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Clearstream pops the Cork

Citco has sold its Irish hedge fund custody processing business to Clearstream.

The price was withheld, but was said to be in the mid-double digit million euro range.

The deal allows Clearstream to significantly expand its hedge fund services for financial institutions while enabling Citco to strategically focus on its core fund investor client base—namely fund of hedge funds, family offices, insurance companies and pension and endowment schemes—via its alternative investor services division.

The acquisition of Citco Global Securities Services's hedge fund custody infrastructure adds around 300 employees based in Cork to Clearstream and licenses Clearstream to use Citco's custody IT infrastructure. The two companies will ensure the takeover takes place in a gradual way in order to ensure a smooth transition.

Philippe Seyll, member of the executive board and head of investment funds services at Clearstream, said: "The additional business of Citco Global Securities Services's hedge fund custody operation enables us to fast-track our standardisation and automation initiatives in the hedge funds industry and to offer our financial institution customers a superior value proposition."

"The know-how and expertise in hedge funds operations we acquire from Citco combined with our operational excellence in mutual funds will enable our Vestima platform to become the leading international fund market infrastructure for all types of funds."

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Institutions look to the open range

Official institutions are looking to new markets and a broader range of assets as they search for greater returns, according to a new report by State Street.

In New Horizons for Official Institutions, more than senior executives at official institutions, defined as central banks, sovereign wealth funds (SWF) and public pension reserve funds, were surveyed to explore the opportunities and challenges they face today and in the future.

Despite concerns about the challenges associated with new markets and asset types, 80 percent of official institutions surveyed expect to increase their exposure to new markets, and, where they have the appropriate mandate, to alternative assets such as hedge funds, private equity, real estate and infrastructure. This move into new asset types is creating new levels of portfolio complexity and within this uncharted territory are fresh challenges, said the report.

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ICBC plumps for ISO 20022

Industrial and Commercial Bank of China Financial Services, has gone live with DTCC ISO 20022 corporate actions message format using SunGard's XSPrisa technology.

The firm is using SunGard's XSPrisa solution on a software-as-a-service basis to process corporate actions in the new ISO 20022 messaging standard. The transition to ISO 20022 is part of DTCC's transformation initiative to adopt industry-wide standard messaging by 2015.

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Clearstream pops the Cork

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William Keunen, global head of Citco's asset servicing business, said: "We are delighted to be able to offer our financial institution clients the opportunity to combine Citco's capabilities in the alternative sector, together with Clearstream's existing fund platform for a true one-stop-shop fund processing product.

Citco's alternative investor services division will continue to focus on its core business of providing a full suite of asset related services to our core fund investor client base that allocate to alternative asset classes.

Institutions look to the open range

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Among those surveyed, 51 percent said the biggest challenge is correctly measuring and monitoring the amount of currency risk they are taking. This emerged as the biggest concern for Asia Pacific and China respondents with 44 percent saying it's a challenge to combine different risk measures across asset classes.

Other hurdles cited were higher interest rates, emerging market volatility, and the rising cost of execution, given collateral issues and additional reporting requirements.

"Official institutions are at different stages in terms of how and where they can invest, but it is clear that those institutions with a more flexible investment mandate are recalculating their approach and looking to new markets and asset classes as they search for yield," said Joe Antonellis, vice chairman of State Street.

"The resulting portfolio diversity presents fresh challenges, and official institutions will need the right teams and supporting solutions to manage these strategies."

Official institutions need to measure the moving targets of risk, complexity and efficiency and be more adaptable than ever. Overall, managing risk was the biggest challenge for survey respondents with market risk cited as a major concern for 86 percent and operational risk just behind at 73 percent.

But confronting these risks requires greater investment. Almost two thirds of respondents (60 percent) plan to increase investment in their risk management systems and processes over the next two years and 32 percent of respondents reported difficulties hiring employees with risk, compliance and reporting skills.

"To meet the challenges identified in this research, official institutions must create an efficient, streamlined, yet resilient, operating model," said Rod Ringrow, senior managing director and head of official institutions for Europe, Middle East and Africa region at State Street.

"This means reducing costs while not compromising on standards, finding the right combination of people, process and technology to support investment needs and operational challenges, and using data to generate insights that support better-informed investment decisions.

Across all these areas, institutions must retain the necessary rigour in their decision-making and remain truly accountable under ever-greater scrutiny."

ICBC plumps for ISO 20022

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The updated messaging includes enhanced data elements to help improve identification and representation of corporate actions events, thereby mitigating the risk of misinterpretation of data and ultimately enabling greater straight-through processing.

"By becoming an early adopter of the DTCC transformation initiative, we are able to introduce greater automation to help mitigate risks and maximise efficiencies in an area of operations that has traditionally been manual and error prone," said Kevin McKeown, COO of ICBC Financial Services.

"SunGard's XSPrisa SaaS-based solution helped us eliminate the costly technology deployment, and we were able to go live with the ISO 20022 corporate actions messages in a matter of days."

"With the number of ISO 20022 corporate actions announcement messages surpassing the 250-million-reference mark, DTCC continues to work directly with clients as well as solution providers to help industry participants manage the soaring volumes and increasingly complex events," said Daniel Thieke, DTCC managing director and general manager of settlement and asset services.

"The DTCC transformation initiative is a key focus for SunGard's XSP; we are working with our customers to help them manage the required systems changes before DTCC's 2016 deadline for transitioning to ISO 20022," said Brendan Farrell, executive vice president at SunGard's XSP.

"For XSP customers, SunGard is taking the lead and automating this effort."

NSD conducts operational audit

National Settlement Depository (NSD), Russia's central securities depository, has undergone an operational audit conducted by PricewaterhouseCoopers in accordance with ISAE 3402.

The auditors analysed the status of NSD internal control systems as of 18 November 2013.

ASTINBRIEF

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Systems reviewed provide depository, clearing and repository services. The audit also checked the conformance of control procedures design to the objectives of control.

Key conclusions of the report on the operational audit said that the description of the system of internal control over NSD's settlement, depository, clearing and repository services reflects the processes providing these services objectively; and that procedures of control corresponding to the objectives of control have proper design ensuring that all objectives of control will be achieved if the described control procedures work efficiently.

Under the Law On Central Securities Depository and in accordance with international standards of control over service organisations, NSD must conduct an operational audit no less than every two years.

Technology supports rapid PE expansion in Mauritius

International Financial Services, one of the largest fund administrators in Mauritius, has gone live with its implementation of eFront's FrontInvest. The implementation aims to support and enhance the IFS private equity fund administration operations.

With Mauritius experiencing a rapid private equity market expansion and constantly increasing expectations from its clients, IFS needed to enhance its fund administration operations with the latest technology. Late last year, the company moved to eFront as its technology partner. "The hard work and commitment from both eFront and our resources resulted in a fast and successful implementation," commented Couldip Basanta Lala and Dev Joory, founders of IFS.

"This new technology tool will allow us to provide our clients with the best services possible, especially rapid high-quality service delivery. Also, the flexibility and scalability of the eFront solution ensures that it will continue to serve us as we grow and evolve with the market."

"We are delighted with the success of our implementation and our partnership with IFS," commented Tarek Chouman, COO of eFront Asia and the Middle East. "Of course, successful implementations are always the result of a close working partnership. The professionalism, flexibility and responsiveness of both teams made all the difference."

Netting efficiency will drive capital

Netting efficiency, default fund structure and collateral efficiency are core drivers for capital efficiency, according to Eurex Clearing.

In its study, 'The Future of Central Clearing, the European clearinghouse sought to discover how new capital and collateral requirements impact derivatives and securities financing markets.

The analysis showed that sell- and buy-side participants alike can substantially lower their capital and funding cost by actively pooling clearing business on an integrated cross-product central counterparty (CCP).

Besides achieving savings from cross-margining OTC and listed derivatives, significant efficiencies may be realised from cross-product exposure netting, an integrated default fund structure and collateral management services.

"The decision how to optimally allocate exposures across CCPs is the critical driver for sell- and buy-side participants in order to maximise efficiencies," said Matthias Graulich, chief client officer of Eurex Clearing.

"Our analysis provides for the first time a full in-depth quantification from the perspective of a market participant. The results show that Eurex Clearing's approach to create an integrated cross-product offering allows substantial cost savings."

New regulations to strengthen the safety and resilience of financial markets such as Basel III or Capital Requirements Directive IV (CRD IV) are increasing capital and collateral requirements for derivatives and securities financing transactions. The study includes detailed case studies for typical portfolios of a global and a regional bank, as well as for a mutual and a hedge fund, and quantifies the cost components for interest rate derivatives, repo and securities lending exposures.

For these asset classes an integrated cross-product CCP structure with a broad collateral spectrum can deliver up to €4 to €5 billion incremental cost benefits to the European sell and buy sides combined.

Eurex Clearing is the hub for euro-denominated equity as well as interest rate derivatives offering CCP services for interest rate swaps, bund, bobl, schatz and euribor futures, as well as repo and securities lending transactions in an integrated clearing model.

Starting on 26 May, Eurex Clearing will launch the second release of Eurex Clearing Prisma, the new portfolio based risk management system, allowing cross-margining of OTC and listed fixed-income derivatives.

Allfunds Bank nabs BWCI mandate

Actuarial consulting and administration services provider BWCI will begin using Allfunds Bank's wealth management administration platform.

The Channel Islands service provider works with pension plans and insurance companies. Allfunds Bank targets the institutional market. Its UK management team, led by Stephen Mohan, focuses on fund administration, spanning trading, settlement, custody and information.

Stephen Ainsworth, senior partner at BWCI, commented: "We are delighted to have teamed up with Allfunds."

"This supports our continued growth in providing corporate retirement solutions for Channel Islands and international employers."

Mohan added: "We are naturally delighted to welcome BWCI into a business which has over 400 wealth management partners around the world."

Dutch pension funds, take note

To help its Dutch pension fund clients meet the Financieel ToetsingsKader (FTK) regulations set out by the Dutch National Bank, Northern Trust has enhanced its investment statement reporting solutions.

The enhanced solution, designed in line with the Dutch National Bank guidelines, offers valuation data, cash-flow modelling and shock testing analysis to help pension funds demonstrate appropriate investment scrutiny, data integrity, and risk modelling as their investment process evolves.

Under the FTK regulation, Dutch pension funds are required to demonstrate a transparent approach to managing their assets and liabilities, in line with their investment decisions, in order to gauge sensitivity to market shocks and the impact this will have on pension scheme members. "For many Dutch pension schemes focusing increasingly on liability driven investments and alternatives, these new requirements present a number of challenges," said Frans Hofkens of the institutional investor group for Northern Trust in the Netherlands.

"By using a consistent suite of cash flow modelling assumptions and performance calculations, Northern Trust can deliver timely data and reporting to our clients, helping them meet their regulatory requirements."

Northern Trust's tailored solution for Dutch clients includes quarterly and annual statements, as required under the FTK regulation, as well as cash flows and prescribed shock tests at the asset level to provide exposure reporting.

This can be broken down by asset class and risk currency versus strategic benchmarks, looking through pooled investments to underlying assets, effective exposure on all derivative types, and performance and contribution reporting for each asset class.

"Northern Trust's solution models every market risk by asset type–from commodity investments to interest rate sensitivities," said Simon Willcox, global head of performance product management at Northern Trust.

"We understand Dutch pension funds have unique regulatory challenges and by leveraging expertise from across our investment risk and analytics team, we can offer a fully integrated performance, risk and regulatory reporting suite of capabilities tailored to their specific requirements."

Most recently, Northern Trust enhanced its collateral management and liquidity solutions in order to help clients meet the requirements of implementing various regulations, such as the US Dodd-Frank Act and European Market Infrastructure Regulation (EMIR).

Royal London and HSBC are bound for another 10 years

Royal London Asset Management (RLAM) and HSBC have extended their outsourcing relationship for a further 10 years.

HSBC has provided custody, fiduciary and outsourced investment administration services to RLAM, a UK asset manager, since 2006.

RLAM was established in 1988 and is part of the Royal London Group, the UK's largest mutual life and pensions company with over £73 billion of assets under management.

Richard James, COO of Royal London Asset Management, said: "Royal London has enjoyed a successful relationship with HSBC since our decision to outsource Investment operations activity in 2006. Our decision to renew was based on high quality of service delivery, HSBC's com-

mitment to support for our growth agenda, a culture of continuous improvement, and a strong organisational alignment."

Arjun Bambawale, head of Europe for HSBC Securities Services, said: "We are delighted that Royal London has chosen to extend its relationship with HSBC. This strategic deal further strengthens HSBC's position as a core securities services provider to Royal London, the insurance sector and the global asset management industry."

Polish clearinghouse is EMIR compliant

The Polish Financial Supervision Authority (KNF) has authorised the clearinghouse KDPW_CCP as EMIR compliant.

According to the European Market Infrastructure Regulation (EMIR), all clearinghouses active in the EU were required to file an authorisation application with the national supervision authority by 15 September 2013.

So far, 22 clearinghouses in the EU have filed the necessary documents. The Polish clearinghouse is the third to be authorised in the EU.

The first was Nasdaq OMX Clearing AB and the second was European Central Counterparty NV.

"The obligation of clearing interbank market derivatives in authorised clearing houses is most likely to take effect at the beginning of 2015," said Iwona Sroka, CEO and president of KDPW_CCP.

"Banks trading in OTC instruments denominated in the Polish zloty already have the opportunity to clear their transactions in an authorised clearing house. We expect the service to bring many benefits to the Polish financial market: it will release credit limits imposed by banks on their counterparties, reduce capital requirements for exposures to counterparty risk, improve the liquidity of the interbank market and mitigate operational risk."

DTCC seeks eventual T+1 cycle

The Depository Trust & Clearing Corporation (DTCC) has recommended that the US trade settlement cycle for equities, municipal and corporate bonds and unit investment trusts be shortened from T+3 to T+2.

In a whitepaper, the DTCC said that it would work with the industry to establish an implementation timeline. Once achieved, DTCC recommends a pause and further assessment of industry readiness and appetite for a future move to T+1.

Thirteen years ago, the industry was examining a move to a T+1 settlement cycle, but the initiative was abandoned as a result of competing priorities.

There have been significant improvements since that time that make this a timely opportunity to shorten the settlement cycle, said DTCC.

After considerable industry input and discussion, along with in-depth due diligence that included risk and cost-benefit studies, DTCC concluded that a move to T+2 would reduce industry risk. DTCC continues to work with market participants, industry organisations and regulators to refine.

Shortening the settlement cycle mitigates operational and systemic risk by reducing counterparty exposure, procyclicality and liquidity risk from both a clearing agency and member perspective. It also frees up capital for DTCC member broker-dealers.

DTCC's recommendation is based, in part, on the following feedback from due diligence conducted over the last 18 months that includes results from risk studies that measure exposure and the National Securities Clearing Corporation's liquidity need; outcomes of a cost-benefit analysis performed by the Boston Consulting Group; input from industry associations and one-on-one interviews with more than 50 firms across the industry, which helped define behavioral and system changes required to shorten the settlement cycle.

In the first half of 2014, expressions of support for a move to T+2, in a timeframe acceptable to the industry, were received from various industry groups, including the Investment Company Institute (ICI), the Association of Global Custodians (AGC), the Association of Institutional INVESTORS (AII) and the Securities Industry and Financial Markets Association (SIFMA).

Chapman's Eye on the market

Be prepared

As someone whose oratorical style varies between Elmer Fudd and Elmer Gantry—usually depending on my level of interest in the subject being presented and the volume/quality of preparation undertaken beforehand—I have always admired public speakers who can deliver highly complex topics in a clear, concise and confident fashion.

We happen to be blessed in our industry with a disproportionately high number of such articulate people. Phil Brown of Clearstream, Peter Adams of BNY Mellon and Alan Cameron of BNP Paribas Securities Services are just a few of the star performers who can gain and hold an audience's attention in exemplary fashion. A presenter who is clearly in charge of his or her brief engenders confidence in their audience that what they are saying is valid, relevant and incisive, while reassuring them that they are either with the correct supplier—whatever service they are providing—or should consider the possibility of moving to them.

The ability to present—be it on a stage, in a beauty parade/pitch/RFP process or simply to a team of peers, subordinates or superiors—is a tremendous skill and asset. I would encourage anyone, be they at the start of their career or interested in progressing it, to invest time and even a little money in enhancing their skills in this area. This is just one of a portfolio of skills that candidates should have in their toolkit, which together can serve to launch, protect or enhance a career.

While it is impossible to have too many skills, the pursuit of them purely for the sake of doing so can actually have a detrimental effect on a career in terms of both the opportunity cost of attaining them, but also the danger of becoming perceived as a generalist. Therefore, I'd suggest a good 'portfolio' of skills would include the previously mentioned presentational abilities as well as a grounding in project management—the Prince II qualification is an excellent starting point and courses can occasionally even be bought at a much reduced rate via Groupon.

A decent level of understanding as evidenced by an acknowledged qualification in the compliance space is useful too, although this field is changing so quickly—and not necessarily for the benefit of anyone but the regulators I'd suggest, but that is a topic for another day—that ongoing 'topping up' is required to keep abreast of even the headline developments.

Finally, two pieces of more prosaic guidance would be to simply work on the ability to listen and not simply project 100 percent of the time, and, if you are in any form of management position, accept that you cannot please everyone all of the time. There will generally be a 'bell curve' acceptance of people who dislike, tolerate and, hopefully, admire you. Such is life.

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

Paul Chapman, managing director, HornbyChapman Ltd

Here comes the boon

Is the US Supreme Court revisiting fraud-on-the-market theory a possible game changer? Noah Wortman of Goal Group reports

The US is widely acknowledged as the home of securities class actions. In recent months, however, there has been debate about how the upcoming Supreme Court decision in Erica John Fund v Halliburton and the fraud-on-the-market presumption might affect securities litigation.

The US Supreme Court created modern securities class actions in 1987, when in the Basic v Levinson case, an unusual four-justice majority held that investors in securities fraud cases may be presumed to rely on public misrepresentations about stock trading in an efficient market.

Basic's fraud-on-the-market theory made it possible for shareholders to win class certification without proving that class members made investment decisions based on the defendants' alleged misstatements—a momentum-shifting boon to shareholders. The ruling has become such an essential building block of securities fraud litigation that since 1987, according to legal research service Westlaw, Basic has been cited almost 17,000 times.

On 15 November 2013, the Supreme Court granted Halliburton Co's second petition for writ of certiorari in the Erica John Fund v Halliburton class action securities litigation. The aim of the second petition was to consider whether to "overrule or substantially modify the holding of Basic, to the extent it allows a presumption of class wide reliance under the fraud-on-the-market theory", and, if the court does not overrule Basic, to decide whether a defendant "may rebut the presumption and prevent class certification by introducing evidence that the alleged misrepresentations did not distort the market price of its stock".

If the court eliminates Basic's fraud-on-the-market presumption altogether, then each member of a proposed class will be required to prove that he or she actually relied on a defendant's alleged misrepresentations and common issues will no longer predominate. In short, courts will stop certifying classes in securities class actions where reliance is an essential element of the claim.

What is fraud-on-the-market presumption of reliance?

To establish securities fraud under Section 10(b) of the Securities Exchange Act of 1934, and the US Securities and Exchange Commission's (SEC) Rule 10b-5, a private plaintiff must prove that the defendant (i) made a misstatement or omission (ii) of material fact (iii) with scienter (fraudulent intent) (iv) in connection with the purchase or sale of a security (v) upon which the plaintiff reasonably relied and (vi) the plaintiff's reliance was the proximate cause of his or her injury (loss causation). In order for a private plaintiff to prosecute a Rule 10b-5 claim as a class action under Federal Rule of Civil Procedure Rule 23(b)(3), common questions must "predominate" over questions affecting individual class members.

In recent years, defendants have attempted to avoid class certification by arguing that a plaintiff must prove loss causation and materiality for the Basic presumption to apply.

Although the Supreme Court rejected these arguments in Erica John Fund v Halliburton (2011) and Amgen v Connecticut Retirement Plans and Trust Funds (2013), the dissenting justices in Amgen (Clarence Thomas, Antonin Scalia and Anthony Kennedy) expressly criticised the court's decision in Basic, and Justice Samuel Alito's brief concurrence suggested that it may be time to reconsider the fraud-on-the-market theory.

Halliburton's petition for writ of certiorari

Halliburton's petition asks the Supreme Court to overrule the fraud-on-the-market presumption on grounds that the court in Basic incorrectly based the presumption on a flawed economic theory, as opposed to legal principle.

In their supporting amicus brief, a group of law professors and former SEC commissioners and officials argue further that, based on a holistic reading of the plain text of the Securities Exchange Act, the court should require individual reliance from each and every plaintiff, either before a class is certified or before damages are rewarded. In the alternative, Halliburton asks the court to allow defendants to rebut the fraud-on-the-market presumption—at the class certification stage—with evidence that the alleged misrepresentations did not actually affect the price of the stock.

In its opposition brief, lead plaintiff Erica John Fund argues, inter alia, that eliminating the fraud-on-the-market presumption would be too drastic a measure since it would overturn several other Supreme Court decisions affirming Basic, as well as numerous lower-court decisions adopting the presumption.

In addition, the lead plaintiff argues that the economic theory supporting Basic has evolved and become more nuanced, and that lower courts considering whether to apply the fraud-on-the-market presumption have found ways to incorporate that nuance in reaching sound decisions.

Analysis of possible outcome

If the Supreme Court were to eliminate Basic's fraud-on-the-market presumption, then securities class action plaintiffs would almost certainly be unable to obtain class certification going forward. At first glance, such an outcome would seem groundbreaking, especially given the hundreds of federal appeals court and district court cases that have applied the presumption during the last 25 years since Basic was decided.

Practically speaking, however, securities plaintiffs and the securities plaintiffs' bar would likely adjust. Importantly, securities class action lawsuits are increasingly brought by large institutional investors, which may simply bring individual cases.

In addition, prior to Basic, as referenced above, some courts permitted separate phases of litigation—after liability had been established—that allowed individuals to prove reliance in order to obtain damages. If the court were to overrule Basic's fraud-on-the-market presumption, such pre-Basic cases would still be good law, and large consolidated plaintiffs and multiphase litigation could become the norm in securities fraud lawsuits.

Litigation over mortgage-backed securities (MBS) has taught plaintiffs' lawyers how to leverage information by filing similar complaints for multiple investors with claims for individual losses. MBS litigation has also encouraged relationships between top-tier shareholder firms and large institutional investor clients. Individual fraud suits don't necessarily pose the enormous threat of class actions, but if the Supreme Court reverses Basic, defendants might wind up facing big institutional investor claims in state courts across the country; an inconvenient and expensive proposition.

Alternatively, the court may take a less severe approach and adopt a test for determining whether a defendant's stock trades in an efficient market, such as the five-factor test applied by the court in Cammer v Bloom (DNJ 1989).

Under the Cammer test, a court examines the following factors: (i) the average weekly trading volume of the stock; (ii) the number of securities analysts following the stock; (iii) the extent to which market makers and arbitrageurs traded in the stock; (iv) the issuer's eligibility to file an SEC registration Form S-3; and (v) the demonstration of a cause-and-effect relationship between unexpected, material disclosures and changes to the stock's prices. The court may also decide to adopt the US Court of Appeals for the Third Circuit's approach of allowing a defendant to rebut the fraud-on-the-market presumption of reliance, at the class certification stage, with evidence that the alleged misrepresentations did not distort the market price of its stock.

Even if the US Supreme Court eliminates its fraud-on-the-market precedent, shareholders can still bring Securities Exchange Act class actions based on allegedly fraudulent omissions, rather than misrepresentations. Because the court has previously held that shareholders do not have to establish that they relied on such omissions, resourceful plaintiffs' lawyers will likely try to reframe cases to claim that defendants deliberately failed to disclose material information.

So, for instance, instead of arguing that J.P. Morgan Chase CEO Jamie Dimon misstated the bank's risk when he called losses from trades by the so-called London Whale "a tempest in a teapot", shareholder lawyers might argue that J.P. Morgan officials fraudulently avoided revealing the magnitude of losses by its chief investment office.

Additionally, should the court do away with the presumption of class-wide reliance, investors in some cases will still be able to bring class actions under Section 11 of the Securities Exchange Act of 1933, which does not require a showing of reliance but holds defendants strictly liable for material misstatements in offering materials.

This summer, the Supreme Court will decide whether the fraud-on-the-market presumption should be overruled or modified. Whatever the outcome, the court's decision in Halliburton will significantly impact the future of securities class actions, however it is unlikely, in my opinion, to wipe them out entirely. **AST**

Noah Wortman
Director of global business development
Goal Group

AIFMD-Day

Despite impressive annual figures and global growth, custodian banks must remain vigilant, as monumental regulations edge closer towards implementation

STEPHEN DURHAM REPORTS

Industry experts earmarked the Alternative Investment Fund Managers Directive (AIFMD) and TARGET2-Securities (T2S) initiative as potential plot changers for custodian banks. Setting the scene at a recent forum in London, they outlined what to expect, and how they are being treated at the moment.

AIFMD: mistaken for a MacGuffin

A speaker at the forum, Patrick Colle of BNP Paribas Securities Services, singled out the ever-looming spectre of AIFMD implementation as being the custodian bank's greatest concern, with fewer than 100 days to go until the compliance date.

With the launch of the AIFMD on 22 July 2014, regulators are trying to create a level of investor protection through promoting the use of alternative investment funds.

Despite the time that managers, brokers and custodians have had to prepare for AIFMD, a great deal of uncertainty still remains. According to Colle, it is depository banks that are destined to play a key role in the transition to a post-AIFMD industry.

This is due to the fact that every alternative investment fund will be required to have a depository bank—giving bank managers an opportunity for solidity similar to that which has been traditionally available with long-only funds.

Depository banks will also have to make sure they are up to the asset restitution and cash monitoring obligations imposed by AIFMD, as well as mobilising cross-asset expertise.

Deus ex T2S

T2S is an initiative that has passed the point of no return, but Colle claims his bank is ready, and has been for some time.

"We were starting to feel a bit lonely two years ago when we were the only one in the securities industry who were sure that T2S would happen. We have spent more than €200 million on investments in the past few years in order to get ready for it," says Colle.

T2S is intended to create further harmonisation in terms of settlements and settlement cycles. This means changes in agent banking model, but Colle claims that less change is required than was originally expected.

Although not as imminent as AIFMD, the T2S scheme is scheduled to go live in some European countries as early as 2015.

Alan Cameron, who heads the global strategic UK broker-dealer and bank relationship management teams at BNP Paribas, says: "We are looking forward to the first wave of T2S migration next year—the most significant market in the first wave (by a long stretch) is Italy, which is also one of our largest markets."

"For us, T2S is not just about settlement—there are significant liquidity benefits as well, that come from centralising all cash requirements into one pool, for example, and from the fact that auto collateralisation will spread from currently being used in around a third of European markets, to the entire T2S network."

Despite this impending change, broker-dealers and custodian banks are to carry on prioritising AIFMD, and wait to see if they will need more direct connection to the system for T2S. Some clients may eventually even be required to unburden their assets from their settlements.

An important point for Colle regarding T2S is related to intraday liquidity. Colle says: "This is a real opportunity to look at how to reduce intraday credit exposure, leverage netting and auto-collateralisation. This will be achieved by bringing more companies together."

Aside from these regulatory issues, Colle also claims that the largest growing item for custodian banks to consider is the consumption of data. In other words, while IT development and product development expenses can be managed, controlling the exponential increase of data being used and processed is proving arduous.

An analysis by a consultancy firm recently predicted that, by 2020, the consumption of data will be multiplied by 20, meaning that it will become a huge cost driver for the industry.

Big budget blockbusters

Even with these challenges ahead, custodian banks such as BNP Paribas are continuing to grow and invest.

Between 2009 and 2013, BNP Paribas's assets under custody grew by slightly more than 10 percent per annum, and this percentage was the same for assets under administration. Over the same period, the bank's revenue grew at an annual rate of 6.4 percent.

For the first time in BNP Paribas's history, half of its mandates from 2013 were comprised of new clients from outside of the EU.

"We have expanded our network of depository bank jurisdictions and added three key areas—a year ago we added the UK, and since then we have added the Netherlands and Switzerland," says Colle.

"As a result we have a total network of 12 depository banking jurisdictions, with €900 billion of assets under depository. We are also pursuing a very aggressive acquisition agenda in this area, in which we completed the acquisition of Commerzbank only last year."

Although this front-foot approach to upcoming changes is not universal within the industry, custodians such as BNP Paribas make it clear that adversity and opportunity can quite often be one and the same. **AST**

Industry appointments

Jamie Pratt is the new head of sales in the Americas for debt market services at BNP Paribas Securities Services.

His recruitment follows the launch of BNP Paribas's new services for the US money market.

Launched last year, BNP Paribas provides US money market issuers with real-time reporting and straight through processing to the DTTC, as well as the distribution of periodic interest and maturity payments.

Pratt joins BNP Paribas from Barclays Capital, where he served as a director in the finance department in New York. Pratt also worked as a securitisation banker at Deutsche Bank in London.

Claudine Gallagher, regional manager of North America at BNP Paribas, said: "I am delighted that Pratt has joined us to lead our debt market services sales. The US money market is a key source of short-term funding for US and non-US issuers."

Ryland Pruett has been named as national sales manager for BNY Mellon's The Dreyfus Corporation and its mutual fund complex.

He will be responsible for driving the sales in broker-dealer distribution and will report to Andrew Provencher, the executive vice president and head of US retail sales.

Pruett has more than 22 years of field sales and leadership experience. He previously worked at Neuberger Berman as a national sales manager.

He has also held a field and sales position at Invesco.

CIBC Mellon has expanded its asset servicing relationship team with financial services expert **Shane Kuros**.

Kuros has been appointed as vice president and head of sales.

He will be working with CIBC Mellon's Canadian institutional investors and with clients who invest in Canada.

Kuros has more than 25 years of sales, marketing and product development experience in financial services.

Kinetic Partners has promoted two employees in its Hong Kong office.

AnnMarie Croswell has been promoted to member, and **Katrina Banh** to associate director. The duo are a part of Kinetic's compliance team.

The compliance promotions have been made because more and more of the firm's clients in Hong Kong are requesting support for Securities & Futures Commission and Securities and Exchange Commission registrations, as well as ongoing compliance advice, according to Kinetic.

Temenos has appointed banking technology expert **Martin Frick** as head of Asia Pacific and China.

Frick will be based in Temenos's Singapore office.

He was the managing director of Asia Pacific for Avaloq. He also served at Raiffeisen Bank in Switzerland and UBS as an executive director and head of custody processing service.

Derivatives expert **Daniel Budofsky** joins Bingham McCutchen LLP's New York practice group.

Budofsky advises banks, corporations and asset managers on domestic and international transactions.

Max Hayden has been hired as BSC Financial Group's head of business development.

Hayden will be based in London and will report to the London board.

Hayden has 25 years of experience in investment banking and previously served as the managing director for the European prime brokerage business at Bank of America Merrill Lynch.

While at Merrill Lynch, Hayden served as COO for global equity finance, and head of the prime brokerage platform.

The hire follows the appointment of former Liquidnet chief John Barker as executive chairman of BCS.

Marat Ibragimov has also been appointed as a senior equity analyst.

Ibragimov has 17 years of experience in financial markets. In his new role, he will cover consumer discretionary, food retail, pharma and real estate markets.

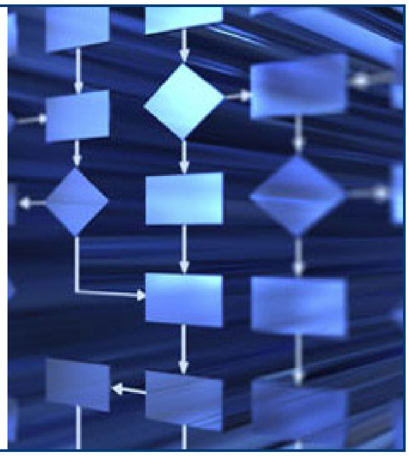
Prior to joining BCS, he worked as a senior equity researcher analyst at Uraislib Capital and has expertise in Russian equities and knowledge of Russian real estate markets.

In 2013, BCS secured a membership of the London stock Exchange and was granted UK approval by the Financial Conduct Authority, marking the official launch of its international brokerage business.

Filippo Santilli is the new head of Asia-Pacific sales and relationship management for BNY Mellon's global collateral services business.

Santilli will be based in Hong Kong, but will work alongside executive vice president Jonathan Spirgel in New York, and the head of global collateral services, Dominick Falco, in the Asia Pacific.

He has more than 15 years of experience in institutional sales, and previously worked at Lehman Brothers Asset Management. In his former role, he worked as a product specialist in Hong Kong. **AST**

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