage inflation in Hong Kong and Singapore in particular have seen the cost of manual processing rising at a time when the expense of automated processing has fallen, making automation a more attractive proposition.

> "**Hakim:** Wage inflation in Hong Kong and Singapore in particular have seen the cost of manual processing rising at a time when the expense of automated processing has fallen"

Such a transformation would undoubtedly provide the industry with the flexibility it requires, preparing the way for steady growth in assets as the middle classes in countries such as China and Indonesia adopt an investment culture, and as developed country pension funds increase their regional allocations.

McLeod: It has improved! It has taken some time but we see real progress in STP volumes in the region now. When I first moved to Hong Kong eight years ago, my then transfer agency operations manager referred to STP as "straight to printer", at the time he was certainly not incorrect and this has stayed the practice for a number of years. However, with the involvement of regulatory bodies such as the Hong Kong Monetary Authority (HKMA) and the TDCC we are seeing an increase in STP volumes. Similarly, the use of providers such as Calastone coming into the Asian region, with offices in many countries, has helped distributors, asset managers and providers start to process more trades through SWIFT and other electronic means.

I do not believe we are close to where Europe or the US currently are in this area but we are gaining momentum, which is great to see and to be a part of. As a transfer agency administrator, achieving STP means having many weapons in your arsenal to do this, be it SWIFT, file uploads, interfaces, etc—and I have always felt that it has been our aim to help facilitate this for our clients by whatever way we can.

Chaker: In the last 12 months, both Singapore and Taiwan have seen very strong momentum in terms of fund automation.

In Singapore, four leading fund distributors have joined the Calastone network to automate their fund orders into their largest offshore and onshore fund partners. Two of the largest Singaporean domiciled funds have managed to increase their STP levels from virtually 0 percent to over 35 percent in that period. In the next 12 months we expect to be able to automate over 60 percent of all orders originating from Singapore distributors.

In November 2012, TDCC launched its initiative in Taiwan for offshore and onshore fund automation. As expected, the take-off was relatively slow, but after one year, we are pleased to see that six leading Taiwanese bank distributors have selected Calastone to automate their offshore funds trades into the 32 offshore fund managers signed up on our network in Taiwan. In the next 12 months we expect that over 50 percent of all offshore fund orders originating from Taiwan will be automated, saving offshore funds several million dollars in transaction fees. **AST**

Industry appointments

Funds Partnership's EMEA director **Rana Hein-Hartmann** has relocated to Luxembourg from London.

Funds Partnership is a specialised recruitment boutique for the funds industry.

The move comes after several years of consistent growth in business from The Grand Duchy with Hein-Hartmann travelling between the two offices regularly, assisting a range of international funds and asset servicing businesses on their senior-level and large scale hiring.

Hein-Hartmann will head the Luxembourg office based in Rue Goethe, while the London office will be run by Fred Tankpinou, who has been recently promoted to associate director.

The shift in responsibilities has come after increasing demand to fill specialist roles in each location, particularly resulting from Alternative Investment Fund Managers Directive (AIFMD) and the growth in the private equity sector, one of the firm's main areas of specialisation.

New hires are being made by the company in both locations.

Following the announcement that DTCC acquired full ownership of Omgeo, **Michael Bodson**, the president and CEO of The Depository Trust & Clearing Corporation, is joining Omgeo's board of managers as chairman.

Bodson assumes the role from Andrew Gray, managing director of core business management at DTCC, who will remain a member of the board.

In addition, Joan Binstock, chief financial and operations officer at Lord Abbett & Co, joins as a member of the board.

Board members are responsible for representing the interests of the firm's 6500 clients globally as decisions about strategy, governance and operations are made.

As president and CEO of DTCC, Bodson is responsible for leading the development and execution of DTCC's strategy as well as its principal operating subsidiaries, Depository Trust Company, Fixed Income Clearing Corporation and National Securities Clearing Corporation. He is also a member of DTCC's board.

At Lord Abbett, Binstock is responsible for financial and operational support, as well as oversight of the firm's financial reporting, operations processing and account administration functions. In this role, she oversees the support of the investment team sales and marketing initiatives, client-related activities, and the financial resources of the firm.

KB Associates has hired **Peter Northcott** as an executive director.

Northcott joins KB Associates's London office where he will be responsible for offering hedge fund start-up consultancy, due diligence advisory, change management consultancy and infrastructure review services in the London alternative investment market.

He will work alongside Phillip Chapple in further developing this award-winning business.

Prior to joining KB Associates, Northcott worked at the hedge fund managers Mako Global Investors, Apollo Global Management and Mulvaney Capital Management.

Deutsche Bank's global transaction banking division has appointed **Jose Sicilia**, a 15-year veteran of Deutsche, as global head of global equity services.

Sicilia will be responsible for maximising the future growth potential of the global equity services franchise and strengthening its footprint globally.

Global equity services, which forms part of global transaction banking's trust and securities services, is Deutsche Bank's administrator of cross-border equity structures such as American, global and reverse depository receipts. It also provides paying agency, advisory and shareholder services for the bank's clients.

Sicilia has been with Deutsche Bank for 15 years and has held a number of leadership positions, most recently as head of the bank's corporate trust business in the EMEA region.

Since mid-2012, he has also acted as regional head of the trust and securities services/cash management financial institutions business unit for Western Europe.

Sicilia, who will be based in New York, will report into Satvinder Singh, global head of trust and securities services/cash management financial institutions.

Condon & Company has hired **Gerald Cavataio** to expand fund administration from its Connecticut office.

Cavataio has over 27 years of accounting, operations and financial management experience. He has worked as the chief financial officer of several start-ups and for larger, more complex multi-strategy funds.

Rob Condon, a managing shareholder, said: "We opened our office serving the Metro New York area in October of 2012 and have been growing its capabilities ever since. We intend to be the premier accounting and administration firm in the area focused on assisting entrepreneurs, middle market businesses and funds achieve their goals."

Condon's New York Metro office offers fund administration, accounting, tax and business advisory services.

Private equity specialist fund services firm Ipes has strengthened its senior management teams in London and Guernsey through the appointment of two new managing directors.

Ben Cook has been appointed as managing director for Ipes UK and **Andrew Whittaker** will take up the same position in the Guernsey office.

Whittaker will lead the 100 strong team in Guernsey having previously headed up Ipes UK and its depository business. He joined Ipes in January 2011 from Capita Financial Group's Specialist Fund Services.

He has extensive experience of onshore/offshore vehicles, open and closed, traditional and alternative funds and has worked in London, Dusseldorf, Paris and the Channel Islands.

Cook has more than 23 years onshore and offshore experience in the financial and insurance services sectors and joins Ipes from Dominion Funds Group.

Established in Guernsey in 1998, Ipes now employs across London, Luxembourg, Jersey and Guernsey. During 2013, the firm has so far taken on 22 new mandates.

Northern Trust has created and filled five new senior positions across Europe in order to support European fund managers implementing the (AIFMD).

The bank will now be able to offer depository services in the UK and the Netherlands, in addition to its existing services in Ireland, Luxembourg and the Channel Islands.

To kick-start European expansion, the bank has hired **John Cargill** as head of depository services, EMEA, where he is responsible for managing a team of specialists located across Northern Trust's European offices.

Cargill joins Northern Trust from HSBC, in London, where he was most recently head of trustee and fiduciary services. Based in London, he reports to Glaysher.

Reporting to Cargill are **Alastair Hay**, **Stefan de Kort** and **Stephen Baker**. Hay has been appointed as head of depositary services, UK. He has been working with Northern Trust in London since January this year supporting its strategy around AIFMD and depository expansion.

Prior to this, he was head of NatWest's trustee and depository services division.

Leading the expansion of Northern Trust's dedicated depository services offering in the Netherlands is Stefan de Kort.

In his role as head of depository services Netherlands, he is responsible for supporting Northern Trust's Dutch fund manager clients as they implement AIFMD and other regulations affecting their business and underlying investors.

De Kort joins Northern Trust in Amsterdam from RBC Investor Services, where he was most recently located in Luxembourg and responsible for offering client solutions for Luxembourg offshore funds.

De Kort is supported by Margot Six who joins Northern Trust from Bouwfonds Real Estate Investment Management, part of the Rabobank Group, where she was senior legal counsel.

As head of operations for depository services, EMEA, Stephen Baker will be responsible for ensuring the overall operational management of Northern Trust's depository services group in EMEA, from his Limerick base.

Baker joined Northern Trust following its acquisition of Bank of Ireland Securities Services (BoISS) in 2011, where he was head of custody servicing.

Yves Baguet, member of the executive board of Clearstream International, Clearstream's chief information officer and, since February 2013, the chief technology officer of Deutsche Börse Group, has decided to leave the company "on amicable terms", according to a statement from Clearstream.

Richard Green, currently running one of the application development departments for Clearstream's core business, will succeed Baguet as chief information officer of Clearstream, and, ad interim, as chief technology officer of Deutsche Börse Group.

Hauke Stars, Deutsche Börse Group chief information officer and member of the executive board of Deutsche Börse AG, said: "Yves Baguet decided to leave the company upon reaching another milestone in his career—the first phase of the design of the future IT landscape of Deutsche Börse Group."

"I would like to thank him for two decades of outstanding contribution to Clearstream and Deutsche Börse Group IT. His excellent work will be continued by IT personalities like Richard Green who I warmly welcome in his new roles."

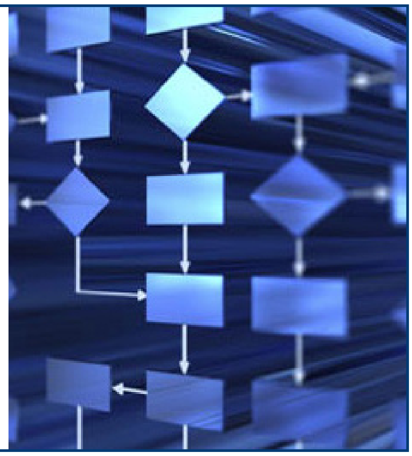
Baguet joined Clearstream in 1994 where he held various management positions in the IT area. He contributed to and managed major IT projects across Deutsche Börse Group such as the technical integration of Deutsche Börse Clearing (today Clearstream Banking AG) with Clearstream (at the time Cedel) and the integration of Clearstream into Deutsche Börse Group

Green joined Clearstream in March 1999 from NatWest Investments. He currently leads the IT teams for collateral management and investment funds.

Denis Peters has taken early retirement from his role as the director of marketing and communications at Euroclear.

Peters, who has been working at the firm for 18 years, stressed in an email that he would be taking an early retirement to pursue other personal interests.

He will be officially leaving the firm in November. **AST**



60 second resumé

Thomas Kelly...

Meet Thomas Kelly, an industry veteran with experience spanning from Bermuda to Dubai looking for his next challenge

I left public school in 1974. University was not considered an option at the time, so after various stabs with the military I found myself at a discount house in London—Gerrard and National. This was the start of my career in financial services.

I passed my Institute of Bankers examinations, a requisite for the job back then, and found my way through a couple of banks that do not exist now, to a dealing room, and somehow to Bahrain and Arab Banking Corporation as their currency option trader. This was 1988. In 1991 the country was embroiled in the Gulf War as a major US military base.

I came back in 1991 and was later posted to Guernsey with Bank of Bermuda. That started a career and deep respect for that bank and its staff that held me in good stead until 2005—the latter nine years being in Bahrain as senior vice president and in charge of its representative office. Between 2005 and 2007 I worked for HSBC in Dubai, maintaining the same business lines as before.

We sold fund administration, global custody, private banking and trusts. In that period I gathered many contacts and clients and to this day maintain close friendships and alliances within the Gulf and Asia, where Bank of Bermuda had a huge presence.

In 2007 I came back briefly to London but then started a consultancy company back in Bahrain and worked in asset management, fund administration and capital raising exercises for many groups. This, combined with extensive travel to the Gulf and beyond, meant that I kept my high profile and knowledge of the region.

In 2010, family commitments were calling, and my tenure in the Gulf was coming to a close. I settled back in London and continued to work as a consultant for a major Canadian bank, raised capital in the Bahamas for the Fundsmith Equity Fund, and provided financial advice for two groups in the tangible assets arena.

I also maintained my fund administration contact base and worked as a consultant to the largest private equity group in London, bringing in new clients and ideas.

In the last couple of years I have kept very busy, gaining the Investment Management Certificate (IMC), volunteering in the financial sector as an advocate for older people, raising capital for Fundsmith and advising a Zurich-based group on fund administration strategies. I also bring clients to a UK-based private bank, act as a director of a Cayman Islands fund, and work on repatriating missing assets and looted art!

I believe excellent interpersonal skills, flair, enthusiasm, different and deep experiences and the ability to bring tact and understanding to problem solving are needed to differentiate oneself in the workplace. I am at home whether in Bermuda, Dubai, London or Hong Kong—all to which I travel on a regular basis. **AST**

"I believe excellent interpersonal skills, flair, enthusiasm, different and deep experiences and the ability to bring tact and understanding to problem solving are needed to differentiate oneself in the workplace. I am at home whether in Bermuda, Dubai, London or Hong Kong—all to which I travel on a regular basis"

For further information on Thomas Kelly please contact Paul Chapman, managing director of HornbyChapman

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