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The fantastical world behind the front office

You are hiking in Snake Canyon when you find yourself lost in the strange, dimly lit Cave of Time. Gradually you can make out two passageways. One curves downwards to the right; the other leads upwards to the left. The right passageway looks dim and foreboding—but you can hear a strange humming coming from the left path. The choice: do you go left (turn to page 2)? Or do you go right (turn to page 3)?

Choices such as the above appeared in the 'Choose Your Own Adventure' books that were popular in the 1990s. The possibilities were many and one simple decision would alter the whole course of the book (unless you cheated and read ahead, of course).

Unfortunately, in real life, reading ahead is not something you can do. Looking back over this issue, there seems to be no take-away on how to choose the right path when it comes to your business: the consensus seems to be that it's different strokes for different folks.

J.P. Morgan closed down its UK outfit for transfer agency due to its small size, with fellow providers swooping into pick up its business. Meanwhile, Bravura Solutions and International Financial Data Services are making new hires for transfer agency in the UK, proving that 'small' volumes can be very big indeed, depending on your firm's priorities.

Even within businesses, there can be differences between mission and action: take BNP Paribas's launch of depository services in Switzerland, while continuing in its commitment to its Alternative Investment Fund Managers Directive-compliant UK depository, for example. This possible conflict of interest is under the microscope on page 28.

Whether your interest lies in equities clearing, transfer agency, class actions, or collateral management—I hope the issue will make your choices clear to you.

Georgina Lavers
Deputy editor
Asset Servicing Times

ASTINBRIEF

J.P. Morgan shuts up UK transfer agency shop

J.P. Morgan has closed the shutters on its UK transfer agency business. A spokesperson from the bank declined to comment, but a source said that the division's small size was reason for the closure. A rival of the division said the closure was "unsurprising".

The source added that the decision was announced a year ago internally, but that action is still being taken to wind the business down. It is not thought that there will be any redundancies.

The firm's Luxembourg and Dublin outfits are still in operation. While J.P. Morgan's three locations remained in action, the bank reported that 400 operations staff were employed, assets under administration were $500 billion, and 3 million investor trades were processed every year.

BNP Paribas launches depository services in Switzerland

Global custodian BNP Paribas Securities Services is set to continue the expansion of its European depository banking network by pursuing clients in the lucrative Swiss market.

This launch allows BNP Paribas's asset manager and asset owner clients with funds domiciled in Switzerland to benefit from the banks' established, pan-European expertise in depositary services such as cash monitoring, oversight and safekeeping of assets, as well as from its strength and stability as part of a major global banking group.

This new venture caps off what has been a productive year for BNP Paribas, which also saw it acquire the depository banking business of Commerzbank in Germany in November 2013.

BNP Paribas is now one of the largest depository banks in Europe, with nearly €900 billion in assets under depository and a network covering 12 fund domiciles on the continent alone.

Garrick Smith, head of BNP Paribas Securities Services Switzerland, said: "This new expansion is the result of an increasing desire from our clients to consolidate their operational services, including depotbank and custody services, in Switzerland. We have already won our first depotbank mandate in the market, from one of the biggest independent fund of fund managers in Switzerland."

Abu Dhabi licenses Apex under new fund regulations

The United Arab Emirates Securities and Commodities Authority (ESCA) in Abu Dhabi has granted Apex Fund Services a licence to provide fund administration services under the authority's new regulations.

The new regulations set out requirements for creating and distributing UAE domestic funds. It also transfers regulatory supervision responsibility from the UAE central bank to ESCA.

Each local fund is now required to appoint an investment manager, an administrative services company, a custodian and an external auditor. Apex is the first administrator in the region to receive a licence under the new regulations.

A statement said that the firm is in the unique position of being able to continue servicing existing onshore UAE funds while also offering approved managers with newly-domiciled funds the same high levels of service from locally based teams with a strong understanding of the revised Abu Dhabi regulatory system.

Robert Grindlay, managing director of Apex Fund Services in the UAE, said: "As global liquidity issues continue to ease, interest in onshore UAE funds is building and the ESCA is to be commended for its rapid introduction of strong governance which bring improved transparency and protection to investors."

State Street UK handed hefty fine over transition failings

State Street UK has been fined almost £22.9 million by the Financial Conduct Authority for overcharging its transition management clients.

State Street UK's transitions management business had developed and executed a deliberate strategy to charge clients substantial mark-ups on certain transitions, in addition to the agreed management fee or commission.

These mark-ups had not been agreed by the clients and were concealed from them.

Tracey McDermott, director of enforcement and financial crime, said: "State Street UK allowed a culture to develop in the UK TM business which prioritised revenue generation over the interests of its customers. State Street UK's significant failings in culture and controls allowed deliberate overcharging to take place and to continue undetected. Their conduct has fallen far short of our expectations. Firms should be in no doubt that the spotlight will remain on wholesale conduct."

Between June 2010 and September 2011, the FCA found that State Street UK's transition management business deliberately overcharged six clients a total of $20,169,603. State Street UK's clients include large investment management firms and pension funds holding the funds and savings of retail investors.

The systemic weaknesses in State Street UK's business practices and control environment around the UK transition business were so serious that the overcharging only came to light after a client notified staff that it had identified mark-ups on certain trades that had not been agreed.

Those responsible then incorrectly claimed both to the client and later to State Street UK's compliance department that the charging was an inadvertent error, and arranged for a substantial rebate to be paid on that false basis. They deliberately failed to disclose the existence of further mark-ups on other trades conducted as part of the same transition.

State Street confirmed that the individuals "centrally involved in the overcharging of transition management clients" were dismissed in 2011.

The FCA views State Street UK's failings to be at the most serious end of the spectrum. State Street UK acted as an agent to its transition clients and held itself out as being a trusted advisor. Accordingly, it breached a position of trust. Further, the overcharging accounted for over a quarter of its transition management revenue.

When the failings were uncovered, State Street UK was found to have breached three of the FCA's Principles of Business: it failed to treat its customers fairly; it failed to communicate with clients in a way that was clear, fair and not misleading; and it failed to take reasonable care to organise and control its affairs responsibly, with adequate risk systems.

State Street UK agreed to settle at an early stage of the FCA's investigation and has therefore qualified for a 30 percent discount on the £22.9 million fine.

In a statement, State Street said: "We deeply regret this matter. Over the past several years, we have worked hard to enhance our controls to address this unacceptable situation. The FCA in its notice is critical of our business controls within the UK transition management business and our control functions in the UK at that time. We acknowledge these as historical problems and have undertaken extensive efforts to address both, including strengthening the controls, procedures and governance within our UK transition management business."

"We are confident that we have addressed the weaknesses highlighted in the FCA's notice and as a result, have emerged as a stronger organisation."

Asset management is the new alpha in the wolf pack

Global assets under management will rise to around $101.7 trillion by 2020, from a 2012 total of $63.9 trillion, representing the move of the asset management industry to front and centre.

Research from PwC in its report, Asset Management 2020: A brave new world, also found that AUM in South America, Asia, Africa and Middle East economies are set to grow faster than in the developed world in the years leading up to 2020, creating new pools of assets that can potentially be tapped by the asset management industry. However, the majority of assets will still be concentrated in the US and Europe.

PwC predicts that AUM in Europe will rise to $27.9 trillion by 2020, from a 2012 total of $19.7 trillion.

Global AUM growth will be driven by pension funds, high-net-worth individuals and sovereign wealth funds. At the client level, the global growth in assets will be driven by three key trends: the increase of mass affluent and high-net-worth-individuals in the South America, Asia, Africa and Middle East region, the expansion and emergence of new sovereign wealth funds with diverse agendas and investment goals, and increasing defined contribution schemes, partly driven by government-incentivised or government-mandated shift to individual retirement plans.

PwC also predicted the transformation of fee models. By 2020, it said, virtually all major territories with distribution networks will have introduced regulation to better align interests for the end-customer, and most will be through some form of prohibition on having the asset manager allocate to distributors as evidenced in the UK's Retail Distribution Review (RDR) and MiFID II. This will increase the pressures of transparency on asset managers and will have a substantial impact on the cost structure of the industry.

The report also stated that traditional active management will continue to be the core of the industry as the rising tide of assets lifts all strategies and styles of management.

But traditional active management will grow at a less rapid pace than passive and alternative strategies, and the overall proportion of actively managed traditional assets under management will shrink.

PwC estimates that alternative assets will grow by some 9.3 percent a year between now and 2020, to reach $13 trillion.

Is fear in emerging market hedge funds unwarranted?

Though hedge fund performance was negative in January, falling an average of -0.6 percent, the industry broadly outperformed global equity markets.

An eVestment report described the beginning of 2014 as "a very difficult month", driven by an increasing uncertainty in emerging markets.

But while fear in emerging markets was to blame for much of the global equity markets' decline in January, not all was negative from emerging market hedge funds. Those targeting markets in Africa and the Middle East were able to post strong returns during the month, picking up where they left off after an excellent 2013.

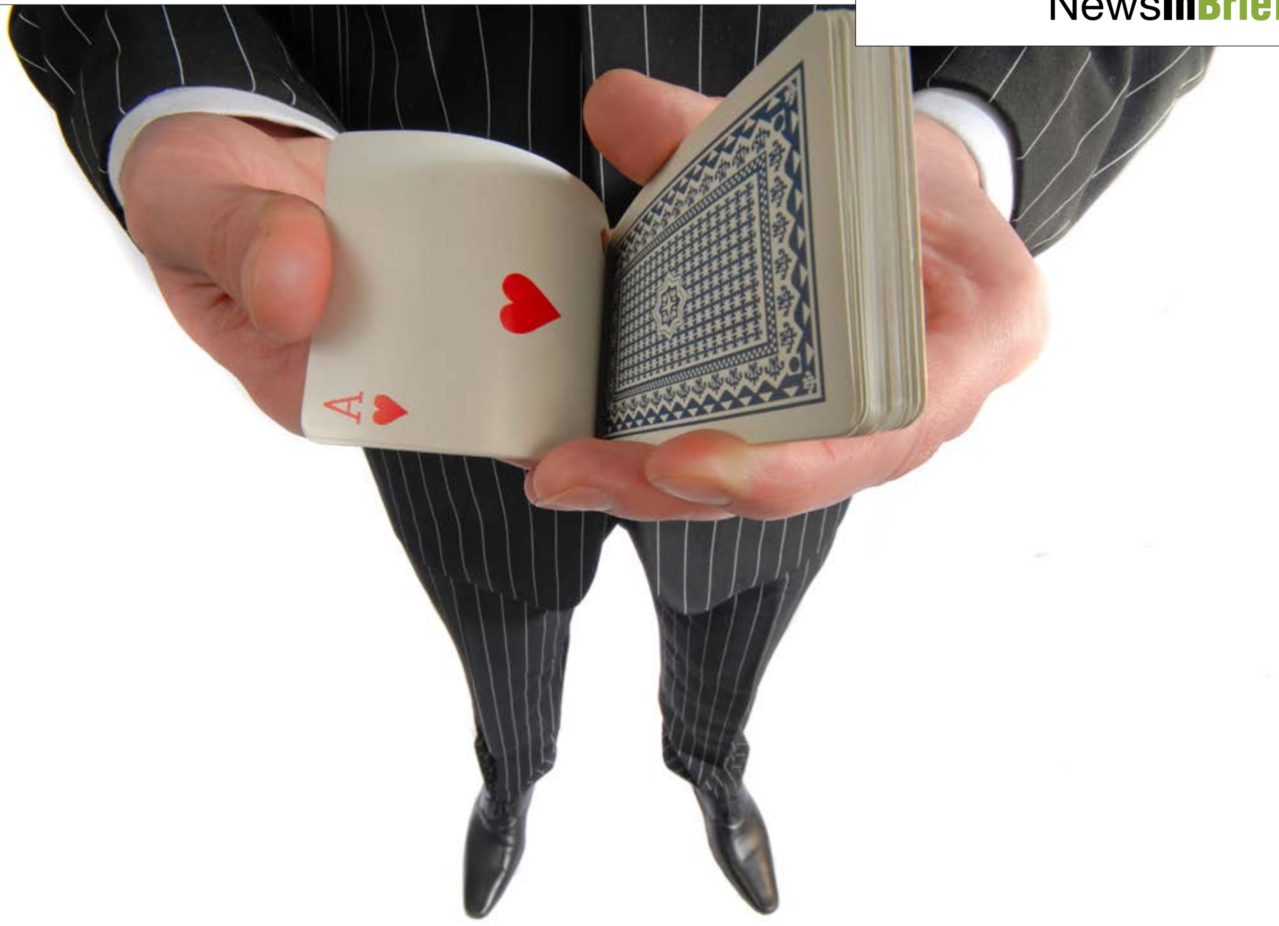
Volatility strategies, which lagged in the industry throughout most of 2013, were well positioned to take advantage of equity markets' uptick of fear. The group's January returns were their best in 17 months as the VIX volatility index spiked to its highest level in over a year.

Activist strategies were able to post positive performance amid equity market declines with an average return of 0.3 percent. "After leading most of the hedge fund industry in 2013 on the back of strong equity markets, it was interesting to see their good relative performance during what was a broadly negative month," said the report.

Directional equity strategies declined in January, but posted their largest outperformance of the S&P in more than two years.

Credit strategies also posted negative returns in January, the second down month in the last six. Directional strategies underperformed relative value in a period where longer term treasury yields declined, an indication of widening spreads across the groups' aggregated holdings and a decline in global risk appetite.

Mortgage-backed securities focused strategies were able to perform well in January, returning an average of 1.1 percent. The group has performed relatively well since their rare decline on the back of the rate spike in May 2013, said



the report, adding that investor redemptions emerged for the group in the second half of 2013, but returns have shown resilience.

Macro and managed futures strategies were unable to follow a strong Q4 2013 with continued success, and many funds which posted the best returns in December were the loss leaders in January.

Both large and small macro strategies declined during the month, but large macro managers again outperformed their smaller peers in January, the continuation of a trend seen in much of 2013.

Large managed futures strategies did not enjoy the same advantage in January as aggregate losses between large and small funds were generally on par.

Clearstream and VPS collaborate on collateral

Verdipapirsentralen ASA (VPS), the Norwegian central securities depository, and Clearstream have signed a letter of intent aimed at developing new collateral management services in Norway.

The new service will enable VPS to offer to Norwegian market participants the allocation, optimisation and substitution of collateral to cover domestic exposures.

VPS would offer these services on a white-labelled basis via Clearstream's fully automated real-time collateral management engine, the Global Liquidity Hub.

As a unique feature of the Liquidity Hub GO service, assets remain on accounts in the local market environment.

Clearstream is the only collateral management services provider that is able to manage collateral across time zones and regions while the assets stay in the respective domestic market and under local legislation, according to the Deutsche Börse Group subsidiary.

Going forward, the partnership between VPS and Clearstream will also help Norwegian financial institutions and VPS customers to overcome internal collateral fragmentation across systems.

John-Arne Haugerud, CEO at VPS, said: "Our partnership with Clearstream will provide Norwegian financial institutions with the means to keep up with the increasing collateral requirements of Norwegian and international regulations."

"From a risk perspective, it was particularly important that the underlying assets do not leave the Norwegian jurisdiction and this is guaranteed under the Liquidity Hub GO service. The Global Liquidity Hub offers more than a domestic solution and we will explore this potential along our journey with Clearstream."

Stefan Lepp, member of the executive board and head of global securities financing at Clearstream, said: "The regulatory agenda requires banks and financial institutions to better manage their capital and liquidity buffers."

"An efficient local and global collateral management service will become a must going forward—hence the growing popularity of our Liquidity Hub Go model through which our partners can offer sophisticated collateral management to their underlying clients without losing control over the assets. We are pleased about VPS joining our outsourcing service, thus including the first Scandinavian market in our global collateral management model."

Citi reshuffles jobs to create investor services group

Citi has integrated its services in a new platform, forming an "investor services group" that promises to address financing, execution, collateral management, custody and fund services.

Okan Pekin, global head of investor services, said in an internal memo that the integrated services platform would help as the business moves to adjust to more demanding capital, leverage and counterparty risk requirements.

The group will be run along four global product lines which will take responsibility for revenues, expenses, headcount, specialist sales teams where appropriate, as well as their technology and operations platforms.

The reshuffle involves a number of re-appointments within the firm. David Murphy, who previously ran prime finance in North America, will be appointed to lead prime finance globally which will also include delta one and agency securities lending.

David Martocci will continue to run agency securities lending globally and report to Murphy. Sanjay Madgavkar, global head of FX prime brokerage will report to Martocci in addition to his existing reporting line to Jeff Feig, global head of G10 FX.

Jerome Kemp will continue to manage futures and OTC clearing, which will be combined with collateral management. Rajen Shah will report to Kemp.

Sanjiv Sawhney, who previously headed securities and fund services in EMEA, will run global custody and alternative investor services. Sawhney will oversee the growth of Citi's global custody platform and also head up its hedge fund, private equity and wealth services businesses.

Mike Sleightholme, Joe Patellaro and Boaz Lahovitsky will report to Sawhney. Sawhney will also oversee Citi's strategy function run by Joe Pandolfi.

Pat Curtin, previously the head of long fund services will manage global fund services, which will include fund administration, transfer agency and middle office services. He will work closely with his operations and technology partners to consolidate Citi's platforms, build in-house technology assets and automate its processes.

Alan Pace, currently the head of prime finance and futures sales will run global sales for investor services, which will combine all sales and client facing functions across the business. Pace will partner with Dirk Jones over the coming months to create an integrated sales organisation, and Jones will transition to his new role as global head of issuer services by the end of April once the sales integration has been completed successfully.

Richard Gordon will run operations for investor services, reporting to Jon Beyman and Mike Whitaker. Gordon is a new hire from Deutsche Bank where he was the COO of the global risk organisation.

Mary Fenoglio will manage custody operations across global custody and direct custody and clearing (DCC), also reporting to Jon Beyman and Mike Whitaker as well Lee Waite, global head of DCC.

Regional leaders are as follows:

Shahmir Khaliq will run investor services in North America, reporting to Suni Harford, head of markets and securities services for North America. The memo said that a new role for Bob Wallace would be announced in due course.

Nick Roe, who previously ran prime finance and futures, will be responsible for investor services in EMEA. David Russell, who previously managed securities and fund services in Asia, will run Asia including Japan. Alejandro Berney will continue to manage Latin America and Roberto Gonzalez Barrera will continue to oversee Mexico.

The memo also stated that the new fiduciary head for the investor services group would be announced soon.

Calastone builds on its Asia foundation

Aviva, a life and health insurer in Singapore, and Navigator Investment Services, an Aviva-owned integrated investment portfolio administration service, have both chosen to use Calastone's order routing services.

With Aviva and Navigator joining the service, financial institutions signed up on Calastone's electronic order routing service account for over half of all fund orders originating from Singapore fund distributors.

The firm has experienced considerable growth in the Asia-Pacific region in terms of new clients and transaction volume. Twenty-five fund distributors and more than 70 domestic and cross-border fund managers are now signed up to the Calastone transaction network in the region.

Carrhae Capital takes up treasury service

HazelTree has successfully implemented its next generation treasury system at Carrhae Capital.

Carrhae is an independent, London-based asset management firm that focuses on global equities that have substantial exposure to emerging markets. The company experienced sustained growth and net returns of over 18 percent for 2013 on composite assets under management.

Carrhae is joining a group of London-based funds that have decided to use HazelTree to support growth objectives in the face of increased investor demands and new regulation and compliance environments.

The increased focus on upgrading treasury management infrastructures highlights a continued trend among European funds to enhance business models to address investor requirements and more diverse and widespread regulation, according to HazelTree.

Adrian Headon, the fund's COO, said: "We did extensive due diligence on HazelTree and were quite impressed with what they have achieved in creating a single treasury platform for hedge fund managers."

"Their systems are no doubt best suited to our requirements and allow us a new level of control over our treasury functions. This increased control is a significant part of our growth strategy, as inevitably the focus on operational efficiency and strong counter party relationships will rise as we expand our business and grow assets under management."

Stephen Casner, CEO of HazelTree, said: "[We are] excited about Carrhae joining the growing list of top-tier hedge funds that use our products. Over $150 billion in assets are tracked in our systems every day by fund managers in London, Zurich, New York, San Francisco, Hong Kong and Singapore. We help these managers improve relationships with 12+ prime brokers, 50+ OTC trading organisations and multiple custody banks."

Euroclear attracts five new fund managers

Euroclear UK & Ireland has signed up five more UK fund managers to its investment fund service this year.

These investment firms have chosen to automate the settlement and reconciliation phase of their funds' transaction processing cycle with the UK central securities depository.

The fund managers already use Euroclear UK & Ireland for automated order routing. The funds managers are Aviva Investors, Legg Mason Global Asset Management, Martin Currie Investment Management, Neptune Investment Management , Royal London Asset Management.

Katrina Sartorius, head of product management at Euroclear UK & Ireland, said: "The momentum we saw last year has continued into 2014 with five more investment managers choosing the benefits of our established funds offering.

"We welcome Aviva, Legg Mason, Martin Currie, Neptune and Royal London which are now benefitting from Euroclear UK & Ireland's robust, cheap and efficient investment funds service. They join other leading funds managers such as M&G, Aberdeen and Invesco."

Clearstream AUC rises 6 percent

Clearstream's assets under custody increased by 6 percent year-on-year, results showed.

AUC held on behalf of our customers in January 2014 remained at a peak of €12 trillion, and there was custody growth in both international (ICSD) and German domestic CSD business.

Securities held under custody in Clearstream's international business as international central securities depository (ICSD) increased by 7 percent from €5.9 trillion in January 2013 to €6.3 trillion in January 2014, while domestic German securities held under custody in the German central securities depository (CSD) increased by 5 percent from €5.3 trillion in January 2013 to €5.6 trillion in January 2014.

In January 2014, 3.9 million international settlement transactions were processed, an 8 percent increase over January 2013 (3.62 million). Of all international transactions, 79 percent were OTC transactions and 21 percent were registered as stock exchange transactions.

On the German domestic market, settlement transactions in January 2014 reached 7.48 million, 10 percent more than in January 2013 (6.78 million). Of these transactions, 66 percent were stock exchange transactions and 34 percent OTC transactions.

For global securities financing (GSF) services, the monthly average outstanding in January 2014 reached €571.9 billion. The combined services, which include triparty repo, securities lending and collateral management, collectively experienced an increase of 4 percent over January 2013 (€548.8 billion).

Investment funds services (IFS) processed 0.78 million transactions in January 2014, a 16 percent increase over January 2013 (0.67 million).

Philip Brown, head of global client relations and member of the executive board of Clearstream, said that a strong start to the year was a sign of continued strength in asset volumes.

"We are experiencing increases across all our business areas, be it the number of transactions we are processing or the volumes derived from our global securities financing and investment funds services business areas."

China Life selects Markit for asset management

China Life Asset Management Company has selected Markit's enterprise data management platform for asset management.

The platform will act as a central hub for all of CLAMC's securities, pricing, positions and transaction data.

After a competitive pitch involving an extensive list of international and local EDM vendors, Markit's implementation record stood out as did its ability to meet CLAMC's broad set of needs.

Daniel Simpson, managing director and head of enterprise software at Markit, said: "This is a significant contract to win in the Chinese market. Our insurance asset management credentials, experience with the software platforms used by CLAMC and local presence were deciding factors in our successful bid."

China Life Asset Management Company is among the first insurance asset management companies founded in China. Co-funded by China Life Insurance Company and China Life Insurance Company Ltd, CLAMC has $300 billion in assets under management and is the largest institutional investor in China's capital markets.

Deutsche Bank appointed depository of Asciano

Deutsche Bank has been appointed as depository bank for the non-capital raising sponsored Level I American depository receipt programme of Australia-based Asciano Limited.

Asciano is Australia's largest national rail freight and cargo port operator. The company is an Australian provider of critical logistics services within essential infrastructure-based supply chains.

Asciano occupies all major segments of the import, export and domestic supply chains to provide a freight service offering.

The company has annual revenues of $3.3 billion and employs more than 8000 full-time employees across Australia and New Zealand.

Naomi Flutter, head of global transaction banking in Australia and New Zealand at Deutsche Bank, said: "We are delighted to be appointed as the depositary bank for Asciano's ADR programme. We look forward to working to enhance Asciano's ADR programme visibility and to broaden its investor base."

Chapman's Eye on the market

What's the only type of doughnut guaranteed not to make you fat? The one you receive at bonus time

Yes, that's right, the annual fear-fest that is bonus time is upon us. With it comes dreams of Ferraris, ski chalets, Caribbean cruises and happy partners, as well as nightmares of having to pull the kids out of private school, make do with the old car for one more year at least, and not being able to even pay off last month's credit card bill. Back in the old, bold, golden days of course, there were few such worries—whatever your firm's/division's/personal performance, you were guaranteed to receive your fair share of the spoils, and that figure was not overly dissimilar from that of the highest individual performer's.

Then, slowly but surely, the concept that 'a bonus is a bonus' crept in, with variable remuneration being broadly tied to pre-set criteria and overlaid against a performance scale of one to five, with 'one' (the top performer) receiving significantly more than the poorest performer. Managers were themselves rewarded with how many of their people they fit into the 'perfect hump', with a few folks at the bottom, a couple at the top and most in the middle. Firms liked this idea of 'rewarding performance' and hence extrapolated the concept out so that, until fairly recently, a top performer received the bulk of rewards and a 'two' received the balance, meaning in even a 'three', who 'meets targets', and below, received nothing.

However, this concept falls down in several areas. Firstly, given the increasing intertwining of securities services divisions with capital markets, if a significant loss occurs in the latter then the former's total bonus pool can be wiped out, resulting in the dreaded 'doughnut' or zero bonus. Secondly, in recent years, a number of high quality salespeople have been drawn into the securities services space from a vendor background where they were used to a lower base but higher and quantifiable commission structure; if they sold X then they would be guaranteed to receive Y. For banks to attract these type of highly motivated—albeit more transactional than they had been used to—salespeople, they had to offer a similar structure, or at the very least a hybrid structure of discretionary bonus with a fixed commission structure, which is now increasingly becoming the norm.

Anecdotal evidence from bonus announcements so far this year—notwithstanding banks that have unfortunately announced redundancy programmes at the same time as they are due to pay these merit awards—are that top achievers are, overall, 10 to 15 percent up on last year with people just behind that level staying roughly flat. As these merit rewards are very good proxies for how highly you are regarded in the company, if you outperformed your peers and your targets and still receive a lower bonus, then you may feel justified in taking your labour elsewhere.

As ever, if you'd like to comment on or discuss any of the above, do drop me a line at paul@hornbychapman.com

Paul Chapman, managing director, HornbyChapman Ltd

Mandate Mangle

State Street will provide a range of pension fund solutions, including custody, to Etera Mutual Pension Insurance Company.

Etera is a mutual employment pension insurance company. It provides pension cover for employees and self-employed persons and promotes well-being at work.

State Street will provide custody, fund accounting, transaction management, securities lending, futures clearing, agent fund trading, daily risk services, OTC derivatives servicing and collateral management for more than €5.6 billion in assets under management.

Jari Puhakka, chief investment officer of Etera, said: "Given the Finnish and European regulatory challenges facing the industry, and our enhanced investment strategy we needed to look to future proof our current business model. The ability of State Street to address our needs and provide a holistic solution to our liabilities was extremely important to us."

Paola Bergamaschi, head of asset owner solutions for State Street in Europe, the Middle East and Africa, said: "Asset owners need access to real-time data to optimise their investment decisions. This helps explain why almost nine out of 10 asset owners plan to invest in order management and execution management systems over the next three years."

"We're pleased to be able to bring our expertise of servicing some of the largest pension funds globally to meet Etera's specific requirements, and help them build a strong business going forward."

BNY Mellon has scored a fund administration and securities lending mandate with Aon Hewitt on two of its Irish-domiciled fund ranges with assets of roughly £4 billion.

The bank will provide performance and risk analytics, securities lending and portfolio hedging to Aon Hewitt, which provides fiduciary management services to UK pension schemes.

George Mortimer, UK chief operating officer for Delegated Consulting Services at Aon Hewitt, said: "We were looking for an innovative solution to optimise our Irish fund structure, in a way that leveraged to the benefit of all our clients the $45 billion of delegated assets we have globally. BNY Mellon's commitment to designing and implementing the right solution for us was a key factor in our decision."

Hani Kablawi, EMEA head of asset servicing at BNY Mellon, said: "Our ability to take a fresh and innovative approach to providing a solution that can support Aon Hewitt's growth plans across the region was key to their decision to select BNY Mellon. This new mandate will see us providing Aon Hewitt with a broad range of flexible solutions and services and we look forward to further developing our relationship with them."

Societe Generale Securities Services in Italy has picked up a mandate by Italian energy pension fund, Fondenergia, to act as its depository bank.

SGSS provides European pension funds with a service built around asset protection, performance and reporting.

SGSS SpA was picked by Fondenergia for its capacity to provide clients with innovative solutions capable of meeting their operational needs in a constantly evolving regulatory environment, said a release.

Through this mandate, Fondenergia benefits from custody and depository bank services for fund monitoring and trustee services to ensure that all the controls required by the Italian regulator are met for full compliance in order to reach its investment goals.

SGSS in Italy offers settlement, custody and trustee services, fund administration, middle-office services, risk and performance, liquidity management and transfer agent services.

Fondenergia is a contractual pension fund for employees in the Italian energy industry. At the end of 2012, assets under management totalled around €1.27 billion and the estimated net contribution assets will amount to around €100 million for 2013 and the following years.

Around 40,000 members subscribe to the fund.

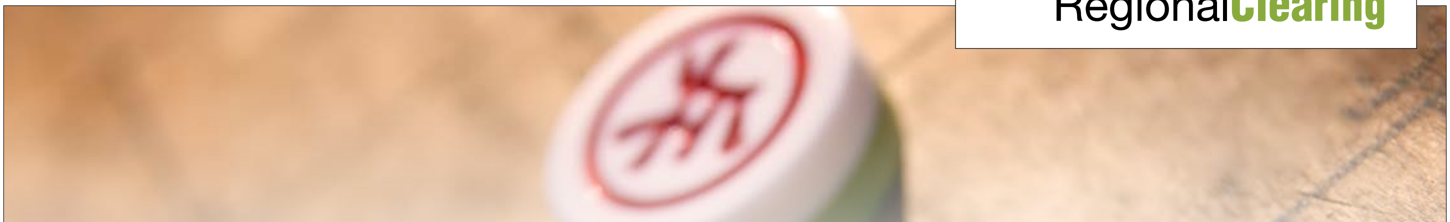
SGSS has also been engaged by IntercontinentalExchange (ICE) Group to manage the exchange of securities on the Euroclear Clearing Systems following its merger with NYSE Euronext.

ICE completed its acquisition of NYSE Euronext in November 2013 and SGSS was engaged to centralise the withdrawal of all the NYSE Euronext shares that were listed on the Paris Stock Exchange and held by financial intermediaries on behalf of shareholders.

These shares were exchanged against ICE shares and cash redemptions, annulling the former shares and creating and admitting the new shares for trading. SGSS is now processing all fiscal aspects resulting from the operation.

This process includes recuperating the withholding tax that is automatically applied to non-US residents in the US so that each NYSE Euronext shareholder, under certain conditions and through their financial intermediaries, is able to recuperate the amounts that were deducted.

The quality and reliability of service support provided by SGSS, along with its recognised market experience and international fiscal expertise, were key factors in ICE's decision to select SGSS to accompany it through this transition, the company said. **AST**



Solving the eastern puzzle

Distinct operations in each Asian market can be costly and inefficient, but there are opportunities to consolidate processing, says GBST's Denis Orrock

Enormous change is being seen across the globe, as financial institutions strive to lower costs to remain competitive in the face of lower revenues, increased regulatory supervision, and mandatory prudential controls. This has focussed attention on reducing the costs of service delivery through increased use of lower cost providers of standardised services, and a desire to consolidate processing in lower cost locations.

The southeast Asian region offers opportunities for consolidation of processing to support multiple markets and to take advantage of competitive staff and operational costs. Historically, investment banks and brokers servicing global institutions have established branch offices in nearly all southeast Asian markets. After establishing the required market and clearing and settlement participation each office is staffed with dealers, operations, support, and IT staff. A settlement system is either provided by the exchange, purchased from a vendor or developed based on an existing in-house system modified to support local requirements. The use of multiple independent branch offices can incur significant operational inefficiencies with resultant costs and risks, including:

- Multiple vendor relationships in respect of systems that fundamentally perform the same functions, but in different markets;
- Duplication of back-office operations for each market being serviced;
- Increased overheads leading to a higher cost per transaction;
- Inconsistent levels of STP, and;
- Difficult or non-existent consolidated reporting, often not in real-time.

In the stockbroking industry nearly all Asian markets now operate on similar basic principles—electronic clearing and settlement, centralised settlement novation, delivery versus payment and electronic messaging. Despite this, most brokers still maintain distinct and costly operations in each market. Until now, the only way to centralise these operations and reduce costs was by building and integrating systems in-house, of which high volumes were required in each market to justify the cost of integration.

Asian markets are unlikely to see the same level of cooperation and consolidation as markets have seen in western Europe. This is mainly due to cultural and political differences between markets, no single currency and the lack of an over-riding union of nations. Instead, the developing markets are working to increase their attractiveness, risk profile and liquidity by enhancing regulations, IT infrastructure and settlement practices to become more in line with established markets.

As Asian markets continue to mature and compete to attract investment from more developed markets, standardisation of market practices and new outsourcing capabilities will allow global investment banks and brokers to benefit from more efficient regional processing models. Standardisation of transaction profiles across each market creates the opportunity to centralise processing of standard business functions. This would lower costs and risks for regional participants and allow them to better service their client's global investment needs.

Centralisation of standard processing can deliver significant benefits, but further efficiencies may be achieved by outsourcing centralised operations to a business process outsourcing partner, preferably located in a low-cost country. Unfortunately to date, business process outsourcing has proven difficult for multi-market securities processing due to language barriers, communications costs and market-specific regulation.

The move to outsourced business processing is yet to see significant growth in the provision of clearing and settlement services in Asia. Although some of the larger investment banks are working to centralise operations regionally, full outsourcing of operations is currently limited by market regulation, systems integration issues and the requirements of local market interfaces. There are several ways in which centralised processing can be supported:

- Outsourcing all post-trade clearing and settlement processing to a BPO, which provides a standardised service across the relevant markets.
- Using a regional processing application and centralised operations staff but outsourcing market specific functions to an entity with established connectivity and expertise in the relevant markets.
- Using a regional processing application and centralised operations staff integrated with existing local connectivity capabilities.

The full outsourcing option can vary from a full third party clearing service which includes provision of regulatory capital to an account operator model where the business process outsourcing only provides processing services on behalf of the outsourcing entity. Take up of third party clearing services in southeast Asia has been limited by local market regulations which do not provide support for the business model. The account operator model is limited to outsourcing operational processing while the required regulatory and operational capital costs remain with the outsourcing entity.

The combination of regional processing capability with outsourced local connectivity should support the use of global systems that use standardised interfaces for common business processes. The model will require a business process outsourcing, that has established connections to the local clearing and settlement infrastructure and is prepared to offer standard interfaces suitable for use by a centralised multi-market processing application.

Major global custodians are increasingly extending their services to offer these types of capabilities as they typically have the required linkages to the regional central securities depositories. The trend for these entities is to extend their existing settlement and custody services to support more components of the trading, clearing and settlement of equities.

The third option combines the centralised processing model with existing local connectivity capabilities. It aims to remove the redundancy inherent in having multiple separate offices performing the same functions. Development of the required translation layer which converts industry standard instructions to and from the required local format is a significant task, particularly for entity without significant internal IT expertise. **AST**

Denis Orrock
Chief executive of capital markets
GBST

Are you managing your collateral effectively?

The buy side will need to look to sell-side firms and their global custodians for assistance with tricky collateral raising and allocation, says HSBC

Demand for collateral is increasing and so is the cost. Collateral therefore has to be managed more effectively.

The use of collateral to secure cash loans, securities lending, repurchase agreements (repos) and other transactions has grown enormously in recent years as a result of market and regulatory change, and will continue to grow.

Since the global financial crisis, lenders and other market participants anxious to manage their credit risk exposures more carefully have asked for more, and higher quality, collateral from their counterparties. Furthermore, in many parts of the world, repos have gained in popularity as a source of financing, especially among dealers in bonds and derivatives, and this in turn has boosted demand for collateral.

Meanwhile, regulators, intent on reducing systemic risk, have introduced rules that are imposing greater collateral requirements on banks and other financial institutions. Under Basel III, for example, which has just come into effect in Europe through the Capital Requirements Directive IV and the Capital Requirements Regulation, banks must meet a liquidity coverage ratio; this means holding sufficient high-quality liquid assets, mainly in the form of government bonds, to withstand a 30-day stressed funding scenario.

The rules on the clearing of over-the-counter (OTC) derivatives transactions, which are currently being introduced in Europe, the US and several other jurisdictions, will also force sell- and buy-side firms to provide more collateral. In Europe, the European Market Infrastructure

Regulation (EMIR), which is being phased in and should be fully in force by September, requires that all standardised OTC derivatives contracts be cleared through central counterparties (CCP), and with this central clearing requirement comes an obligation to post margin as security.

The European Securities and Markets Authority (ESMA) ultimately decides which contracts should be defined as 'standardised' and therefore subject to the clearing obligation, though national regulators will have a say in the matter too. Non-standardised contracts that are not cleared centrally (that is, they are cleared bilaterally between the two trading parties) are subject to even higher margins to reflect their greater risk.

As for OTC derivatives clearing in the US, Title VII of the Dodd-Frank Act now requires eligible products (ie, eligible swaps) to be cleared through regulated CCPs. Initial and variation margins are required for all centrally cleared swaps to help reduce risk in the market. Dodd-Frank uses the term 'swaps' as a synonym for 'OTC derivatives', even though swaps are just one type—albeit the main type—of OTC derivative.

The Securities and Exchange Commission and the Commodity Futures Trading Commission, the two main relevant regulators, will determine which swaps are defined as 'eligible' and should be cleared centrally, but far fewer will escape this requirement than in Europe.

Collateral implications for OTC derivatives

Repos have gained in popularity as a source of financing, especially among dealers in bonds and derivatives, and this in turn has boosted demand for collateral. Mandatory central clearing for OTC derivatives transactions will therefore dramatically increase the collateral requirements for sell-side and buy-side firms. For many buy-side firms, it will be the first time they will have had to pledge collateral on their OTC positions because, under the old rules, collateral on bilateral OTCs was optional. Even if they already posted collateral on their OTCs, they are unlikely to be posting both variation and initial margins on a daily basis.

Sell-side firms, on the other hand, are used to these types of collateral arrangements. It is the buy-side firms, therefore, that will be hardest hit by these regulations as they struggle to cope operationally to manage and source the required collateral.

The three key implications, therefore, are as follows:

- For centrally cleared transactions, firms will have to post an initial margin as collateral with the CCP. Posting of initial margin on OTCs is completely new for most buy-side firms. The precise margin requirements will be determined by the clearinghouse where the trade is cleared.
- For centrally cleared transactions, firms will also have to post a daily variation margin with the CCP. Under the old regime for bilaterally cleared OTC derivatives, posting of variation margin as collateral was optional, not mandatory. Again, the precise margin requirements will be determined by the clearinghouse where the trade is cleared.
- For non-centrally cleared transactions (ie those that are cleared bilaterally between the two parties to a transaction), there will be a different collateral process, and firms will have to post higher initial and variation margins than for centrally cleared transactions. The Basel Committee on Banking Supervision and the International Organization of Securities Commissions have developed detailed margin requirements for non-centrally cleared derivatives, which will be adopted by the EU, the US and other countries to ensure consistency around the world.

Needs must

The collateral raising and allocation process will therefore become much more important and complicated than hitherto. Whereas sell-side firms—investment banks, prime brokers and broker-dealers—will take it all in their stride, because collateral management is a core function for them, buy-side firms—asset managers, pension fund managers, sovereign wealth funds, insurance companies and end investors—will in most cases find it more of a challenge. Buy-side firms will need to look to sell-side firms and their global custodians for assistance.

Collateral management services for buy-side firms come in two main forms. The first is collateral optimisation. This is about finding and using collateral in the most effective way, based on a firm's precise needs. The key factors include the sort of assets to use, in which country the collateral is to be provided, how quickly collateral is needed and, of course, the cost. The second service is collateral transformation. This is the process of transforming lower quality assets into higher quality assets needed as collateral to support a firm's particular transaction and can be done through securities borrowing. The firm will borrow high-quality assets from a securities lender (such as a fund manager, insurance company or a custodian acting as an agent lender) and provide lower-quality assets (such as corporate bonds or equities as collateral). Securities borrowing and lending is only one way of transforming collateral; another option is repos, which can be used to generate cash in return for non-CCP-eligible securities.

Depositing collateral with a securities settlement system

An important aspect of EMIR is Article 47 (3). It states that collateral posted by a firm as a margin to a CCP should be deposited with the operator of a securities settlement system (SSS) if one is available. In such cases, the firm's custodian will not be allowed to hold the collateral; it will be held by a party the firm did not select. This may mean having to accept terms, conditions and counterparty risks it would otherwise have not accepted.

Another drawback of depositing collateral with an SSS is that firms will find it harder to get real-time information on it than if it was held with their custodian. This will make the whole process of collateral mobilisation and optimisation more difficult. It is not clear why regulators believe that depositing assets with an SSS is preferable to leaving or depositing them with a custodian. Custodians have robust asset segregation models in place where assets are legally separated and held in a bankruptcy-safe model. In some cases, an SSS will have to use local custodians to hold assets anyway.

Striking the right balance

Organisations like the International Capital Market Association (ICMA) and the International Swaps and Derivatives Association are coordinating the industry's approach to collateral management. They are developing strategy, education and information sharing, and lobbying legislators and regulators on matters of concern.

ICMA's Collateral Initiatives Coordination Forum, set up in 2012, notes that "collateral demands will significantly outstrip supply, so it is essential that collateral be managed as a scarce resource". It adds, "Given the competing demands that exist for the use of collateral assets, the management of collateral needs to encompass the deployment of optimisation techniques—to ensure that the available collateral is utilised as effectively and efficiently as possible."

At HSBC, we believe that the introduction of central clearing for OTC derivatives transactions and the obligation to post margins—along with the obligation to post even higher margins for non-centrally cleared transactions—is a positive development. It will improve the management of counterparty credit risk and make the financial system sounder. Granted, it will increase demand for collateral, raise costs and reduce investor returns. But if the right balance can be struck, it will be worth it. **AST**

John Van Verre
Global head of custody
HSBC Securities Services

Rebuilding blocks

The damage caused by banking scandals may have been minimised by an event-driven reconciliation solution, says Todd Sloan, senior vice president of reconciliation systems at Electra Information Systems

Automated reconciliation solutions were once considered a luxury, but today there is a global trend towards adoption of solutions that can automate the collection and validation of investment data while identifying and providing a workflow for managing exceptions.

There are four primary factors driving the increase in reconciliation investment by investment managers, the weight of each factor varying across firms. Investment managers have an increasing need for robust reconciliation capabilities that extend beyond the traditional reconciliation of positions, transactions and cash. Additionally, the current regulatory challenges are driving firms toward improving efficiency and reducing overall operational risk, using reconciliation as a key tool. Thirdly, margins have decreased while transaction volumes have risen, forcing firms to look for ways to reduce the additional costs associated with a manual environment. Finally, investment managers are facing a comprehensive operational due diligence process that includes a thorough examination of their entire trade lifecycle with post-trade processing in the spotlight.

Today's reconciliation solutions have moved far beyond the basic reconciliation of positions, transactions and cash data. Investment managers have expanded their use of these tools to include the reconciliation of security master information, pricing, profit and loss, NAV, collateral and investment data between internal systems. To highlight the importance of internal reconciliation between systems, consider the post-mortem around the UBS trading scandal of 2011.

According to sources, UBS admitted to the US Securities and Exchanges Commission that its internal controls were "not effective" in identifying the fraudulent trading activity. The same can be said for similar scandals such as Barings and Societe Generale's failure to identify unauthorised trading activity. There are no guarantees that an event-driven reconciliation solution would have prevented the unauthorised trading, but it certainly may have helped to minimise damage by identifying the activity much earlier in the process.

Increasing regulations have also caused heightened interest in reconciliation investment, as investment managers are under pressure to demonstrate transparency around their business processes to help identify compliance issues and operational risk. Regulations such as the US Dodd-Frank Act and the European Market Infrastructure Regulation demand more transparency and accountability, while introducing additional reconciliation requirements beyond the firm's existing responsibilities. For example, trade repositories are required to perform portfolio reconciliations under Dodd-Frank, though the regulation does not explicitly ask that buy-side investment managers reconcile against the trade repositories.

Consequently, many investment managers have stated they are looking to automate reconciliation to ensure they have an accurate view of what is being held at the trade repository. There are additional reconciliation mandates that are applicable to investment managers that will be labelled Major Swap Participants according to the US Commodity Futures Trading Commission's definition, who will be required to reconcile at specific frequencies depending on their swap trading volume. It's likely that the new regulatory landscape will introduce further reconciliation requirements and firms who have implemented an automated reconciliation solution will be well positioned to manage the additional workload.

Reduction of operational costs is another important factor in the increase in reconciliation investment. For many firms, the back-office holds the largest number of employees and experiences the highest turnover. Automating the reconciliation process not only reduces the headcount needed to manage their activities, it also eliminates the mundane aspects of daily reconciliation that could potentially lead to employee dissatisfaction and turnover. Whether it be the reduction of staff needed to support reconciliation due to heightened scalability, or the elimination of costs associated with staff turnover, it's clear that introducing an automated solution can reduce the operating costs associated with a manual environment.

Operational due diligence is another factor in this investment increase. In the post-Madoff era, investors are not only looking at performance, but the underlying technology that promotes transparency and helps to mitigate risk. Solutions that automate business processes while providing robust audit capabilities around the activities of staff are in high demand as they satisfy the requirements of both investors and regulators. When you consider the fact that roughly half of all hedge funds who go out of business can attribute their collapse to an operational process breakdown, it makes sense that investors would employ a comprehensive operational due diligence process that helps identify processes that are not automated and thereby fraught with risk.

The due diligence process helps investors identify which investment managers have the proper controls in place to minimise risk involving people, processes and systems. Investors want to know that the firms they invest in have the necessary tools to deal with operational issues when they surface. By investing in reconciliation technology, investment managers are showing clients and prospects that they are serious about mitigating operational risk.

There is no question that interest in automating reconciliation has never been greater. Faced with tough mandates from regulators, and even tougher demands from investors, investment managers are turning to automated reconciliation solutions as a way to improve operational efficiency, mitigate risk and reduce costs. **AST**

Staying accountable

Potential heavy legal fees had put Hong Kong investors off bringing class actions in the past, but progress in government may encourage better behaviour from firms, says Jonathan Hu of Goal Group

Class action cases are no longer solely focused on the US but are being filed in multiple legal systems throughout the world. This international diversification of class actions can be attributed to a combination of restrictions on jurisdiction definitions in the US federal courts, along with a growing desire to develop domestic class action procedures in many countries around the globe. In the US, F-cubed actions—which involve a non-US shareholder suing a non-US company, whose stock was purchased on a non-US exchange, and who is bringing a case in a US court—have effectively been banned by the 2010 Morrison versus NAB Supreme Court ruling.

Although the US is still the most dominant legislature, plaintiffs are now instigating litigation in more flexible jurisdictions globally. International companies listed on multiple exchanges must now defend themselves against securities class actions in multiple jurisdictions, and there is a growing pressure of global class action cases looking for a home in legislatures that are able to define and prosecute a global class.

Alongside this development, greater emphasis has been placed on the importance of fiduciary duty and corporate governance reform where malfeasance or negligence leads to a significant loss in investment value. Fiduciary duty increasingly includes responsibility for identifying and ensuring participation in relevant securities class actions to enable clients to reclaim rightful returns where the value of investments has been wrongly damaged. Failure to engage in class actions can leave billions in unreclaimed settlements, compromise fiduciary integrity and portfolio returns, and prejudice clients' potential entitlement to legal redress.

The Netherlands and Australia, for example, already have class action legislation and a framework in place to allow non-US investors in shares listed on a non-US exchange, to pursue securities class actions in their courts. In east Asia, Japan has a lively legislature processing securities class actions cases, and China is likely to introduce more stringent corporate governance and securities standards in the near term. In South Korea, securities class actions were given a kick start with a filing in 2009 that breathed life into the Securities Class Action Act which had until then not been exercised.

It is quite possible that Hong Kong could become one of the next Asian legislatures to allow global securities class actions. In May 2012 the Hong Kong securities regulator proposed introducing legislation, however, this new regulation would initially only apply to product liability and consumer fraud cases, and not to purchasers of securities. Nevertheless, the announcement heralds definite progress in a legislature where investors seeking damages are often deterred from litigation as losing parties must cover their opponent's legal fees.

One Hong Kong based financial services regulatory lawyer has commented that allowing class actions in Hong Kong could drive a change in mindset and behaviour in the market, as it would encourage higher standards of corporate governance and management behaviour.

The Shareholder Protection and Corporate Governance forum, held in Amsterdam on the 30 January, has highlighted a need for stronger corporate governance across Asia. A talk by Michael Woodford, a former president of Olympus, who exposed fraud within the corporation and therefore prompted reform, highlighted the probability that more accountability is needed in corporate Japan. In addition, the latest NERA Economic Consulting data presented by Robert Patton showed that, in 2013, almost half of US filings against non-US companies were against Chinese corporations.

Class actions frameworks are being introduced at a rapid rate. Fiduciaries will be faced with a growing risk of being sued if they do not ensure their investors are included in class actions across the globe. Being able to participate in a class action within one's own jurisdiction is important; however Singapore is an example of how, despite securities class actions being allowed, it has never been more important for investors and fiduciaries to successfully monitor securities class action opportunities throughout the world.

GIC and Temasek are corporations owned by the Singapore government and are the two largest sovereign wealth funds in the world. They effectively invest the livelihood of Singaporeans because their funds provide Singaporean pensions. According to its website, GIC has over 44 percent of its investments in Americas and 25 percent in Europe where class actions are vibrant. Similarly, Temasek has a combined 25 percent of its investment in North America, Europe, Australia and New Zealand.

Goal Group has calculated that securities class action settlements for the Asia-Pacific market will reach \$3.44 billion by 2020. As securities class action legislation flourishes within the Asia-Pacific region with legislatures such as Hong Kong looking to expand the cases it allows, it is still important to remain vigilant about international opportunities to prosecute securities class actions in order to reclaim losses.

> "Allowing class actions in Hong Kong could drive a change in mindset and behaviour in the market, as it would encourage higher standards of corporate governance"

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

Specialist service providers can now automate the complex process of class action participation across international legislatures at a relatively low cost. On this basis, any argument that complexity, cost and time should be a reason for not making a claim would appear to be very weak indeed. **AST**

Jonathan Hu
Director of sales and relationship management for APAC
Goal Group

The leapfrogger

Asia has been able to jump straight from manual processing to an electronically automated transaction process, but Asian distributors must be incentivised to move from fax to message, says a panel of experts

How would you differentiate transfer services in Europe from Asia or America, and do you adapt your business regionally?

Jonathan Willis: On the one hand, we differentiate our services regionally but on the other hand have a global approach through our global service model to the way our business works.

It's about economies of scale. The administration activities between Asia Pacific (APAC) and Europe, Middle East and Africa (EMEA) use the same base technologies. We operate a global model and layer the clients' local needs on top to ensure that they get a service, which is scaled globally with the essence of a localised and regionally compliant service. We focus on our understanding of local market practices, regulations, distributors and history to support our clients in rapid entry and MI provision.

Our discussions indicate that rather than wanting differentiated service models region by region, there is a good level of matching services that the distributor populations are looking for—particularly those who operate in multiple regions.

Paul Roberts: The key is to recognise the differing market structures that exist across each region. European markets, although more aligned than those in Asia, still face the challenge of being fragmented and less standardised than America. The continuing drive of regulation throughout Europe is slowly moving us in the right direction and aligning markets, however, issues still exist in local fund ranges with regards to reporting, taxation, language support and cash handling.

Labour costs and the pressures for accuracy and effective control have meant that high levels of automation are firmly established in the US and we see this trend growing strongly through Europe and in the early stages of progressing into Asia.

Different distribution models also exist in a number of countries. Transfer agency providers need to adapt and ensure we are well placed to support our clients target distribution channels. Distribution in continental Europe is dominated by the bancassurers (insurance provided by a bank), whereas UK retail investors are moving towards platforms with sub account models, similar to that of the US and Australia.

Yvonne Hurst: Calastone is a global company, and our transaction network is fully interoperable across domiciles. The priority is to connect companies both within and across nation states, so in that sense we don't differentiate our level of service. Instead, we ensure that no matter what a company's own internal technology infrastructure or preferred messaging formats, standards or protocols, we can connect them to their counterparties, without the need for them to change their own structures. We do this via our global transaction network, which means we can connect anytime, anyplace, anywhere.

When looking at fund transactions, one can see that in Europe the transfer agent model is quite mature, similar to that in the US. Asia is less established but growing fast, particularly in terms of the number of transactions being processed. To a great extent Asia has been able to jump straight from manual processing to an electronically automated transaction process, leapfrogging any earlier technologies previously available, which were not fully interoperable.

There are noticeable differences between Europe and Asia. Over the years, European clients have demanded more and more bespoke services and generally all work activities are based locally, which adds cost if charged back to the client. While in Asia, several of the transfer agents offer sub-transfer agency registers, where the funds are European yet distributed into Asia. In the mature markets we're certainly seeing a consolidation of IT platforms.

Ghassan Hakim: The US has a largely retail and primarily domestic transfer agency operating model, with limited multi-currency and multi-lingual capabilities when compared with other major fund centres in the world. Operating in one single regulatory environment has allowed for the market-wide adoption of standardised practices, allowing the industry to have a standard platform for trading, clearing and settlement.

The European market by contrast is different because it has traditionally had to cater for a multitude of operating models, taxation regimes, languages and currencies in multiple jurisdictions, distributing funds into multiple individual markets. Although there have been significant steps taken by the EU to try and consolidate this fragmented market, there still remains much local legislation to contend with.

Although less established, Asia is similar to Europe in that it is comprised of a multitude of distinct markets that are individually defined by their own particular distribution models and regulatory environments.

In order to appropriately service the respective needs of each region, transfer agents need to ensure that their underlying technologies are adequately equipped to move with the times.

Aubrey Nestor: Bravura's clients are predominantly the European based arms of fund management companies and third party administrators which distribute their funds globally. The majority of this distribution is conducted cross-border from the European offshore markets of Luxembourg and Dublin with a smaller proportion based upon locally domiciled funds in Asian markets.

A substantial part of the cross-border distribution into the North American market is automated via the National Securities Clearing Corporation (NSCC) platform with similar automation into Canada via the Canadian FundSERV platform beginning to gain traction. Bravura provides support for this using our Babel STP messaging solution, which supports automated trading via both these platforms.

A significant amount of non-STP business is also still conducted with America and for this our clients use remote service centres situated in the US and operated either by their own staff or by partner companies. Bravura's Rufus transfer agency platform supports a remote service centre feature, which permits trades to be entered directly into the central transfer agency system from geographically distant service centres that can only access their own partitioned subset of the database to service their own local investors.

Cross-border distribution into the Asian markets is much less automated and is still heavily reliant on faxes. Our clients do, however, use the Rufus remote service centre feature to allow them to locate their front line transfer agency administration staff into geographic locations which are in a similar time-zone to the markets they are distributing into—Hong Kong, Singapore and Taiwan being the most popular locations.

What are the challenges in increasing automation in the region?

Nestor: Intra-European business is now achieving quite high levels of automation for trading and, to a lesser extent, settlement. A significant level of European funds business is, however, transacted with markets outside of Europe and some of these markets, particularly within Asia, are not making the investment to move beyond fax communication. This is holding back automation. The challenge is to incentivise those Asian distributors to move from fax to message or file based communication by showing the advantages that will accrue to them.

These include faster processing and response, greatly reduced risk of processing error, automated machine-readable confirmation messages and automated trade side postings into STP settlement systems. This is likely to be a long-term educational process but it could accelerate quite quickly once the tipping point is reached within a particular national market. It is also likely that progress will vary on a country-by-country basis.

Many larger European transfer agencies have already developed STP trading and settlement linkage with NSCC for distribution in North America, using connectivity tools such as Bravura's Babel. We are also starting to see increasing interest for our newly developed Canadian FundSERV Babel module.

Automation of distribution of European funds into the South American markets is in a much more fledgling state. It is hoped that these markets will be less attached to the fax than their Asian counterparts and will move to embrace standards-based STP from the outset.

Willis: One of the greatest challenges in the region is that different jurisdictions have different platforms with different proprietary message formats. We have recognised the issues this creates and using both our own custody messaging solutions combined with Babel, we have adopted a strategy that enables platform plug in for deal execution and settlement at speed.

Additionally, we have been working with key platform providers, eg, Calastone to identify the gaps in service, why platforms are not used as extensively as they might be and plugging those gaps. We have seen early success, increasing STP rates in the UK alone by circa 5 percent in the last two quarters of 2013.

Hakim: Increasing automation where possible is clearly an attractive prospect for transfer agents due to the decrease in operating costs and increased efficiencies that are traditionally associated with automation.

Automation levels continue to vary from country

> *“One of the greatest challenges in the region is that different jurisdictions have different platforms with different proprietary message formats”*

Jonathan Willis, head of transfer agency EMEA and APAC, BNY Mellon

to country but within markets that have invested a considerable amount of time, effort and money in automated solutions, fund providers, distributors and third party administrators are now reaping the benefits where possible. Europe has reached a position where there are useful levels of automation, and the standardisation of processes has allowed automated deal processing in particular to flourish, resulting in reduced operational costs and lower processing error rates but there is still a way to go and there is still a lot more STP investment needed, particularly for alternative investments.

Throughout the industry, there are increased calls for a global transfer agency platform that can service multiple product types, replacing multiple legacy systems, each focused on a particular investment vehicle. The current landscape of multiple systems carries higher cost, redundancies, training challenges, and inefficiencies in disaster recovery plans and so much more. Software providers and IT departments need to refrain from 'band-aid' solutions like developing surround systems to their legacy platforms and start focusing on developing an integrated single solution.

Hurst: Once a company decides to automate, the process is rapid and the advantages can be significant in terms of increasing efficiency and lowering costs. The hardest challenge is making that initial decision. The decision might be delayed due to a lack of information on how to make the changes, or concerns over whether adopting any new technology will require an upfront investment. But it is much easier than perhaps some imagine, and there are no unexpected hurdles in the transition. Calastone can get a customer connected to their global transaction network very quickly, and this without the need for internal technology changes. The pace of adopting automation is accelerating, as companies recognise the benefits.

Some of the challenges tend to be the upfront cost in terms of legal requirements, any charges levied by the transfer agent, transfer agency appetite due to lower revenues—especially if outsourced to lower labour markets, or it might be that there are complicated staffing re-allocation considerations. Automation is also sometimes overlooked when a company's employment strategies have to consider domestic labour laws and social policies. But there is another reason, perhaps as important as any mentioned, that some transfer agents are still not quite ready to demand an end to the fax. I think it's time they probably voiced their concerns more forcibly.

Roberts: Institutional trading volumes continue to rise in Europe and we are seeing higher levels of STP now than we ever have. Issues arise as new products continue to enter each market leaving a legacy of historic products and associated operational processes, hindering the take up for retail automation. New regulations and legislation, particularly around know your customer/anti money laundering requirements present additional challenges to comply with and keep the process as smooth as it can be for our clients, their distributors and the end investor.

Extending automation beyond buys and sells to transfers present a new set of challenges.

What are the latest developments to affect the transfer agency industry?

Roberts: Asset managers and distributors continue to demand consolidated platforms to address their record-keeping needs. In addition, these capabilities need to be available across a broad spectrum of products on a regional or global basis.

Changes to distribution channels in Europe, in particular the rise of direct-to-consumer platforms for retail investors and of new technologies, means the customer can now rightly be put centre stage. It is vitally important that the customer, be it an end investor or financial institution, has the best possible experience when dealing with the transfer agency provider. Regulations also continue to create their own ongoing pressures.

Hurst: There are a number of regulations that have impacted upon decision making of transfer agents. For example the continued regulatory obligations such as the Retail Distribution Review (RDR), The Foreign Account Tax Compliance Act (FATCA), and know your customer requirements regarding identification. All this has all increased the amount of work involved for transfer agents on the transaction side. Other impacts include the movement of clients, and several transfer agents are looking at the strategic importance of offering the service.

Global custodians will have to consider in the future whether having an in-house transfer agency service is going to be profitable or a necessary evil in order to win more value added services from a strategic client. Clients are rightly demanding more efficiency, more globalisation and more consolidation from their transfer agents and be looking for them to offer wider distribution. The focus is clearly greater efficiency and better service. Several transfer agents are trying to move to one global IT solution, to lower cost and to show greater flexibility, in terms of business continuity planning and disaster recovery. The transfer agency is pretty commoditised and it doesn't make sense to run multiple platforms.

Nestor: Regulation continues to have a major impact on the transfer agency industry and the software providers that support it. The impact is twofold. Firstly there is an almost constant need for system and process enhancement to support new regulatory requirements. This creates a more complex ongoing administration and support burden. Secondly, there is its potential impact on the funds market as a whole eg, the UK RDR legislation may have a radical effect on which kind of products people buy and FATCA may have a significant impact on which fund domiciles people invest into. It may take some time to see whether these impacts are beneficial or disadvantageous to the market.

> *"Issues arise as new products continue to enter each market leaving a legacy of historic products and associated operational processes, hindering the take up for retail automation"*

Paul Roberts, CEO of funds, International Financial Data Services

Technology advances are also changing the transfer agency market. We've seen year-on-year increases in processing power and screen resolution for devices such as smartphones and tablets, together with the mass market penetration achieved by their inversely rapid decrease in cost.

This is driving demand for systems that permit users to view, service and trade on their accounts from these mobile devices on a 24/7 basis. There is significant interest in systems which facilitate this kind of 'self-service' by investors, both because they deliver a perceived increase in service in the eyes of the investor but also because 'self-service' is the ultimate form of admin free STP processing for the transfer agent.

Hakim: Faced with increasing demand to stay ahead of the curve for all of the impending changes faced by our industry, transfer agencies whether internal or outsourced, are in the process of transitioning from a traditional cost centre to a more added value service.

Changes faced by the industry include a raft of complicated tax changes, increasingly complex investment fund structures and global distribution models, and a seemingly unstoppable wave of new regulations, all of which are putting increased pressures on transfer agents.

Our role, as the solution provider, is to keep designing and implementing solutions that allow our clients to meet these increased 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 TA solution capable of servicing the cross-border distribution of multiple product types across multiple jurisdictions with a single investor view is very attractive.

Willis: A combination of factors including regulatory, changing economic dynamics around the globe and the fundamental shift in use of technology particularly over the past five to 10 years means that transfer agency is changing. Transfer agency is the point of contact with the end customer—be they distributor, advisor or retail investor. As their habits change, so must our services to support their needs.

The biggest developments are around regulatory and market change. Particularly pertinent to this are client money changes as well as tax legislation. We have a dedicated EMEA regulatory and market change team who form house views via our industry knowledge and interaction to determine the best approach to operational change, ensuring that our clients are fully versed in the changes and their implications.

Do you think it is advantageous to outsource transfer agency functions to cheaper labour markets?

Hakim: The correct answer to this question is the development of a global sourcing business model as the solution for an effective transfer agency. It would be wrong to only factor cheaper labour markets as the basis of where functions are performed. The priority for any service provider is to ensure that they have efficient procedures and processes in place, and a team that possess the required skills and expertise to deliver a high quality of service.

A comprehensive global sourcing model factors in client facing functions versus back-office functions within the context of global and regional presence, the ability to service clients seamlessly through the various time zones and have strong 'live' disaster recovery centres. For example, a global sourcing model allows a transfer agent to shift service functions on moment's notice to address local disruptions, whether climate induced or political.

Technology today already supports global sourcing models with web-enabled systems, global imaging and workflow solutions, advanced audio and video communication tools and growing social media.

Nestor: Offshoring administration can be very advantageous if done properly but it is also easy to get it disastrously wrong. It depends initially on a very highly committed management approach to establishing the offshore office(s), hiring the right calibre of local staff (in particular the local management team) and getting them trained and equipped. Being able to second experienced central transfer agency staff out to the offshore offices for training and familiarisation work is also crucial.

From the outset and on an on-going basis it is essential to get top down management buy-in to making the remote administration approach work and building trust. A senior manager from one of our large transfer agency clients which has successfully made offshore administration work for them said that the tipping point came when they stopped asking, "can we trust the remote admin team to handle this activity?" and started asking, "why can't we trust the remote admin team to handle this activity?" This presumption of competence is vital.

Another key success factor is having systems that can be deployed globally and also which support global work distribution. Bravura's Rufus transfer agency system has a very tightly integrated image and workflow tool that has permitted one of our major transfer agency clients to implement an offshore administration facility. It can now seamlessly and easily move work items across the globe and back again.

Hurst: With the level of innovation today I think companies should look at automation and streamlining processes rather than outsourcing to cheaper locations, which is initially very costly anyway due to project costs, training and implementation, client consent, staff redundancy or the costs of training staff to use

> *"With the level of innovation today I think companies should look at automation and streamlining processes rather than outsourcing to cheaper locations, which is initially very costly anyway due to project costs"*

Yvonne Hurst, managing director of Europe, Calastone

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"The main impact of fund consolidation has been felt by those transfer agents that do not have a global transfer agency software platform"

Ghassan Hakim, CEO, Riva Financial Systems

new technology systems. Outsourcing highly manual tasks to cheaper locations can be a very shortsighted strategy, especially when the industry is rightly demanding ever higher quality when it comes to efficiency in technology.

Willis: It can be advantageous providing you are clear about the types of services being offshore. For example, we retain our client contact function in EMEA but we offshore activities like deal processing and other functions to our office in India. The benefit to us of places like Pune is that we are able to get extremely highly educated people working in administrative functions providing our clients with high quality services. Outsourcing is also becoming popular nearer to home, such as Poland and some of the eastern European states.

Cultures, skill sets and working practices are important considerations. Lastly, you need to ensure you have really strong business continuity planning so that in the event of a crisis you can bring your function back without significant impact on service provision.

Roberts: Offshoring certain non-customer facing functions to alternative labour markets definitely has some advantages, but responsibility and control must not move. At IFDS, we have been very pleased with the high quality of work, the consistency and the enthusiasm of our offshore employees. Importantly, it is not simply a case of 'throwing work over the fence'.

We are fully engaged on a daily basis with our offshore senior management team and ensure that the whole operation makes everyone feel part of a single, unified team. This, however, is not a quick-win process. We have employed permanent, locally based management at our Indian operation for several years. It has taken us ten years of relationship building and hard work to get us to the strong position we see ourselves in today.

Clients are looking to merge their funds located in different domiciles. How will consolidation of this kind affect the industry?

Hurst: It will probably lead to consolidation of the transfer agencies, and perhaps only the strongest will survive. Regulations will continue to create huge demands on the industry, which will either lead to further investment in the industry, or it may lead to the development of more manual processes which will only serve to increase the risk premium. Transfer agency tariffs will need to factor all work involved in meeting new regulations and reporting. Gone are the days of the price wars, which will only be good for the industry. Consolidation might also lead to a global standardised pricing structure. If that happens and the margins on tariff differentiation between the transfer agents declines, then investors may look more heavily at the differences in service element.

Willis: Many fund managers are looking beyond traditional markets for new growth but they do not wish to have funds per jurisdiction, multiple service providers and multiple service models. The UCITS regulations have facilitated fund sales across domiciles and the end customers require different and modern servicing mechanisms. Our solutions facilitate the use of UCITS legislation across multiple jurisdictions using a consistent service model, supported by solutions and products tailored for use by particular investor types.

The role of the transfer agency is expanding from simply being an order taker to becoming a distribution enabler. Our new global operating model covers EMEA and APAC, reflecting the importance of emerging markets as a source of growth, providing a consistent service around the globe. Clients need a service that facilitates the provision of funds in multiple jurisdictions, which we provide using master feeder regulations through the use of the single database. Every other transfer agency model has been built around the region. However, the systems need to talk to each other. Rather than being about reporting back from a single account, we provide a single database to give a fully consolidated view.

As well as facilitating use of UCITS funds via a single model in multi-jurisdictions, the transfer agency is also moving heavily into areas of distribution support such as relationship management, introductions, information delivery and we expect to develop these areas further in the coming few years.

Hakim: Like many other industries the fund industry is already consolidating; with mergers and acquisitions regularly making headlines.

The main impact of fund consolidation has been felt by those transfer agents that do not have a global transfer agency software platform. Transfer agents who have not adopted a global platform are not in a position to service their clients across multiple jurisdictions, and they are unable to cater for the complex distribution models; as a result of this, it is the single market domestic transfer agents and their software providers that have been the most adversely affected.

The advantage firmly rests with transfer agents able to provide their clients with the international coverage that is required, and that have the experience of supporting distribution into multiple jurisdictions. Our flagship product, Riva TA, is such a global solution. Riva TA deploys to multiple jurisdictions including all cross border and offshore jurisdictions, is neither limited to one physical location nor to one jurisdiction or fund structure and incorporates the different languages, time zones, currencies and the specific parameters associated with each, including the required regulatory and tax rules relevant to each jurisdiction.

Nestor: The UCITS IV legislation permits a fund manager to have a single range of funds

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domiciled in any EU country but to freely market those funds into any other EU country. This can be directly or via local domestic feeder funds.
In the past the difficulties of cross border marketing within the EU led many fund managers to create a separate set of very similar or even duplicate fund ranges for each retail domestic EU country that they wished to sell into. For these managers the prospect of collapsing all of their national domestic fund ranges into one central fund range might be very appealing.

This will allow them to shed the cost of duplicating the effort of portfolio management, fund accounting and custody for these funds. Interestingly transfer agency is one area where they won't make as significant a saving because they will still (hopefully) be performing the same number of investor transactions. They will save the duplication of applying prices and running dividend distributions across multiple fund ranges.

There are still some tax issues regarding the required fund mergers and the treatment of feeder funds, which are holding back widespread usage of this enabling legislation. Once they are ironed out the companies who adopt this approach are likely to enjoy a significantly lower cost base than similar companies who do not.

If a single central transfer agency system is to be used then it is vital that this system has full multi-currency and multilingual support. It must also be flexible enough to handle differences in local domestic regulations and market practices (eg, different consumer protection rules, different manual/automated anti-money laundering checking approaches and different tax incentivised products).

Roberts: Fewer fund ranges should drive down cost and so deliver benefit for the investor. This also causes less revenue for transfer agents and will continue the concentration in the transfer agency industry. Transfer agency cannot be done in half measures; it needs a minimum scale.

How is European regulation affecting the sector?

Hurst: Regulation has many known benefits, but one of the less well received implications recently has been the impact it has had on driving up costs for both the fund provider and the transfer agent. New regulations mentioned above have been, in part, expensive to implement. Indeed I go as far in saying that it may prompt the end of the 'in house' transfer agency solution. Perhaps we will see service providers sharing the costs across their client base, to make the costs more palatable.

Nestor: In recent years there have been a number of regulatory initiatives, which have had a significant impact on the European transfer agency market. These included EU regulations (eg, UCITS IV), domestic national regulations (eg, RDR) and US regulations (eg, FATCA). This has led to a period of a year or two where the industry has focused its development budget very much on compliance.

Whilst there have subsequently been a significant number of further new regulations the thrust of these has been more towards corporate governance and limitations of investment powers. These have therefore had more impact upon portfolio managers and custodians with very little impact on transfer agents. This has created a bit of breathing space for transfer agents to begin to address the backlog of pent up demand for development to address process improvement, added value developments and new product or distribution opportunities.

Roberts: Almost all players within the asset management industry, be it asset managers, transfer agents, fund accountants or custodians will cite regulation and the rate of change as a core challenge. For valid reasons, regulatory reform and extension in Europe has been a constant and unrelenting element in recent years. Unfortunately it does bring increasing costs in the process. Ultimately, the continued focus by European policymakers on investor protection and corporate governance of firms should be seen as a positive for investors, but only if implemented correctly, consistently and with sufficient consultation. Regulators also need to be cognisant of cost benefit implications during the decision making stage.

Hakim: European harmonisation can only bring positive impact on the sector, both from an operations and technology perspectives. However, we are still way off complete harmonisation and we can only hope the move is accelerated and supported by all the EU members with no exceptions. We need to move away from 'directives' and agree on 'mandates'. Full harmonisation will simplify technology development and allow operations to offer effective solutions, both of which would result in lower overall cost. The cost reduction would lower fund expenses thus benefiting the industry's investors and shareholders.

Willis: The changes in law and regulation have a fundamental effect on the sector. The three areas of most change and impact are transparency to the end investor, taxation and increased share classes. They add cost to the sector but at the same time the transparency aspects lower the charge levels expected from the end investor; note the latest publications from platforms re post-RDR charging in the UK. The net effect is that margins are being squeezed at the fund manager level, which is then passed on to the transfer agent.

Today, the pricing point for transfer agency has reached a very low level. While we do not expect this to change, the only way to deal with this is by having a rapid step up in the levels of automation (STP) in the region. At BNY Mellon we are focused on how to become the most connected transfer agency platform across Europe. AST

> *"There are still some tax issues regarding the required fund mergers and the treatment of feeder funds, which are holding back widespread usage of UCITS IV"*

Aubrey Nestor, head of product transfer agency, Bravura

Swiss time is running out

Banks are anxiously waiting to discover whether unconventional regulatory locations such as Switzerland will be able to stand up to the rigidity of AIFMD

STEPHEN DURHAM REPORTS

A lethargic Alternative Investment Fund Managers Directive (AIFMD) take-up, coupled with a preference for private placement regimes, means that alternative investment funds are not turning their cheek from Switzerland just yet. One recent piece of news saw BNP Paribas launching depository services in Switzerland—a country that is not AIFMD compliant, and is instead using its Collective Investment Schemes Act (CISA) to offer a regime that purports to be equivalent— but which experts describe as having much looser regulatory controls.

The French bank launched trustee and depository services in the UK last year, with James McAleenan, head of BNP Paribas Securities Services UK, commenting at the time: "This launch reinforces our continuous commitment to the UK market." The bank has continuously expressed its belief that the AIFMD will establish a strong European standard for alternative funds and improve investor trust.

However, it seems that the lure of the Swiss market is too strong, with BNP Paribas, UBS and SIX Securities Services all pursuing clients in this lucrative space.

AIFMD, which came into effect in July 2013, requires all non-UCITS and alternative investment funds in Europe to appoint a depository bank to provide safekeeping, cash monitoring and services covering the valuation of complex products and alternative assets.

The directive was implemented as a direct reaction to the financial crisis, and was formulated in order to provide greater protection for investors as well as the wider global economy.

The Swiss equivalent is CISA, regulated by the Swiss Financial Market Supervisory Authority (FINMA), and obligated to reach the same level of regulation to safeguard European market access for Swiss investment fund managers and products. How equivalent CISA actually is remains a point of contention, but its implementation undoubtedly increases Switzerland's appeal.

Theodor Härtsch, an attorney at Baker & McKenzie in Zurich, says: "CISA is more comprehensive as a regulatory body, though the actual levels of regulation required by AIFMD are much higher. While the CISA is very attractive to potential clients, other factors such Switzerland's beneficial tax regime should not be underestimated".

While Switzerland, as a non-EU state, is not obligated to implement AIFMD itself, the country has nevertheless amended its legal framework to account for AIFMD provisions on third countries. On 1 March 2013, the Swiss parliament voted for a revision of CISA, which meant that all managers of collective investment schemes, rather than just managers of Swiss schemes, would now be required to register with FINMA.

Asset manager and asset owner clients with funds domiciled in Switzerland can now use the pan-European expertise of big banks for their depository services, while still benefitting from the country's inherent advantages, such as tax. The total assets under management in Switzerland amounted to almost €70 billion as of December 2013.

While prospective clients' decision-making process has to take a great deal of factors into account, in terms of a favourable location, Switzerland remains an appealing location to consolidate their depository and custodial needs. However, AIFMD does have its proponents in the country, some of which have reportedly decided to re-incorporate their AIFs into jurisdictions such as the UK.

Alexander Merriman, head of market policy for SIX Securities Services, says: "There are two aspects [in clients' decision making process]. The first is that our clients are interested in how SIX SIS, although not a depository (and therefore not subject to the liability provisions of AIFMD), can facilitate their adherence to AIFMD and can enhance their investors' protection".

"The second is that what seems to matter increasingly is whether the alternative investment funds can be marketed cross border in the EU. The anecdotal evidence suggests that a number of Swiss-based companies have chosen to re-incorporate their alternative investment funds for this purpose in a jurisdiction such as the UK, where there is already a hard core of alternative fund activity."

"In other respects we hear that, Europe-wide, registration under the AIFMD has been slow, and that AIFs have expressed a preference—where they can— to continue to offer products to investors via the private placement route. This mechanism is also available to alternative investment funds based in Switzerland".

In any case, many experts believe that the way in which 2014 unfolds will play a large part in defining Switzerland's position among the elite fund domiciles in Europe. Olivier Stahler, a partner with Swiss law firm Lenz & Staehelin, predicts that the future of the industry will be determined by increasing obligations from Markets in Financial Instruments Directive (MiFID) standards, which aim for better protection for investors.

Time will tell regarding which set of regulations will prove to be the most influential across Europe, but what can be agreed on is that the next 12 months will be crucial.

André Valente, managing director and head of UBS Fund Services Switzerland, says: "Switzerland's national regulations could still present hurdles in terms of distributing Swiss alternative investment funds into Europe, but this year will be instrumental. By the end of this year you will have clarity on what will and what will not be possible within AIFMD, from a Swiss location." **AST**

Delivering the goods

Calastone's Sebastien Chaker discusses how providing high STP levels in a short timeframe has resulted in the firm's strong growth trajectory in Asia

How is business in Asia progressing?

In two years, the Calastone customer base in Asia has grown from less than five to 35 live clients. In the next six months, based on our client implementation roadmap, we believe this number will reach 50, as new distributors such as Aviva, Entie Commercial, Navigator Investment, Mega Bank and additional fund houses join our network in Asia.

In order to support this exceptional growth, Calastone has been strategically adding dedicated resources to our operations, client onboarding and client servicing teams to support Asian based clients in their own language from onboarding planning stages to live operational support.

Our primary focus in the region has been in the order routing automation space, but we have recently gone live with our fund reconciliation support service in Asia, and we are in validation stages to introduce additional post-trade services.

What is the reason for your high rate of growth in Taiwan?

We said what we would be doing, and came through.

When we went live, last year, with our new Taiwan Depository and Clearing Corporation (TDCC) offer in Taiwan, our main commitment to the market was to provide Taiwanese banks the highest STP levels in the shortest timeframe. In order to achieve this we have focussed on signing up and connecting the widest range of offshore fund managers distributing in Taiwan and, since most banks in Taiwan had no previous experience of STP dealing into funds, we've focused on providing additional support to educate and prepare our clients' for a smooth transition into STP.

The results of our efforts have been highly visible in the market as demonstrated through our first two Taiwanese distributor onboarding success over TDCC last year. In just three months after going live with Calastone, for example, Far Eastern International Bank moved from zero to over 80 percent STP rates in offshore funds dealing. They are now enjoying the highest offshore funds automation rate in Taiwan.

This success-story has led many other banks in Taiwan to accelerate their move to our service. Four additional banks are currently developing or testing their TDCC interface and by mid-2014, Calastone will have automated trades of 10 Taiwanese banks into over 35 of the leading offshore fund houses distributing in Taiwan.

What other Asian countries are you looking to expand into?

With our client base composed of the main global fund houses, our natural expansion was to start in countries where UCITS products were already widely distributed ie, Hong Kong, Singapore and Taiwan.

As we have established our brand and reputation in the funds automation space in Asia, and as more local distributors join the network, we have started to expand into the automation of domestic fund orders starting with Singapore funds in 2012 and Hong Kong funds last year.

We are driven by client demand and we continue to assess market entry into countries where we believe our solution can help them achieve more operational efficiency.

Obviously, with the Hong Kong China mutual recognition initiative, and with the emergence of other fund passport schemes in Asia, we receive regular requests and enquiries from our clients as they see Calastone as an enabler of cross-border fund messaging. We are continually monitoring local and regional initiatives to assess how best we can support our clients, in order to enable them to reap the many benefits that such initiative can bring.

What are the differences between fund automation in Asia and Europe?

Fundamentally, there is no real difference between fund automation in Asia and in Europe. However, we strongly believe that automation in Asia will happen at a much faster rate than the European experience.

While Europe has been investing in fund automation for 15 years, Asia automation only started a few years ago. At that time, new solutions and new technology unavailable to European distributors in the early 2000's, was already available in Asia, making the case for fund automation much easier as it significantly reduces the initial investment and the ongoing cost of automating fund orders.

Asian players can also leverage the European experience to avoid repeating some of the mistakes that have delayed European automation growth. In that respect, the successful model implemented by the TDCC in Taiwan shows that, to the contrary of what many European led initiatives have been advocating, a full service model with delivery-versus-payment (DVP) facility is not necessarily the most cost-effective option to automate funds processing and is certainly not the quickest way to achieve it.

A solution like the one Calastone has deployed in Asia with banks, insurance companies and specialised fund platforms allows for a simple, cost-effective and progressive move towards fund processing automation—and without any loss of control or any additional intermediary involved in the processing chain.

How will developments in the Asian region affecting fund order routing automation provide opportunities for European UCITS fund managers?

We believe that the fast drive towards funds automation in Asia will significantly change the operational models in Asia.

Currently, most fund managers distributing in Asia have had to build a bespoke and costly operating and servicing model to support Pan-Asian distribution. The largest ones have established on the ground in-house operations to support their demanding Asian distributors. Mid-size players have had to appoint third parties such as a master agent in Taiwan or sub-transfer agents to support their clients locally. With labour costs quickly rising in the main Asian financial hubs, many firms had to offshore their operations into low labour cost countries such as China, India and Malaysia, in order to process the growing number of fax orders and client phone calls.

With the rapid automation of fund orders in Asia, we believe that fund managers will be able to greatly simplify their operating model and better leverage their existing global distribution capabilities to support their Asian based clients. Thereby realising the economies of scale of a single global operating model.

This will surely allow a growing number of mid-sized and boutique UCITS fund managers that have, up until now shied away from Asia, to enter this fast growing market without the current overheads required to support it. And that can only be good news for Asian investors who will benefit from greater choice in their investment decisions. AST

Sebastien Chaker
Managing director Asia
Calastone

GBST is a provider of software and services to the global financial services industry. We have more than 25 years' experience delivering innovative, robust and reliable solutions for capital markets, securities processing and wealth administration. GBST is unique in the marketplace with its continued investment in product development to ensure its solutions deliver the business benefits you need today.

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Whether you are an institutional or retail broker, custodian, or investment bank, GBST can deliver a platform specifically designed to enable growth opportunities while maximising efficiencies and managing the risk of daily operations.

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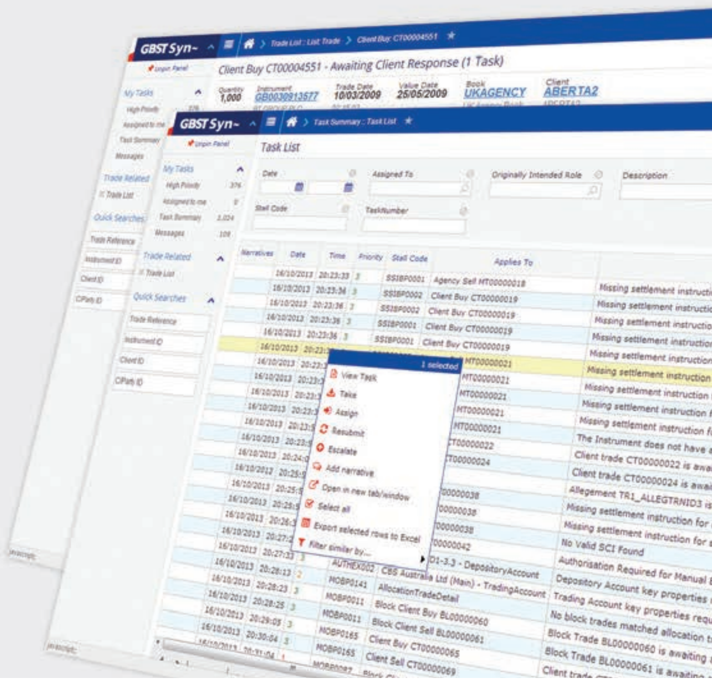
At GBST we provide robust and flexible solutions to global capital markets participants. If you are facing challenges with your back, middle or front office, or just want to improve your operational efficiency, minimise risk or improve your client service, speak to us today and we can find a suitable solution for your business.



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Three is the magic number

EuroCCP's CEO Diana Chan discusses the optimal number of equities CCPs for Europe

Every day, about five million trades executed on trading platforms in Europe are cleared by about 10 central counterparties (CCPs). Equities clearing via CCPs has a relatively short history. CCPs were widely introduced around 2000 when floor trading on stock exchanges moved to electronic order books. Parties to a trade were no longer able to choose who would be on the other side of their trade as their bids and offers were matched electronically.

Novation—the process by which the clearinghouse becomes the counterparty to the original buyer and seller in a trade—of all trades to a CCP enables counterparty exposure to be centrally managed, as everyone has only one counterparty to worry about—the CCP. The CCP sets rules that protect all clients in the event of any one client's inability to fulfill its post-trade obligations, such as requiring each client to post collateral with the CCP to guarantee its own performance.

CCP clearing in general has attracted a lot of attention ever since the G20 agreed in September 2009 that standardised OTC derivatives contracts should be traded on exchanges and centrally cleared through CCPs. The objective is to make the OTC derivative markets more transparent, to mitigate systemic risk and prevent market abuse. Significant progress in regulations has been made in all major financial markets, not only to implement centralised clearing of OTC derivatives, but also to make CCPs safer.

Safety is now top of the policy agenda

The global reforms are beneficial to CCPs in the cash equities market as well, even if their use is not mandatory and they do not face the same challenges as CCPs clearing OTC derivatives. The OTC derivatives reforms mandating central clearing mean that CCPs have to be subject to more regulations not only to ensure that their risk management is sound but that they also have an effective recovery and resolution process ready to be activated if they ever get into serious trouble.

Equities CCPs are likewise subject to the regulations that set minimum safety standards and recovery arrangements. This can only be good news to all parties who want to grow their business in a safe environment, be they clearing service providers or users.

Clearing generates growth and improves efficiency

In the equities market, CCP clearing has already made very significant contributions to market growth by enabling business models that otherwise would have been too costly to implement. Through novation of trades to a CCP, multilateral netting becomes easy—a firm's trades in the same security on the same day can be netted into one settlement obligation to deliver or receive securities from the CCP. An equities CCP typically can net down 99 percent of trades into single settlement obligations per security per client. CCPs make markets safer places to trade, all-in cost of trading lower, and post-trade operations more efficient.

These benefits can be amplified by getting more transactions through CCPs. There remain only about 10 percent of trades executed on stock exchanges and multilateral trading facilities (MTFs) in Europe that are not cleared by a CCP. Initiatives to get bilaterally transacted equity trades into central clearing have also started.

The first challenge

It would be unfair to say that the wide adoption of clearing in the equities market also created unanticipated and substantive problems, so let's say that new challenges emerged from this success. Because the same stock can be traded on multiple platforms, when platforms use different CCPs, the firms that trade the same stock on multiple platforms need to settle with multiple CCPs and incur multiple settlement costs.

These firms were successful in convincing some platforms to open up and give access to multiple CCPs, ie, giving access to the firms' CCP of choice to clear trades, in addition to the CCP originally chosen by the platform. This arrangement, called interoperability, brings significant savings in settlement fees whenever firms trade the same securities on multiple platforms and can use the same CCP. Three equities CCPs—EuroCCP, LCH.Clearnet and SIX x-clear—are interoperable on most of the MTFs, which means that firms have a choice among three CCPs for over 40 percent of all trades executed in Europe.

Interoperability is not a new concept: anyone who uses a mobile phone is a beneficiary of interoperability. It does not matter which carrier the party you call is using because the carriers all interoperate, and you can choose the carrier that suits you best among a variety of offerings.

The most difficult aspect of implementing interoperability in equities clearing is to ensure that the CCPs can adequately manage their exposure to each other, so that the safety of the system is not compromised if one or more of the interoperating CCPs failed. It took more than a year to work out inter-CCP risk management to the satisfaction of the five regulators that supervise the three interoperating CCPs. Multiple CCPs clearing concurrently for the same platforms has been working satisfactorily since early 2012. The inter-CCP risk management and operational arrangements in place now work equally well for any equities trade coming from any platform, and have been designed to be scalable for additional CCPs joining the cluster and additional platforms giving access to the CCPs.

The next challenge

An additional 24 percent of trades executed in Europe could become available in this three-CCP interoperating arrangement if all the platforms that are cleared by at least one of the interoperating CCPs were to give equal access to all of them. What remains is to convince trading platforms that there are valid commercial benefits to open up to multiple-CCP clearing so that all firms trading on these platforms have a choice of all three CCPs to choose from. Then the trading firms can minimise settlement costs and effective competition can deliver its usual benefits.

While there are still barriers to remove, the optimal clearing arrangement for CCPs and trading platforms to deliver the most value to market participants is plainly in sight.

But what about the impact on incumbent CCPs, who can lose their market share if there was competition? What about firms that do not benefit from settlement cost reduction because they only trade on one platform? What about businesses whose revenue from settling transactions will suffer if there were fewer settlements? What about CCPs in other asset classes who do not want interoperability to succeed because it could then extend beyond equities into their territory? What about national stock exchanges who fear losing business if their trades are cleared by an interoperating CCP that also clears for the MTFs?

These are not questions that we will attempt to answer because we will be answering for others. However, we do often ask clients how many equities CCPs they consider to be the optimal number for Europe. One client cited an interesting example of mobile phone operators in his country—consumers did not actually reap substantive benefits from competition until the third operator entered the market. **AST**

Diana Chan
CEO
EuroCCP

A share explosion

The UK investment industry is facing a proliferation of share classes as fund managers launch clean and super clean share classes across platforms, says Bravura's Andy Chesterton

GEORGINA LAVERS REPORTS

What are some of Bravura's key highlights from the past year?

Last year was particularly successful with several contracts signed by new and existing blue chip clients, whilst a significant number of client implementations and upgrade projects were also undertaken. We are extremely pleased to have renewed two significant transfer agency technology deals with our third-party administration partners.

In addition, on the wealth side of the business we were selected as a preferred vendor by Fidelity FundsNetwork and Ascentric in the UK. Both will be using our Sonata administration system to support their investment platform propositions.

We believe our success is testament to our expertise and strong solutions in the transfer agency and wealth management space. We're proud to be working with some of the world's largest financial services firms.

Our recent success affirms our strategy focusing on delivering best of breed systems for the asset servicing industry in Europe. With several new wins and continued growth we have significantly strengthened our consulting teams and offshore development centres.

We continue to offer a full suite of transfer agency solutions including core admin systems, web-front ends, STP connectivity and an operational data store. This complements the long-term research and development investment we have made in our Sonata system, which is starting to bear fruit with significant business wins across the EMEA and APAC regions.

Which regulations are most impacting your clients' businesses?

As a consequence of the Retail Distribution Review (RDR) and the decision to ban cash rebates, the UK investment industry is facing a proliferation of share classes as fund managers launch clean and super clean share classes across platforms. The industry must find a working share class conversion and re-registration solution upon which all parties agree. Significant progress has been made but overall harmonisation of standards is essential. That's why Bravura is actively involved with the Tax Incentivised Savings Association (TISA) working groups in this area. Another result of RDR is that retail-focused fund management companies are looking for greater efficiency gains. Our technology lends itself well to this.

The Foreign Account Tax Compliance Act (FATCA) is also having a significant impact on the investment management industry as it covers funds, distributors and asset managers. We are currently awaiting the reporting requirements that will enable clients to fulfil their obligations under the legislation. The official version is expected early this year, with reporting due to start in March 2015 for the year 2014.

In addition, the Markets in Financial Instruments Directive (MiFID II) in Europe will affect our clients moving forward. The Europe-wide ban on payments made from product providers to independent financial advisers will be similar to measures already in place in the UK. We are also keeping an eye on the Financial Transaction Tax (FTT). While it is possible this charge will not apply to mutual fund transactions it will impact the underlying investments and as a consequence may drag performance. It looks like redemptions settled in specie will be subject to the charge.

What other industry trends do you see impacting the transfer agency space?

Clients are under constant pressure to improve efficiency and reduce risk, whilst managing costs. Increased use of STP is one mechanism for eliminating manual and time-consuming administrative processes and fund management companies are increasingly opting for full automation to include settlement across the transaction processing cycle.

In the transfer agency industry, focus is on the increasing data-driven demands from regulators, clients and investors. This data theme will be reflected in a growing demand for surround technology solutions, such as web front-ends and data warehouses that break down isolated silos and consolidate data from multiple back-office systems. Web-delivered solutions that offer convenient, time-saving access to customised data and optimised reporting can provide fund managers and administrators with an enhanced service offering, operational efficiencies and a significant competitive advantage.

We are also seeing system consolidation, with third part administratos reducing the number of transfer agency systems they run. This reduces costs and of course boosts efficiency.

Where do you see growth opportunities and demand?

We have a strong and increasing pipeline of opportunities for our Sonata platform on the wealth management and life insurance side of our business.

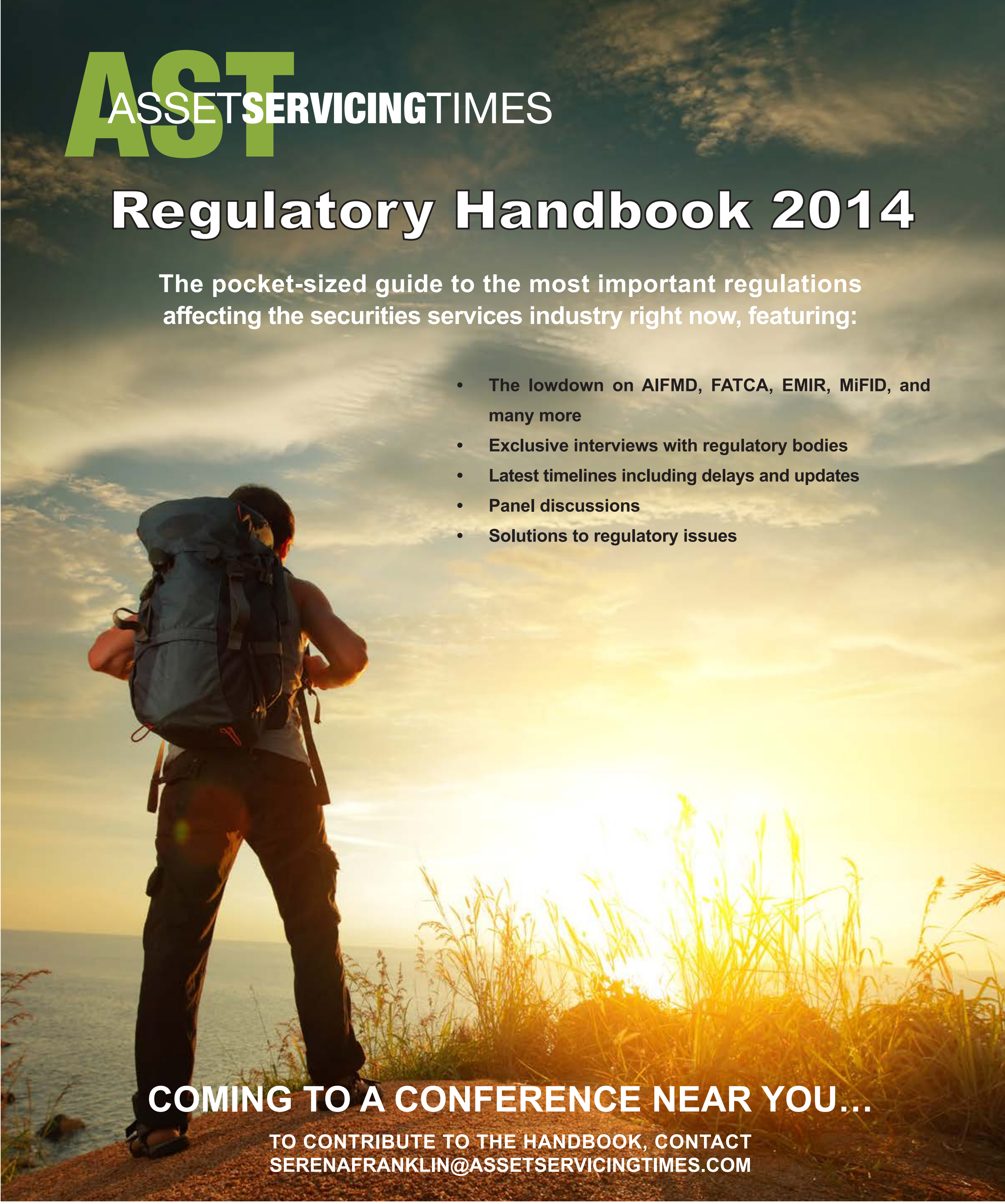
Having signed our first APAC managed service agreement with a New Zealand based client in 2013, we expect to see further interest in our managed application services offering. This service includes hosting, comprehensive end-to-end support, delivery and service management of our client's business critical systems.

In the last eighteen months we have also developed direct connectivity with NSCC in the US and FundSERV in Canada. We see further opportunities around the enhancement of our Babel STP financial messaging solution as businesses identify efficiency savings through increased automation.

What are your plans for Bravura in 2014?

This year we will continue to grow development capability around our Sonata platform solution as well as maintaining our proven transfer agency delivery record and high quality services. Our focus will be on implementation and ensuring our modern technology, managed services and flexible solutions provide the tools for clients to realise significant cost savings. AST

Andy Chesterton
COO EMEA
Bravura Solutions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Industry appointments

International Financial Data Services (IFDS) has hired **Simon Moorhead** as chief information officer of its global business.

Moorhead will assume overall responsibility for the global strategic development of the firm's technology infrastructure and operations across its locations in Asia-Pacific, Canada, and Europe.

He will be based in the UK and join the IFDS board of directors, reporting to Simon Hudson-Lund, executive chairman.

Moorhead joins IFDS from the Bank of England, where he was chief information officer responsible for ensuring IT change was aligned with the bank's policy and operational priorities.

In that role, he led the IT programme that helped create the Prudential Regulation Authority in April 2013. Previously, Moorhead was at Reuters in a global IT role after more than a decade as a management consultant for Ernst & Young and Cap Gemini. He began his career at HSBC.

BNP Paribas Securities Services has made four new appointments to its existing UK client development team for institutional investors.

Sid Newby has been appointed as head of pension fund sales after leaving competitor BNY Mellon while **Felix Schachter** has been appointed as head of insurance company sales. Schachter has joined BNP Paribas from Aon, where he lead the European insurance practice for McLagan, Aon's financial services management consultancy.

Aïda Molineux has been appointed as head of client service, covering asset owners, asset managers and alternative investment managers and **Ben Williams-Thomas** will become sales manager for information solutions.

The move has been made with a view to gaining more asset owner business in the UK, under the leadership of recently appointed head of sales and relationship management for institutional investors, Annalisa Winge Bicknell.

Bicknell said: "Our ambition to target UK pensions and insurance firms has already seen impressive success. We won several significant mandates last year and are looking to rapidly grow our market share in 2014. Newby, Schachter and Williams-Thomas will drive us forward in winning more mandates, while Molineux, working in close conjunction with our specialist relationship team, will ensure the highest quality of service delivery for all our clients."

BNP Paribas announced mandate wins for two local government pension schemes in 2014, Teesside and Oxfordshire, as well as a landmark appointment to the UK LGPS framework for the appointment of custody providers, opening the door to the £180 billion UK local government pension fund market.

Riva Financial Systems has appointed **Jo Vowles** as senior test manager. Vowles will be based at the Riva Financial Systems headquarters in Douglas and will report to Tim Leeming, director of testing and application support.

She joins Riva from Friends Provident International, where she held the position of test manager, managing a team of eight acceptance testers with responsibility for delivering testing services for a variety of strategic and tactical projects.

In her new role, Vowles is tasked with delivering high-quality testing services to Riva projects. Fostering an environment of continual improvement, she will be designing and implementing testing process improvements across test teams located on both the Isle of Man and in Pune, India.

Broadridge Financial Solutions has appointed **Bennett Egeth** as president of its newly expanded investment management business.

Building on Broadridge's 2011 acquisition of Paladyne Systems, this business offers investment managers, global banks, broker-dealers and fund administrators solutions for investment management, reference data and risk technology, including enterprise-wide order management, portfolio management and reporting.

Global transaction banking solution provider Fundtech has hired **Peter Reynolds** as managing director for sales in Europe, the Middle East and Africa.

As the head of EMEA sales, Reynolds will be responsible for driving regional strategy and managing local teams. He will report to Chris Zingo, global head of sales.

Reynolds brings more than 12 years of sales and management experience in financial services to Fundtech. Most recently, he led the EMEA sales initiatives for treasury and risk management solutions provider Reval.

Prior to joining Reval, he was a sales director at Thomson Financial. He began his career as a relationship manager at HSBC.

The firm also recently appointed **Kyle McGaffey** as head of sales. As head of Fundtech's Americas sales initiatives, McGaffey is responsible for all regional sales personnel, and for driving regional sales strategy. He reports to Chris Zingo, global head of sales.

McGaffey brings to Fundtech two decades of financial services sales experience, including selling investment products and technology solutions.

Most recently, he was head of sales at Thomson Reuters, where he managed a team of professionals selling quantitative solutions to hedge funds, asset managers and global banks.

Zingo said: "McGaffey is a great addition to Fundtech's Americas sales team. He has a long and impressive track record of success in sales and sales management and works very closely with customers to ensure that their feedback affects change within Fundtech's products and solutions."

In the wake of J.P. Morgan shutting down their UK transfer agency business, Bravura Solutions has beefed up its own operations in the region.

The firm has hired **Steve Fice** as head of its UK transfer agency operations to replace John Waddy, who has been promoted to head of EMEA wealth management operations. Both will report to Andy Chesterton, COO in EMEA.

"With significant global financial services roles under his belt, Steve's wealth of knowledge is a welcome addition to the Bravura team, as we continue to support our existing blue chip client base with their core transfer agency requirements," Chesterton said.

Fice joins from the SQS Group where he was managing director for the UK and South Africa. Based in the London office, he joined Bravura at the beginning of February.

Further changes at the firm include **Jeremy Curran-Ross** taking up a role within the wealth management business as head of technical consultancy. **Andy Clapton** is now head of technical architecture and strategic development in the UK transfer agency business.

Lyxor Asset Management has appointed **Lionel Paquin** as its CEO to replace Inès de Dinechin, who is leaving the group.

He will also join the management committee of the global banking and investor solutions division.

Paquin had been head of the Lyxor managed accounts platform since 2011. He has also held the position of chief risk officer and head of internal control at the firm, and was a member of Lyxor executive committee since September 2007.

Prior to this, Paquin was managing director and principal inspector of the Inspection Générale (an interdepartemental auditing and supervisory body in France) at the Societe Generale Group since June 2004.

He began his career in 1995 in the French Ministry of Finance as a high-ranking civil servant and held several positions within this ministry.

Peter Reynolds
Managing director for sales, EMEA
Fundtech

Ben Williams-Thomas
Sales manager for information solutions
BNP Paribas Securities Services

Aïda Molineux
Head of client service
BNP Paribas Securities Services

Sid Newby
Head of pension fund sales
BNP Paribas Securities Services

Dinechin has followed on from several high-level staff that recently left the firm. Claus Hein, head of ETFs for the UK, Nordics and Latin America left the firm last June to join Deutsche Bank. Alain Dubois left to join MSCI, reportedly due to difference in opinion over strategy with de Dinechin.

Simon Klein, the head of the firm's European ETF business, also left for Deutsche Bank, while **Nizam Hamid**, deputy head of the ETF business in Europe, went to FTSE group.

National Settlement Depository (NSD), Russia's central securities depository, has hired **Andrei Malakhov** as director of IT support department. In his new role, Malakhov will be responsible for development of the operating model of the IT unit.

Prior to joining NSD, he held a number of senior IT positions in major foreign companies. For the last five year period, he headed up the IT systems department in BNP Paribas in Moscow.

The Royal Bank of Scotland (RBS) has hired **Revel Wood** as CEO of RBS (Luxembourg) SA, its Luxembourg-domiciled management company and fund governance business.

RBS (Luxembourg) S.A. provides independent management company and fund governance services to investment funds and their managers from Luxembourg. Wood reports directly to Andy Wright, managing director of RBS Funds Services.

Wood said that the business was positioning itself for opportunities presented by the Alternative Investment Fund Managers Directive (AIFMD).

Wood joined RBS (Luxembourg) S.A. in January 2012 as director and COO with responsibility for the operational activities of the management company, including the portfolio risk management, technical fund compliance, fund accounting and transfer agency oversight teams.

Under his guidance, the Luxembourg firm completed the adoption of a new risk platform in 2013 to support its client base and the complexities of evolving investment fund regulation.

Wood moved to Luxembourg in 2009, taking up the role of deputy managing director at Northern Trust Management Company.

Prior to this he was global head of derivatives product at Northern Trust in London. **AST**

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