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Brief technical failure disrupts NAV processing at BNY Mellon

SunGard president and CEO Russ Fradin has apologised for the technical failure of its hosted InvestOne fund accounting platform, which left BNY Mellon's net asset value (NAV) calculation and processing disrupted.

The InvestOne platform supported BNY Mellon's US clients, and a SunGard statement stressed that the issue was not the result of unauthorised access to the system or a result of recent turbulence in the equity markets. It also stated that no data had been lost.

The failure was reportedly caused by complications in the process of an upgrade scheduled for 22 August. Both the InvestOne platform and SunGard's backup environment became corrupted, affecting 66 fund accounting clients and about 1,200 fund structures.

SunGard called the glitch an "isolated incident" and "not an application issue with InvestOne itself", and according to BNY Mellon, there were no restrictions on investor trading as a result of the issue.

Fradin said: "We at SunGard apologise to BNY Mellon for the adverse impact this unfortunate incident has had on its operations and clients."

"We take this matter very seriously and truly appreciate the spirit of cooperation from BNY Mellon. We are committed to restoring the trust placed in us by BNY Mellon and all of our valued customers."

In a teleconference, BNY Mellon's chairman and CEO Gerald Hassel said: "[We] fully recognise the importance of our role and the importance of mutual fund and exchange-traded fund products to the market and investors, particularly during a time of market volatility."

"Our focus from the outset has been on working closely with SunGard to restore their platform to improve reliability and performance."

He added: "It has taken far longer than any of us would have expected."

Suresh Kumar, chief information officer at BNY Mellon, added that the firm still has faith in the upgrade of InvestOne. "We believe the new instance of InvestOne is reliable and sustainable."

He added: "We also have a new disaster recovery system and it is receiving updates real-time. We are establishing a third instance and we are backing up the data, so we believe we have a reliable backup in place."

T2S success for Italy

Italy successfully migrated to the Target2-Securities (T2S) platform on 31 August, after its central securities depository (CSD) missed the 22 June deadline.

The CSDs of Greece, Romania, Malta and Switzerland connected to the platform in June, and 16 more countries will join in successive waves between now and 2017.

The Italian CSD, Monte Titoli, delayed joining as complications with the European Central Bank meant it could not properly test the systems in time.

Monte Titoli CEO Mauro Dognini said that overall, the migration was a success: "It was a very big job and a long weekend ahead of go-live on the Monday, but all in all it went very well. It was a joint effort between Monte Titoli and the banks involved; we migrated 60 banks over the weekend, and moved 250,000 positions from the old legacy settlement system to being fully reconciled with T2S."

Dognini also pointed out that Monte Titoli is the largest CSD joining with the first wave.

"In the first two months of T2S the platform has been processing an average of 2,000 trades a day. Monte Titoli averages about 80,000 trades per day, so it will be a significant change in terms of volumes," he said.

"This means Monte Titoli will now be processing 97 to 98 percent of all the volumes on the T2S platform. We were happy that the system proved its resilience in its first days and we are confident that it will continue to do so."

Kashyap Kapasi, director of strategic solutions for investment services at Fiserv, called the development an "exciting stage in the journey towards a more fiscally harmonised Europe and borderless settlement ecosystem".

He said: "Italy's inclusion will provide immense value to the global asset management industry that transacts in Italian assets."

"Italy is the third largest economy in the eurozone and attracts significant cross-border investment flows. T2S helps manage settlement data more efficiently and the new settlement mechanisms will function seamlessly, yielding greater straight-through processing."

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Adapting to global regulations and standards means understanding how they play out in each local market
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New recruits at ENSO Financial Analytics, SIX Payment Services and Mirabaud Asset Management, and a new CEO at SGSS in Italy
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Alternative assets on the up

Alternative asset classes are seeing an increase in popularity, with 79 percent of institutional investors now investing in at least one, according to Preqin's latest report.

Private equity, hedge funds and real estate were the most popular alternative asset classes, with more than half of respondents having at least one of each in their portfolios.

The top reason for supporting hedge funds was diversification, and respondents also cited the low correlation to other asset classes and reduced portfolio volatility. For private equity, the top reason for investing was high absolute returns, followed by diversification and high risk-adjusted returns.

Investment in almost all asset classes is expected to increase over the next year, with 42 percent of private equity investors, 38 percent of private debt investors and 36 percent of infrastructure investors saying they are planning to invest more capital in to alternatives in the next 12 months than they have in the previous year.

On the other hand, about a third of hedge fund investors said they plan to invest less in alternatives in the next year, compared to 19 percent that plan to invest more.

Growth in investment is also expected to continue in the long-term, with 51 percent of private equity investors and 44 percent of infrastructure investors planning to allocate more capital to alternative asset classes.

More than 60 percent of investors in real estate, infrastructure and private debt expect returns on their investments. Of private equity investors, just under 60 percent seek returns of at least 14 percent, and 15 percent were looking for returns of 20 percent or more.

The vast majority of respondents said they have either a positive or neutral view of each asset class. As many as 95 percent were positive or neutral about private equity and 94 percent were positive or neutral about real estate.

Most investors also believed that their interests were aligned with those of fund managers. Private debt and real estate investors had the highest level of satisfaction in this area, with 83 percent and 80 percent agreeing with this, respectively.

On top of this, respondents believed that fund terms are changing in their favour. This was true of 47 percent of hedge fund investors and 44 percent of private equity investors.

Preqin CEO Mark O'Hare said: "It is clear that the institutional community remains confident in the ability of alternative assets to help them meet their return objectives. The majority feel returns are meeting or exceeding expectations and, as a result, a much larger proportion of investors plan to increase their exposure to alternatives than plan to reduce it."

"There remains huge scope for the alternative assets industry to grow in future years, both as investors build up existing allocations, and as they also further diversify their portfolios to include a wider range of asset classes."

The survey included respondents from 460 institutions, plus data from 12,500 investors. The majority, 43 percent, were located in North America, while 31 percent were European, 22 percent were from the Asia Pacific region, and 4 percent were located in the rest of the world.

Manual swap management still rife, says SimCorp

Many asset managers are still relying on manual processes for managing complex swaps across the investment lifecycle, according to a SimCorp webinar survey.

Of the respondents, 44 percent they still use either 'mostly' or 'entirely' manual processes for swaps, while more than half said they still require some manual intervention in semi-automated processes.

As many as 55 percent also admitted to being unable to get a consolidated view of their derivatives exposures to compare with other asset classes.

According to SimCorp, the ability to view the composition of swaps is important for monitoring overall strategy and tracking which assets are owned, what they're worth and the exposure across the entire book of business.

Combined with a lack of automation, this can lead to poor investments, meaning investors may not get the best returns.

Marc Mallett, vice president of product and managed services at SimCorp North America, said: "The persistence of widespread operational inefficiency in this area of the swaps market is a red flag pointing to the potential for costly errors and substantial delays in time-to-market."

"Adopting a global platform with the ability to deal with complex swaps along with other financial instruments across multiple jurisdictions combats and often eliminates these issues by providing a complete picture."

The survey included 57 individuals from 32 different buy-side firms in North America.

South American support for SWIFT's KYC Registry

Corporate investment bank Itaú BBA has joined SWIFT's KYC Registry and its Sanctions Screening Service.

The Know-Your-Customer (KYC) Registry is a centralised repository holding a standardised set of information required for KYC compliance. Banks submit a standardised set of data and documentation for validation, and all contributors can share their information with counterparts.

Banks retain full ownership of their information, and can control which other institutions can view it. They are not charged for contribution, and data consumption is free of charge in 2015 for those banks that also contribute.

The registry now includes entities from more than 145 countries.

Bart Claeys, head of KYC compliance services at SWIFT, said: "The KYC Registry is a key initiative behind SWIFT's commitment to help its community comply with financial crime compliance regulations. We are very pleased with the level of participation in the registry, both from large global and regional banks as well as financial communities."

Alvaro Pimentel, executive director of operations at Itaú BBA, said: "In an effort to prevent financial crime, we promote the use of systematic analysis of the information coming from those financial institutions with which we conduct our operations."

He added: "SWIFT's KYC Registry will connect us in real time with these institutions enabling the exchange of a large volume of data, thus enhancing the operations' security and the prevention of financial crime, such as money laundering and tax evasion."

Itaú will also adopt SWIFT's Sanctions Screening service, a community-based solution allowing financial institutions to messages against various sanctions lists.

Transactions are screened against at least 30 lists, including those from the US Office of Foreign Assets Control, the UK Treasury, the EU and the Hong Kong Monetary Authority.

Lists are updated at no additional charge, in a bid to reduce costs and risks for customers. The service is now used by more than 370 financial institutions and more than 100 countries.

Christina Hutchinson, head of SWIFT in Brazil, said: "SWIFT is pleased to help Itaú BBA address the increasing financial crime compliance requirements and welcomes them to the growing community of users leveraging SWIFT services to support an effective and efficient implementation of their financial crime compliance processes."

SGX consults on derivative affiliate segregation

Singapore Exchange (SGX) has proposed the introduction of affiliate segregation, a system designed to protect the collateral of an SGX Derivatives Clearing (DC) member's affiliates in the case of a default.

The collateral of an affiliate of an SGX DC member would be protected if the member defaults on its own contracts. The affiliate's positions could also be transferred to another member.

The system is optional for DC members, and designed to complement any arrangements that they may already have in place to offer their bank affiliates better capital efficiency.

Under the Basel III regulation, banks must maintain a certain level of capital to allow for exposure to a central counterparty. This depends on the levels of protection the bank already has in place, considering default, or insolvency of the clearing member or the clearing member's other clients.

Mergers and acquisitions driving tech innovation

The increase in mergers and acquisitions among alternative fund administrators is "unprecedented", and a key driver of technological advancement, according to Ken McCarney, CEO of MUFG Fund Services.

Speaking after SS&C's acquisition of Citigroup's alternative investor services business, McCarney said: "As administrators merge and grow, resources are pooled, resulting in better service for clients and a streamlining of expertise. This is a huge positive for the industry, as it enters a new phase of consolidation."

He went on to say that this leads to large fund administrators developing and implementing advanced technology-driven solutions to support asset managers.

He said: "Access to these capabilities is crucial for mid-market and billion-dollar hedge funds as well as start-up or emerging managers, who are the lifeblood of the industry."

"It is our responsibility as fund administrators to partner with fund managers and support their growth ambitions in a complex regulatory environment, by pushing the boundaries of technological advancement."

SS&C sees increases in August

SS&C GlobeOp's Forward Redemption Indicator showed that notifications recovered somewhat, increasing from July's 2.08 percent low to reach a figure of 3.46 percent in August.

The indicator represents the sum of forward redemption notices received from hedge fund investors, divided by the assets under administration of SS&C GlobeOp fund administration clients at the beginning of the month. It reached an all-time high of 19.27 percent in November 2008, and a 12-month high of 5.87 percent in December.

Data on the platform represents about 10 percent of the whole hedge fund industry.

Bill Stone, chairman and CEO of SS&C Technologies, attributed the change primarily to seasonal changes, however, he pointed out that August 2015's figure was still less than the same time last year.

He said: "It's noteworthy that on a year-over-year basis, the 3.46 percent for August of 2015 is sharply lower than August of 2014 which came in at 4.19 percent. In particular, there was a decline in near-term redemptions, which together with other recent SS&C GlobeOp index results, suggests that hedge funds are benefiting from the recent elevated market volatility."

The SS&C GlobeOp hedge fund performance index reported a flash estimate of 0.69 percent, a considerable improvement on July's estimate of -0.65. Year-to-date the performance has achieved 7.51 percent, while the last 12 months has seen an increase of 9.8 percent.

Genpact takes over Citibank OpenWealth in the UK

Genpact has completed its acquisition of Citibank's UK OpenWealth platform, expanding its own OpenWealth capabilities in to the UK financial services market.

Genpact's platform provides wealth management solutions for insurers, banks, brokers and asset managers, and is designed to deliver end-to-end technology and administration services, including account opening and transfers, as well as regulatory reporting.

It is a flexible solution suited to all asset types and with a customisable support system.

Genpact acquired Citibank's US OpenWealth business earlier in the year, and will now open a centre in Glasgow to serve UK clients.

Mohit Thukral, senior vice president and business leader for banking, financial services and insurance at Genpact, said: "We can now provide end-to-end wealth management servicing operations to two of the largest geographic markets, combining domain expertise, scalable technology, advanced analytics, and global services delivery that will further drive innovation, efficiency, and controllership."

Boaz Lahovitsky, senior vice president for wealth management at Genpact, added: "We are excited to fully integrate the respective strengths of Genpact and our wealth management services centre in Glasgow to allow wealth managers and financial advisors in the UK to focus on their core competencies of enhancing customer service and raising assets."

New FX services on the cards for Markit

Markit is set to acquire DealHub, a trade processing service provider for the foreign exchange (FX) market.

The deal means Markit will offer an FX solution including venue connectivity, trading services, trade confirmation and management, as well as clearing and regulatory reporting.

DealHub's customers include global and regional banks, interdealer brokers, FX electronic trading venues and asset managers, representing an expansion of Markit's customer base in the FX markets.

Brad Levy, managing director and head of Markit's processing division, said: "This acquisition adds depth to our FX offering while bringing an exciting set of trading solutions to Markit. Connecting DealHub's technology to our network will accelerate centralisation of FX trade processes, making it easier for customers to transact."

Founder and CEO of DealHub Peter Kriskinans added: "We are excited about joining Markit since our businesses are so complementary. Markit's scale and global reach will allow us to better support our customers and will also accelerate innovation and further development of our technology."

Financial terms have not been disclosed, but payment will be a combination of cash and Markit's revolving credit facility. The acquisition is not expected to have a material impact on Markit's financial results in 2015.

The acquisition is expected to close in Q3 2015.

BNY Mellon to support Irish housing platform

BNY Mellon has been appointed as account bank for a €500 million lending platform for building homes in Ireland.

Activate Capital is a joint venture between the Ireland Strategic Investment Fund (ISIF) and private equity firm KKR intending to help increase housing supply in Ireland by lending to residential development projects.

It has capacity to finance the construction of about 11,000 new homes and create up to 1,900 new jobs per annum. The platform will lend on a commercial basis, providing affordable loans for up to 90 percent of the total financing required.

Dean Fletcher, head of corporate trust in Europe, the Middle East and Africa at BNY Mellon, said: "As a major participant in Ireland's financial services industry we are well placed to support our clients in this venture."

He added: "Rejuvenating the housing sector will help stimulate the Irish property market and broader economy."

The ISIF will contribute €325 million to the platform in its largest single investment to date. KKR will provide €175 million.

Successful SIX months

SIX has seen mainly positive results for the first six months of 2015, including increases in operating income for the Swiss Exchange and SIX Securities Services, but a slight dip in net financial results.

Total operating income increased slightly, by 0.7 percent, on the same period in 2014, reaching CHF 887.5 million (€821.6 million). When adjusted for currency effects, this equates to a growth of 6.3 percent.

Earnings before interest and tax increased by 4.4 percent to reach CHF 157.7 million (€145.9 million), but net financial results were down by CHF 14.5 million (€13.4 million), a dip that has been attributed to a combination of a strong Swiss franc and weak capital markets.

This also means that group net profits saw a 2.4 percent dip, reaching CHF 127.5 million (€118 million).

For the Swiss Exchange business area, operating income improved on the same period last year by 8.4 percent to reach CHF 110.5 million (€102.2 million). Earnings before interest and tax in this area also improved by 1.9 percent, reaching CHF 55.8 million (€51.6 million).

This result was attributed to an increase in trading activity compared to the first six months of 2014. Stock exchange trades increased by 39.6 percent and trade turnover was up 30.9 percent. The average market share in trading with Swiss blue-chip stock was also up, reaching 68.9 percent, compared to 66.6 percent this time last year.

The SIX Securities Services business area saw the strongest growth, with operating income seeing a 10.7 percent increase to reach CHF 177.6 million (€164.4 million).

Earnings before interest and tax was also up by 4.5 percent, reaching CHF 30.9 million (€28.6 million).

Settlement transactions saw a sharp increase of 18.4 percent, following the discontinuation of the exchange rate floor, while the volume of securities under custody rose by 9.2 percent.

JTC completes Kleinwort Benson acquisition

JTC has completed its acquisition of Kleinwort Benson's fund administration business, adding

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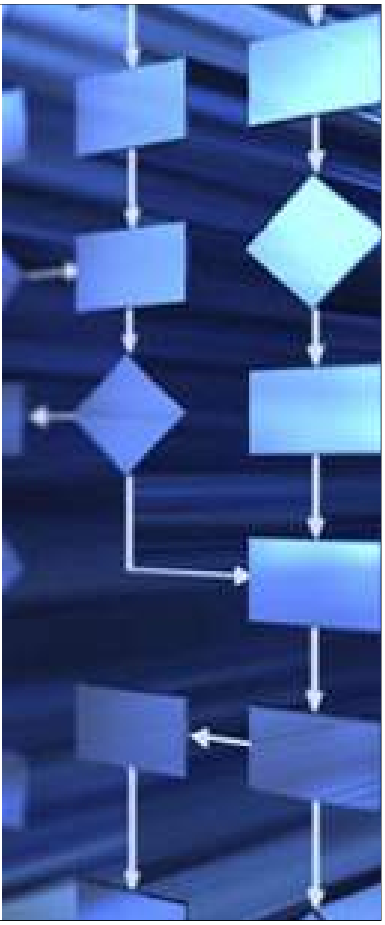

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to its existing operations in the Channel Islands and expanding to have a permanent presence in South Africa for the first time.

The acquisition was first announced in June, and has been finalised following approvals from the relevant regulatory authorities.

It brings JTC's total assets under administration to $56 billion, and brings added strength to the private equity, real estate and debt funds.

Nigel Le Quesne, JTC CEO and chairman, said: "The conclusion of this acquisition marks another step in our journey as we strengthen our position as a leading global provider of fund services."

"While this is the largest acquisition JTC has undertaken to date, our focus now is to provide a seamless experience for clients and staff and delivering first-class service will be the top priority throughout the integration process."

In June, Kleinwort Benson CEO Martha Boeckenfeld said: "Moving our fund administration business to JTC, which is a global provider of fund and corporate administration services, leaves us free to focus on our core activities for the benefit of clients and the business going forward."

J.P. Morgan mandated for Aussie super fund

WA Super has appointed J.P. Morgan Investor Services as custodian for its $2.5 billion investment portfolio.

The Western Australia-based super fund will use J.P. Morgan for custody, transaction processing, fund accounting, unit pricing, performance reporting and compliance reporting services. The partnership is intended to help WA Super to effectively manage its current and future reporting requirements.

John McNally, CEO of WA Super, said: "The fund undertook a rigorous and extensive tender and review process to find a custodian with demonstrated success in Australia and globally."

He added: "We appointed J.P. Morgan as we have confidence they will underpin a robust investment governance framework and they demonstrated their ability to be flexible and tailor their services to meet our requirements."

Nadia Schiavon, head of custody and fund services at J.P. Morgan, added: "We are excited about our new relationship with WA Super and the opportunity to provide the services it needs to support its members."

She said: "J.P. Morgan's ability to tailor our service offering to meet the needs of WA Super, our existing clients and a growing and evolving industry, is based on the dedication and commitment of our employees. Their knowledge and experience, which has been developed over J.P. Morgan's 25 years of unwavering commitment to the superannuation industry, will be delivered to WA Super."

"We will continue to develop the services our clients require and provide our expertise to support them in the future."

Alternatives on the up in Jersey

Jersey has seen an increase in alternative funds marketed in to Europe through its national private placement (NPP) regime, with the number exceeding 200 for the first time.

The increase has been partially attributed to a generally strong performance in the island's alternatives sector. Net assets under administration in this sector have increased by 15 percent in comparison to the same time last year.

The latest figures from the Jersey Financial Services Commission (JFSC), from June 2015, show that 205 funds are now being marketed in to Europe through NPP schemes, 10 percent more than the figure from six months ago.

Fund managers that have received private placement authorisation increased by 40 percent to reach 84.

The net asset value of all regulated funds under administration in Jersey has grown by about 9 percent compared to the same time last year, reaching £218 billion. While the alternative asset class saw an increase of 15 percent, hedge funds have grown by 31 percent and real estate funds business was up by 16 percent. Private equity also increased, but by a more modest 2 percent.

In addition, the fund formation rate is strong, according to the JFSC, with an average of one fund per week established during the first half of 2015.

The release of these results comes after the European Securities and Markets Authority (ESMA) recommended Jersey for the Alternative Investment Fund Managers Directive (AIFMD) marketing passport, which would allow Jersey's alternative investment fund to market to investors in EU member states.

Geoff Cook, CEO of Jersey Finance, said: "While of course the endorsement from ESMA in July was a significant development for Jersey's funds community, it's extremely pleasing that at the same time managers and promoters are continuing to find appeal in the 'business as usual' private placement route."

"With private placement expected to remain in place until at least 2018 and the potential to activate the AIFMD passport in Jersey in due course, the evidence all points to genuine confidence in Jersey for the management, domiciling and servicing of funds across a range of strategies and target markets."

Ben Robins, chairman of the Jersey Funds Association, added: "These figures underline Jersey's role as a specialist centre for alternative funds."

He added: "We fully expect this trend to continue, particularly with the growth we are seeing in other alternative asset classes including debt, credit and infrastructure funds as well as hedge, private equity and real estate."

HSBC launches FASTrak

HSBC has launched FASTrak, a simplified one-stop solution that significantly reduces market entry challenges for foreign investors in India.

The automated tool is the result of extensive feedback from foreign portfolio investors (FPI), who cited documentation-related challenges, procedural issues and a time consuming registration process as some of the key issues faced while investing in India.

Kapil Seth, head of securities services of HSBC India, commented on the launch: "India is one of the fastest growing global economies and has been on investors' radars recently. However, while it has attracted a significant number of portfolio investors, a challenging and time consuming registration and documentation process has proven a significant deterrent."

"I believe FASTrak will be incredibly valuable for our clients in terms of helping access India, thereby improving investment flows into the country."

The automated tool reduced market entry challenges of foreign investors through the quick identification and storage of key documentation. FASTrak enables an investor to categorise themselves in line with FPI requirements and provides a complete list of the applicable required documentation.

Investors can then complete all documents, with validation checks and assistance at various stages, and store everything on a single platform.

The existing registration and documentation process takes about one month on average.

Seth added: "We are proud to launch FASTrak in India and continue to support the country's aim to increase foreign investment into the country."

CACEIS expands insurance scheme partnership

Mutuelle du Personnel IBM has expanded its relationship with CACEIS, entrusting it with look-through reporting, data enrichment and calculation of the gross market solvency capital requirement for the portfolios already held under custody by the asset servicing group.

In 2014, the health insurance scheme assigned CACEIS the task of conducting securities valuations and ancillary accounting for its assets.

To comply with the forthcoming transparency and reporting obligations imposed by Solvency II, insurance companies and schemes require their asset servicing partners to provide high quality reports on their investments.

CACEIS's comprehensive look-through system produces a data reporting file in the Club AMPERE format and calculates gross market solvency capital requirement (SCR) totals. Insurance companies and schemes can generate statutory quarterly reports and calculate their SCR by the imposed deadlines.

Frédéric Bocher, head of administration and finance at Mutuelle du Personnel IBM, commented: "We chose CACEIS to help us deal with Solvency II issues as we already had experience of their approach to custody and valuation services."

Joseph Saliba, deputy CEO in charge of business development at CACEIS, commented: "CACEIS has developed the necessary expertise and technical capacity to provide insurers and management companies with high-quality data."

He added: "Mutuelle du Personnel IBM can count on CACEIS to ensure that its transparency obligations are met."

Tech acquisition for SS&C

SS&C has acquired Varden Technologies, a communication solution provider for investment firms.

Based in Boston, Varden provides a client and advisor suite that connects print, online and wireless communications, creating an interactive online solution.

It serves over 100 mutual fund, wealth management and fund administration clients with assets under management ranging from $50 million to $300 billion.

Bill Stone, chairman and CEO of SS&C Technologies said: "This acquisition creates a compelling advantage for SS&C customers as they access, attract and manage assets."

He added: "The move reaffirms SS&C as a leader in cloud-based enterprise reporting for financial services firms of all sizes. Combining Varden's end-to-end communication solution with SS&C is a milestone in our strategy to simplify operations for our customers."

President of Varden Technologies Perry Harris, said: "Combining Varden with SS&C enables

safekeeping
The power of global connections™
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Your complex investments require specialized knowledge and servicing experience. Count on personalized attention from our dedicated custody and agency team.

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us to significantly enhance the scale and power of our platform, and continue to work with our clients to lead the innovation of client reporting and communications."

SGSS expands UK services

Societe Generale Securities Services (SGSS) will offer trustee and depository services in the UK, after receiving approval from the appropriate regulators.

SGSS will offer full custody, depository and fund administration for UCITS and alternative investment funds, in addition to the products and services it already provides to its UK clients.

Bertrand Blanchard, country manager for SGSS in the UK, said: "As the second largest European custodian and among the top 10 worldwide, SGSS has a recognised global expertise in trustee and depositary services. We are now delighted to be able to extend this expertise to the UK, to offer significant new services to our clients here and thus continue to support and partner them in their growth and development."

SGSS's existing solutions are designed to improve operational efficiency for brokers, banks and financial institutions.

German exchange gets first FIX partner

Ullink has become the first vendor to partner with Tradegate Exchange, the German exchange for private investors.

Electronic trading and connectivity solutions provider Ullink will offer financial information exchange (FIX) connectivity through its NYFIX community, giving members access to Tradegate Exchange's services and liquidity.

Tradegate lists more than 3,800 stocks, and offers out-of-hours trading. It provides order executions without commissions of exchange fees, and provides streamed quotes through its website and app, as well as through market data vendors.

Ullink's NYFIX is the largest trading community in the world, supporting trading of all asset classes for more than 1000 brokers and trading venues, using its FIX protocol.

Through the community, clients gain access to global markets and brokers using a single connection. This allows for fast additions and certifications of new trade destinations.

Thorsten Commichau, CEO of Tradegate, said: "We are delighted to partner with Ullink's market leading trading community, NYFIX. This is an important milestone for the expansion of our business which instantly makes our exchange accessible to a much wider community."

Richard Bentley, chief strategy officer at Ullink, added: "We are excited to be the first vendor that offers access to such a popular and innovative exchange."

He continued: "We are committed to providing our trading community with access to the broadest range of liquidity venues and trading services, and our partnership with Tradegate is a strong illustration of that commitment."

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Chapman's Eye on the market

Travel broadens the mind

I read about a fascinating concept recently, which is, I suspect, much under-utilised in our industry at present—that of 'attaching yourself to the application'. This means, as a supplier of a service, which all of us are in some form, to go on the same journey as one of your end customers, so that you can experience exactly what they experience, from initial interest to the decision to buy, to satisfaction of the 'order' and follow-up.

Outside of the securities services industry, I'm invariably disappointed by the abject lack of user-friendliness of some processes and websites, be they in travel, hospitality, consumer goods, or whatever. Local government is notoriously poor with labyrinthine conduits, lack of follow-up, and obfuscatory language and poor communication. Airlines and train websites are improving slowly and only folks like Amazon—with their Prime concept—seem to have got it absolutely right from website through to end delivery, follow-up and subsequent cross-sell, through assiduous use of management information systems.

In securities services, many firms remain sales-led, with products and services being promoted that might be all-singing and all-dancing and treasured by the sales or new product development teams, but which don't necessarily solve the problems being faced by, or satisfy the requirements of, the end client. Are there stages of the process or sales pipeline where customers switch off due to receiving too much information, too little, or simply the wrong information? Do they get frustrated by inefficiencies in the delivery process? The concept of the 'secret shopper' is not employed, but perhaps benefit could be derived by doing so in some form, perhaps virtually, so that suppliers can see exactly what sort of journey their customers and buyers experience.

In our industry, be it from the perspective of either wholesale (such as a headhunting firm) or retail (an individual applying for a role directly to a firm), one area that is in glaring need of attention is that of recruitment. The recruitment process is, for many candidates, their first exposure to the culture of a given firm, and one which can colour their perceptions of what the rest of the firm is like.

Few firms get it absolutely right, but some are simply shocking. The recruitment team at one bank in the UK, which for the time being shall have to remain nameless, is building a strong and consistent reputation for aggression, unprofessionalism and downright unhelpfulness, which is significantly affecting its ability to attract top-level candidates. Unfortunately, in this new world of political correctness, to go against HR is akin to kicking a kitten, but for this firm in particular, its recruitment team is a glaring aberration in what is otherwise a very positive story at present. In the Middle East, there is another firm—and again, it would be naughtily-bad for me to say who it might be—whose front-end unprofessionalism turns candidates, and potentially clients, away.

What's the solution? Well, as ever, there's no easy answer. I can suggest that the next time something goes wrong—a prospect fails to land, a candidate doesn't accept an offer—then put yourself in their position and ask difficult questions as to why not.

Paul Chapman, managing director, HornbyChapman Ltd

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Global standards intensify local needs

Adapting to global regulations and standards means understanding how they play out in each local market, explains CIBC Mellon's Shane Kuros

Global regulatory and market changes continue to reshape many aspects of the financial services industry, as well as presenting both challenges and opportunities for investors and their agents. Global requirements can have international, cross-border and unique local impacts in each market, in turn driving complexity for players across the spectrum. In a global world, local insights are a critical asset.

The Organization for Economic Cooperation and Development (OECD) is introducing a new Common Reporting Standard (CRS), with early adopters beginning to implement from January 2016. Just as with the Foreign Account Tax Compliance Act (FATCA), all market participants may be required to spend significant time and resources on identification, compliance and reporting requirements.

Canada offers an instructive example of local implementation: the Government of Canada has proposed adaptation of the OECD's CRS from 1 July 2017, with the first exchange of information beginning in 2018. While anticipating guidance from the Canada Revenue Agency (CRA) on the CRS, Canadian asset servicers are involved in local working groups with leading industry associations and major stakeholders. Participants are considering the expected similarities and differences from the FATCA regime with respect to the due diligence procedures of identifying residents with accounts in implementing jurisdictions. Even with a global standard, local responses must be assessed against the guidance and expectations of local regulators, participants and industry bodies.

A notable recent CRS development was the Canadian Government's signing of the Multilateral Competent Authority Agreement, a coordinated arrangement under which Canada will exchange financial account information efficiently and securely with other tax jurisdictions. This agreement is aimed at supporting the CRA in detecting and assessing cases of tax evasion and protecting the integrity of Canada's tax system. Similar to FATCA-related efforts, local regulators must work to reconcile global reporting requirements with domestic laws governing information disclosure within and outside Canada.

Given cross-border investment activities, sometimes local or regional regulations drive considerations in other markets. For example, certain requirements under Europe's Alternative Investment Fund Managers Directive (AIFMD) have prompted growing attention from global clients regarding the workings of the Canadian market. Those clients seek better understanding and reassurance regarding how their business and regulatory requirements may be met. Canadian market participants in turn point to Canada's Clearing and Depository Services, highlighting Canada's central securities depository as a secure and controlled environment with effective controls in place for safeguarding participants' assets—measures are in place with respect to financial, risk, operational, data processing and business continuity control systems, designed to protect assets held on deposit there—all of which are undertaken within Canadian regulations, standards and rules. Managers subject to AIFMD are of course looking to receive this information in a manner that helps position them to satisfy their own regulatory requirements.

Regulatory changes are not the only global moves with an impact on local markets; the adoption of shorter settlement cycles in various jurisdictions likewise plays out simultaneously on both international and local stages. Following the implementation of T+2 in European markets, US market authorities announced their intention to move from T+3 to T+2 by Q3 2017. Given that the Canadian and US markets are closely aligned, with inter-listed securities and cross-border activities, Canadian market authorities indicated their intention to meet the same targets. The industry-wide effort to shorten Canada's securities settlement cycle is to be led by the Canadian Capital Markets Association.

Investors into Canada should carefully consider implications of the shorter settlement cycle. In Canada, National Instrument (NI) 24-101 Institutional Trade Matching and Settlements currently has a matching requirement of noon on T+1 for clients in the western hemisphere and noon on T+2 for non-western hemisphere clients, under a T+3 settlement environment for receive-versus-payment and delivery-versus-payment trades. As these changes take effect, clients should look to their providers and advisors for news on how NI 24-101 will be affected by the move to T+2 settlement. They should look for details about any revised timelines for trade match deadlines and the notification of trade instructions, and assess their ability to provide trade matching reports for the new deadlines, as well as providing confirmation of the system readiness to adapt to the changes in a seamless manner, through straight-through processing.

The global and local impact of various regulatory and market changes underscore the need for a knowledgeable local player who can help clients navigate the intersection of global and local requirements and keep up with regulatory and market structure change. Clients should expect their local provider to play an active role in industry associations, working to help shape and strengthen industry practices within the domestic environment. A strong local provider should also keep well apprised of global changes as they relate to the local market.

All in all, by working with an effective local sub-custodian and local advisors, clients can be better positioned to be promptly alerted to key changes, receive clarification on documentation requirements, and in turn better understand the potential impact at home and abroad from global regulatory changes and their local execution. AST

> “The global and local impact of various regulatory and market changes underscore the need for a knowledgeable local player who can help clients navigate the intersection of global and local requirements”

Shane Kuros
Vice president, head of business development and relationship management
CIBC Mellon

Hunting the Holy Grail

Global expansion is perhaps the most sought-after prize of the business world, and according to Calastone's Rob Swan, visibility is the key to finding it

Distribution continues to remain at the top of the agenda for most investment managers and, depending on where within the industry you are, the term can have varying meanings, but ultimately it is about two things: the expansion of your distribution required to increase assets under management and, more personally, to ensure your end-of-year bonus.

Distribution expansion is costly and time consuming, requiring a level of detailed understanding of your business and the market to be able to make the right decisions. In turn, the pressure to begin raising assets at the earliest opportunity is huge, given the distribution expansion cost outlay.

But how confident are industry participants that they have all the information needed to make the right decisions regarding their distribution expansion strategies?

The industry has always suffered from the same issue—the lack of visibility and insight across its operating markets and its own organisations.

Over the years, very little has changed. With multiple investment managers, transfer agents and distributors operating in many different geographies, and data being fed back to a single investment manager in various different formats and frequencies, it is difficult to have a clear global picture of what is really happening.

Add to this the cost to integrate multiple disparate data feeds, the quality, consistency and availability of the data, together with addressing evolving regulatory changes, and you begin to understand some of the data challenges the modern investment manager faces. Such challenges can negatively impact the business in a variety of ways.

Understanding distribution

The first of these is having the ability to fully understand where fund sales are originating. At times, management information is only at the nominee level, and depending on your distribution strategy, these nominees may straddle many different countries.

This in turn may have a detrimental effect on how business development teams are rewarded, as a lack of detailed transparency prevents investment managers from understanding where such business originated.

Assessing new markets

The lack of a reliable, bottom-up view of your markets will significantly impact the way in which an investment manager is able to evaluate new market opportunities. This lack of detailed information will make understanding the distribution landscape more difficult, and will prevent investment managers from being able to carry out future trend analyses. Future trend analysis can rely too heavily on incomplete data used as a base to make important distribution decisions. The inability to fully understand market trends will hinder their ability to plan future market specific product launches.

Regulatory changes

With regulations constantly changing, and the need for investment managers to have a clearer idea of their target market, the need to understand where their business has come from is ever greater and likely to become far more onerous on the side of the fund manager. This is increasingly the case—the UK Financial Conduct Authority (FCA) recently tightened up the suitability position. As an FCA representative recently told a fund manager at a Markets in Financial Instruments Directive (MiFID) II conference: "If you are selling to a platform, then you are selling direct to the investor."

Risk and costs are increased when the investment manager does not fully understand the distribution landscape. So what would the industry look like if such a greater level of transparency were available? Distribution market entry strategies would be more efficient for a start, being able to reduce costs and risk when entering a new market. Investment managers could measure with accuracy the input from the sales teams and better plan which products to enter a new market with, while also establishing economies of scale by having all client data in one place. This would allow ease of access, a quicker decision-making process, and a single format that works globally.

The ability to carry out future trend analysis confidently through all distribution channels would give investment managers the ability to build their product strategy to meet the needs of an increasingly sophisticated audience, while at the same time addressing the evolving regulatory challenges around suitability and target market.

Several transfer agents and platforms have attempted to achieve this, but when they have tried to leverage such data from their competitors the response has not always been favourable. What the industry needs is an agnostic business that can sit in the middle of fund managers, distributors and transfer agents in a position to obtain the data globally from all channels, with the capability of turning this into an easy-to-use user interface that can be tailored to each client's needs.

The distribution Holy Grail?

Calastone recognises these strategic distribution challenges that face the industry. It has become our mission to bring such transparency to the industry by extending our partner network.

Working with leading global distributors we are obtaining greater levels of data unobtainable to most companies. We are then packaging and tailoring this data into user interfaces which work for each client to help them manage their businesses more effectively. While delivering this at company level, it is also allowing us to build up market views in key global markets, which will aid investment managers and distributors in understanding where they stand compared to the market, from both a cross-border and domestic perspective.

This level of global transparency has the potential of offering the industry a game-changing product that levels the global playing field and would bring untold advantages to the investment management industry. AST

Rob Swan
Head of UK business development
Calastone

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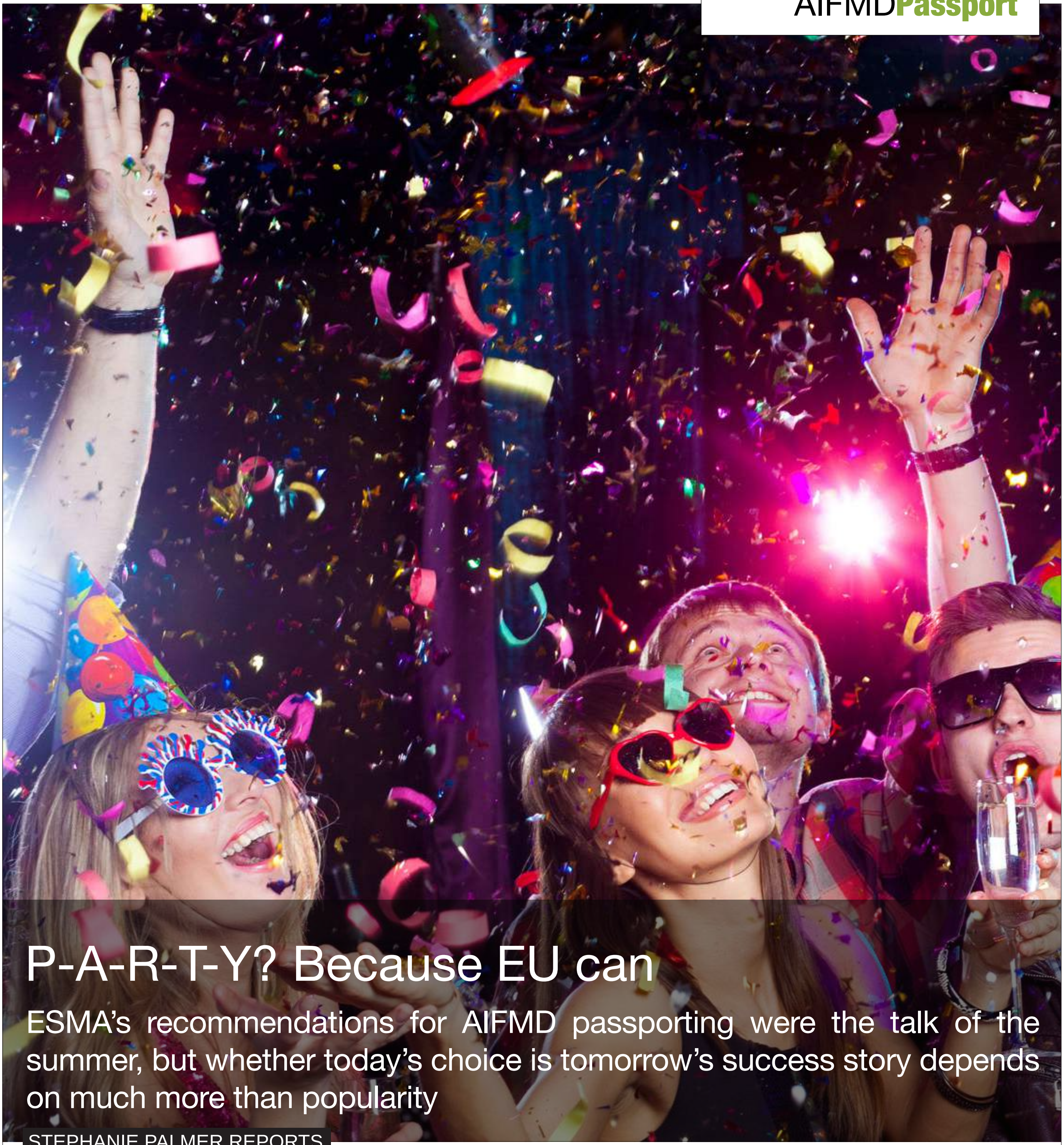


P-A-R-T-Y? Because EU can

ESMA's recommendations for AIFMD passporting were the talk of the summer, but whether today's choice is tomorrow's success story depends on much more than popularity

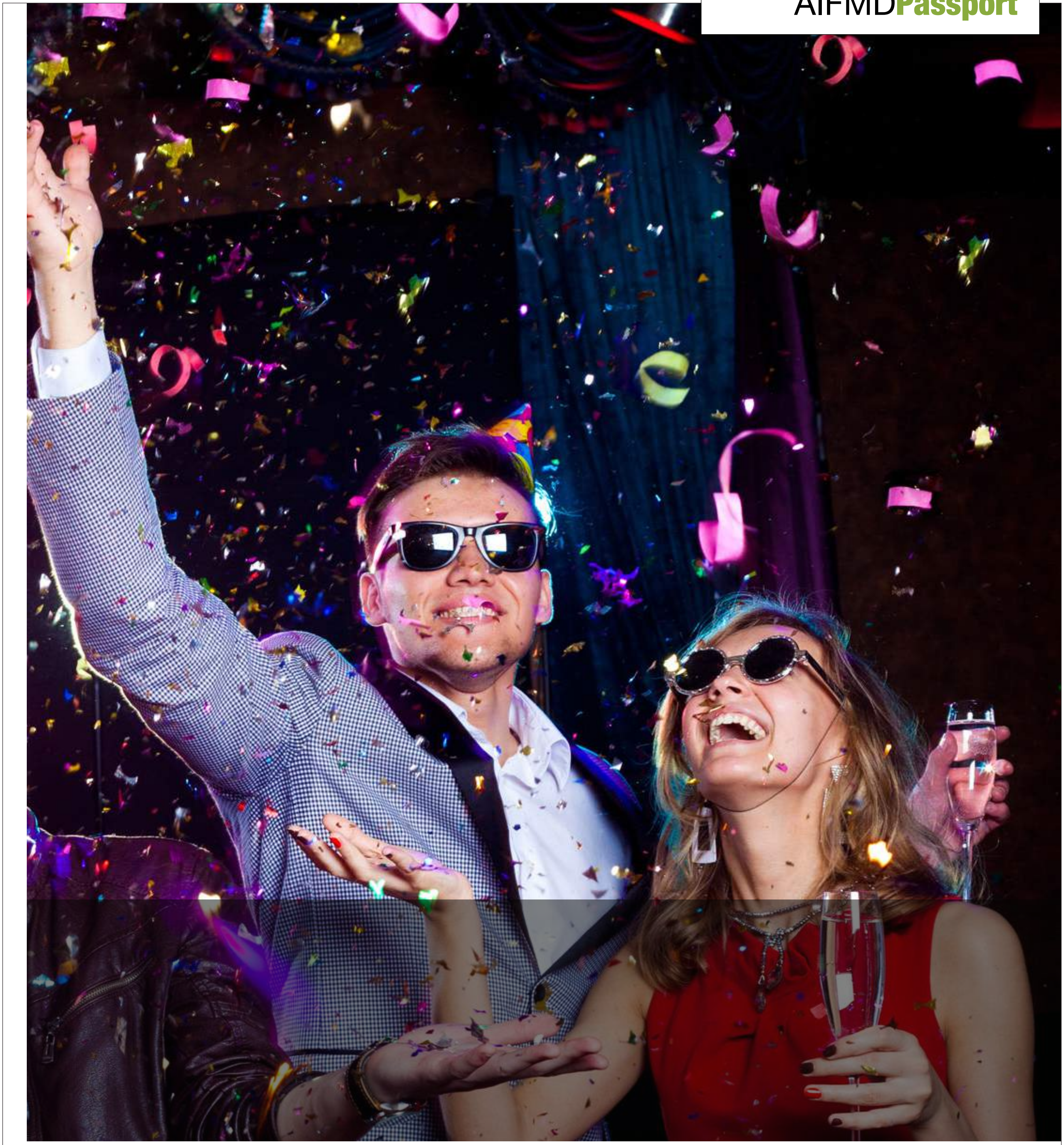
STEPHANIE PALMER REPORTS

For anyone trying to market funds in to the EU, the Alternative Investment Fund Managers Directive (AIFMD) passport is the hottest ticket in town right now. In July, the European Securities and Markets Authority (EMSA) was the popular kid handing out invites at the school gates, as it revealed the A-listers who would be the first allowed in the club.

The decision to recommend Jersey, Guernsey and (sort of) Switzerland was met with puffed-up pride and self-congratulation from those awarded with a ticket, while reactions among the not-so-lucky ranged from knowing nods and complacency to outright tantrums.

In a press release, law firm Carey Olson called the decision to recommend Jersey and Guernsey a "testament to their international importance", drawing attention to the islands' joint assets under management of £500 billion. At the other end of the scale, Paul Schott, CEO of the Investment Company Institute in the US, went so far as to say the decision not to recommend the US for passport extension would "discriminate against US managers".

Ed Smith, a partner at law firm Linklaters is a tad more pragmatic, however, suggesting that the recommendation is more to do with Jersey and Guernsey's existing AIFMD-friendly regimes.



He says: “These countries have all introduced new legislation specifically to address compatibility with AIFMD, so it was easier for ESMA to conclude that regulatory regimes were suitably equivalent.”

Tim Thornton, chief data officer at MUFJ, adds to this, saying that Jersey and Guernsey’s regulatory frameworks have already prepped for passporting. Over the last two years, he says, both islands have created voluntary opt-in regimes, allowing firms to comply with AIFMD rules, even though they’re not obliged to.

“Managers, funds and depositories domiciled there have been able to opt in to the AIFMD rules and effectively they comply already. The framework was already there, the reporting and the regulatory oversight was already there—it was already very similar to the European onshore jurisdictions.”

Thornton also points out that this was arguably a logical step for the islands. Now, funds domiciled in Jersey and Guernsey have much more choice than their onshore counterparts: they can take advantage of their imminent AIFMD passporting privileges, or use their previous solution, the national private placement (NPP) regime, which allows them to set up relationships for marketing in to individual EU member states, one at a time. Alternatively, they can choose not to bother with marketing funds in Europe full stop, avoiding all the complications of the continent.

At the time of ESMA's announcement, Jersey funds partner for Carey Olsen, Dan O'Connor, said: "We have seen many fund managers significantly reduce operational costs and disclosure requirements by choosing Jersey and Guernsey funds and marketing to potential EU investors using NPP regimes."

"We expect this announcement to provide further comfort to fund managers and their advisers that Jersey and Guernsey funds provide the best of both worlds."

This choice means that firms can not only choose which way to go—rather than being forced down a particular route—they can also choose what is most cost-effective for them. While the NPP may be the best route for marketing in to one or two jurisdictions, AIFMD might work better for those trying to access many.

Thornton says: "The passport means complying with just one set of reporting requirements. Although it carries extra costs, those costs are probably going to be outweighed by the savings in not having to report to multiple regulators, as they would under the NPP."

While Jersey and Guernsey are feeling rather pleased with themselves, less sure, or at least less vocal, is Switzerland, the jurisdiction that ESMA recommended on the condition that it removes "any remaining obstacles with the enactment of pending legislation".

According to Thornton, ESMA isn't actually being very clear about what the requirements for passporting are. It may be frustrating for those jurisdictions that haven't been recommended to be left in the dark over how they can achieve compliance, especially when the circumstances surrounding Switzerland remain veiled.

"It would be helpful to know what exactly they're testing against, and what the gaps are that regulators have to fill. That would help a lot of people—both regulators and people in the industry—to work to close those gaps where appropriate," says Thornton.

While ESMA has announced its intent to consider the Cayman Islands, Canada and Australia for AIFMD passporting, and a willingness to refine its assessment of Hong Kong, the US and Singapore, there is no indication of time-scale. Despite the Alternative Investment and Management Association (AIMA) saying ESMA should be making faster progress and the ICI strongly criticising the rejection of the US, others believe that further extensions shouldn't necessarily be the top priority.

Steve Slessor, managing director at MUFG Investor Services, who is based in Canada, says: "It is imperative for regulators to get it right now before going any further with passport extensions. While there is frustration, it was not surprising that no clarity has been provided to date."

Thornton suggests that, now Jersey and Guernsey have been recommended, the next step for ESMA should be to turn its attention elsewhere. He says: "Looking at the client base and the popular jurisdictions, ESMA has to be looking towards Cayman as a very popular jurisdiction for funds, particularly for European managers. I would imagine that they would start here and then follow on, by way of popularity, to Bermuda, Hong Kong and Singapore."

On the other hand, however, Thornton is of the same opinion as Slessor when it comes to priorities, believing that actually, ESMA should focus on tidying up its own house before extending invitations cross-border.

"So far, there's not a lot of harmonisation between the different EU jurisdictions," he says.

"It would be nice if the passporting regime moved more quickly, but when ESMA is dealing with so many different member states, it has to come up with recommendations and put them through various parliaments, then the national regulators have to implement it. This means there are significant differences in the rules in different states despite the driver for the regulation being to harmonise the rules. It was always going to take some time."

AIFMD was intended to lead to a more harmonised Europe, and until that can be achieved, it is arguable that extending the passport is at best a little bit pointless, and at worst hasty and ill-thought out.

As Smith points out: "There are still uncertainties around how the member state of reference process would actually work in practice for alternative investment funds if they don't already have a European economic area (EEA) nexus, such as a UK- or other EEA-authorised alternative investment fund manager."

Industry bodies have expressed doubts over the decision, or lack thereof, regarding the US. The ICI, whose members represent about $18.2 trillion in assets under management in total, was particularly put out.

CEO Schott said at the time that the advice "inappropriately confuses the regulation of mutual funds with the regulation of funds sold to professional investors in the US."

He added: "Currently in the US, EU managers can readily sell funds to professional investors on the same terms as US managers, and across the entire US marketplace. Unfortunately, the impact of ESMA's advice would be to discriminate against US managers by denying them comparable access to the entire EU marketplace."

"EU policymakers must correct this error and apply the appropriate legal analysis before they take additional action on the potential extension of the AIFMD passport to the US."

While AIMA was a little less harsh, it too questioned ESMA's indecisiveness. In a statement, CEO Jack Inglis said: "While we would have wished ESMA to adopt a more streamlined and speedier assessment of all important jurisdictions, as there is no need for an equivalence assessment in the AIFMD, we welcome the clarity on which jurisdictions are to be assessed in the coming months."

Slessor, however, preaches patience. From his point of view, the US market isn't ready for AIFMD passporting yet, in fact, he suggests that they're still wading through the abundance of other regulation that's affecting day-to-day business, both from within the US and from across the Atlantic.

"The decision not to extend the passporting to the US is not a discriminatory one," he says. "Regulators are already struggling to iron out the requirements set out in the EU. Adding another large jurisdiction at this time would only lead to more confusion, backlogs and uncertainty about the future of AIFMD."

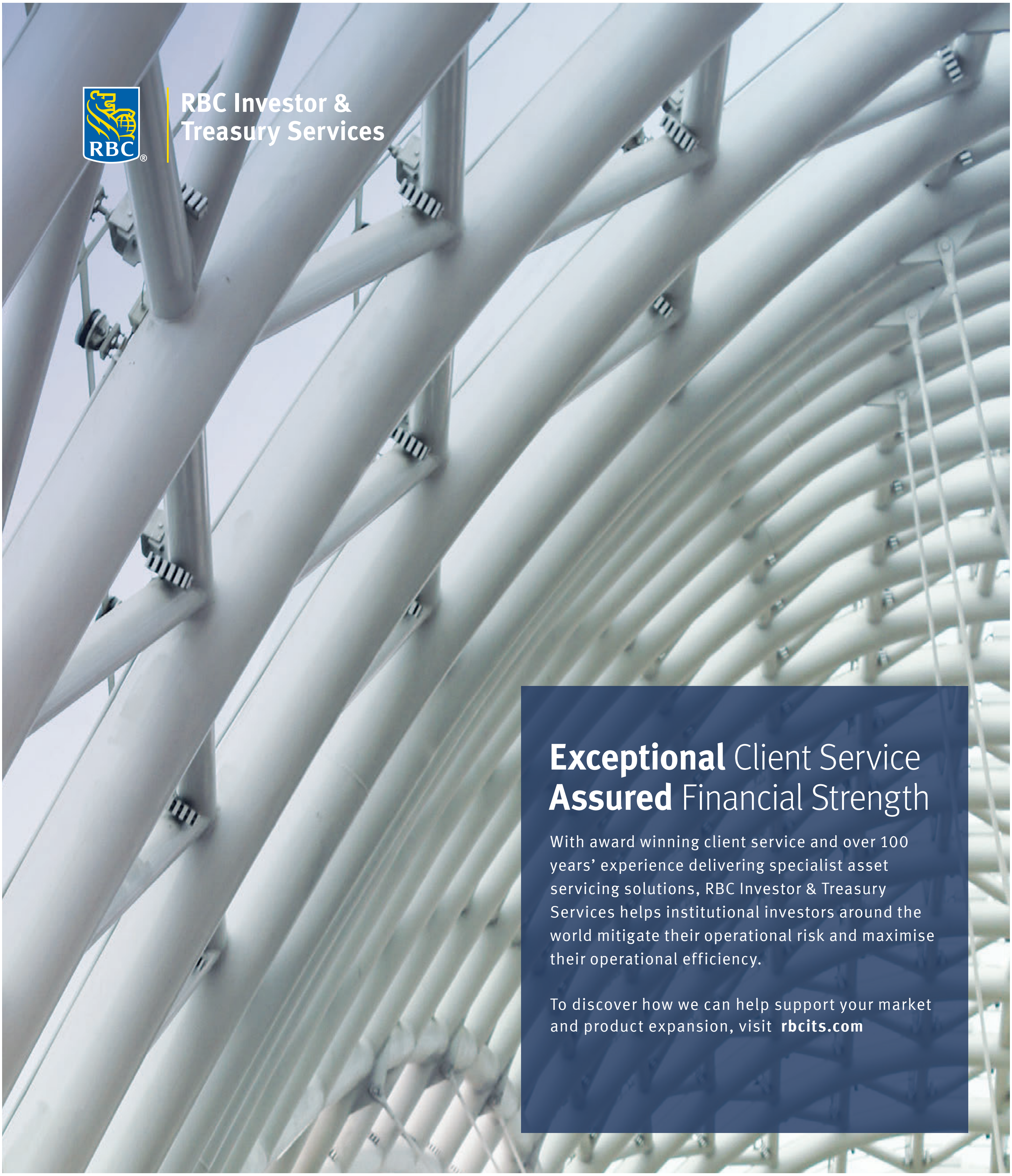
He adds: "Any passporting extensions will require adjustments to the US regulatory environment. Until clear, definite guidance is provided, US managers are not planning to spend significant time or resources on AIFMD, and administrators are not able to develop solutions to help US managers until the scope of the regulation is finalised."

Although ESMA's recommendation has lent to some impatience and foot-stamping, the majority appear to be taking it in their stride—reacting with the kind of patience that's appropriate for such a long and complex process. However much Jersey and Guernsey pat themselves on the back, it is still important to remember that the recommendation is only a recommendation. By definition, this decision is not set in stone.

Not only is the extension of the passport to Jersey and Guernsey, or anywhere else for that matter, not a definite conclusion, it could also still be subject to an indefinite delay. It certainly doesn't appear that ESMA is inclined to rush anything through.

In fact, as Smith says: "It is worth highlighting that ESMA expressly comments in its advice that the European Commission may wish to consider delaying the legislative triggers, which would actually extend the passports until ESMA has provided its advice for a greater number of non-EU countries, given the potential impact an extension of the passports might have on the market."

A perfect guest list takes plenty of time and much calculation. Jersey, Guernsey and Switzerland may have been extended a preliminary invitation, but they'll have to make sure they're wearing the right shoes if they want to get further than the threshold. **AST**



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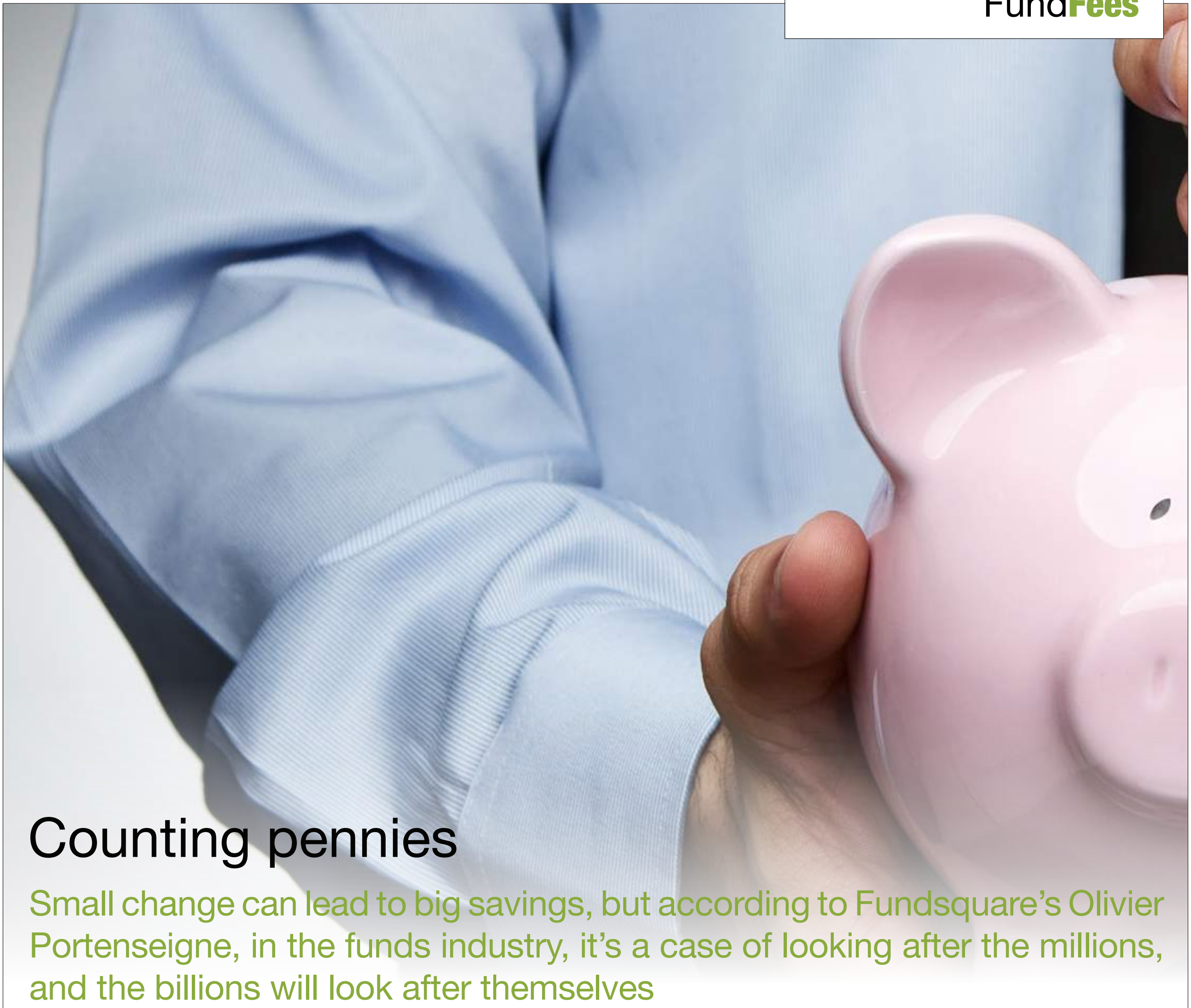

Counting pennies

Small change can lead to big savings, but according to Fundsquare's Olivier Portenseigne, in the funds industry, it's a case of looking after the millions, and the billions will look after themselves

Pressure on investment fund fees has never been greater. Savers are better informed than ever, there is increased competition, and politicians are pushing for a sustainable private pension system. There is a solution, as the European fund industry has the potential to make savings in excess of €900 million each year, but the key is increased efficiency in the fund distribution supply chain.

The rise of the exchange-traded fund (ETF) and the price war between index tracker fund promoters in the UK demonstrates the trend towards lower fees and costs. On top of this, the European population is ageing, requiring robust pension solutions, the European economy is in relative decline, non-European fund domiciles are on the rise, and politicians are under pressure to protect investors and maintain financial sector stability. Thanks to the Key Investor Information Document (KIID), clients are more aware than ever about fund fees, and the Markets in Financial Instruments Directive (MiFID) II will also challenge the fund distribution business model.

€1 billion savings

If the European fund industry can make some bold changes such as mutualising systems and processes, it stands to save nearly €1 billion and to improve efficiency and responsiveness. This conclusion is based on the report titled Europe's Fund Expenses at a Crossroads, produced by Fundsquare and Deloitte. The work took an in-depth look at costs, and where savings could be made, by studying 400 funds managed by 60 promoters in six domiciles: Luxembourg and Ireland (European cross-border domiciles), France, the UK and Germany (European domestic domiciles), and the US.

Efficient models

The study found that US funds were 30 basis points cheaper than European funds, on average. One's first thought might be that the cross-border distribution model might be largely to blame for this, given the need for multiple tax filing and high reporting fees, and the production of legally required documents such as the KIID. However, after modelling the cost of distributing to seven countries from Luxembourg, the report found the cost was around 2.3 basis points.

When a similar exercise was carried out for France-, Germany- and UK-domiciled funds, the cost tended to range from eight to 10 basis points. This is still not enough to explain the Europe-US fee gap. So, if the efficiency of distributing cross-border out of Luxembourg or Dublin is already high, one needs to look elsewhere for savings.

Market fragmentation

The US must then be more efficient due to the less fragmented nature of the distribution and servicing landscape, with low levels of processing standardisation. As well as looking at these, the report went a step further to estimate the potential savings that could result from a fundamental rethink and considerable streamlining of distribution activities. For example:

- A big step up in automation could see costs of €450 million per year reduced by 58 percent. Much of this could be achieved by moving to central order management systems, replacing the bilateral links that are currently widespread.
- Transfers, dividends and corporate actions processing are largely handled manually, and the total annual cost is €120 million. This figure could be reduced by 83 percent, principally by streamlining procedures of the manual, bilateral processing of transfers between distributors and transfer agents.
- Most often, payments are made on the basis of one payment per order, per counterparty. However, netting per currency, counterparty and transaction type could slash cash processing costs by as much as 97 percent from the current total bill of €170 million.
- Mutualisation of know-your-client and distributor due-diligence procedures could see costs of €180 million reduced by as much as 89 percent. Currently, each management company has to collect the same information and perform the same checks on each distributor. Better organisation would also increase quality.
- The cost of data and document dissemination is €15 million, a figure that could be cut by 93 percent.
- Improved processes would reduce errors and reconciliation costs, with a further 61 percent saving on the current bill of €355 million.

Threats and opportunities

There is now more than €10 billion in assets under management in the European investment fund sector. Many factors are pushing this growth, not least that 41 percent of European household wealth still remains in cash accounts. The industry should take the opportunity to attract and retain clients by cutting costs and reducing fees, and so moving their businesses to the next level. Then there is growing competition.

The European fund industry's landscape is changing. The expansion of non-European fund domiciles, the ageing of Europe's population, and demands for greater investor protection means the fund industry must be agile and responsive. Without a doubt, if the European fund industry can make some bold changes outlined in this new report, it not only stands to save nearly €1 billion but also improve efficiency and responsiveness. AST

Olivier Portenseigne
Chief commercial officer
Fundsquare

Bumpy roads ahead

Achieving operational efficiency today should be a priority for asset managers, if they're going to survive tomorrow. Todd Moyer of Confluence explains why

All money managers would likely agree that recent regulatory changes have transformed the asset management world. We are now looking at an almost wholly renewed industry following new rules, answering new demands, and interacting differently with its investors.

Over the past few years, regulators have adopted a more prescriptive, hands-on approach to rulemaking in an attempt to better understand the dynamics of the managed investment sector as a whole. The approach is focused on managing systemic risk by collecting and analysing more of the managers' data. Many of these new and different types of data are much more difficult to source and verify. They need to be sourced from counterparties and service providers, extracted from new applications and then aggregated and normalised into a single data framework that can be used to satisfy multiple new reporting requirements.

Those new regulatory demands have subsequently put quite a lot of pressure on the asset managers' back-office operations. Firms have had to upgrade their data collection systems and move away from manual processes and spreadsheets, even when their risk assessment and capture practices were reasonably strong, in order to adopt automated data capture systems capable of meeting shorter and more frequent reporting deadlines.

This shift has been particularly noticeable among the larger asset servicing firms, many of which have begun scrutinising their traditional operating models in order to cut costs and improve efficiency. Many firms have brought in new management teams in 2015 with the mandate to do just that, but without diminishing quality of the service.

These initial changes firms are making have helped alleviate some of the regulatory cost burden, cut down the risk inherent in spreadsheet dependence, and helped to make some improvements to operational efficiencies and scalability through automation.

But the reality is that the regulatory push for a more transparent industry is far from being over, and the recent enhanced data reporting rule proposal from the US Securities and Exchange Commission is the latest sign that transparency reporting mandates and costs will continue to be on the rise.

Partnering for success

As regulators have expanded their post-crisis focus to protect investors and manage systemic risk, we have seen several firms explore options for outsourcing data management to a single, centralised platform provider that acts as a vendor of record for managing regulatory data.

In many cases this can be a sensible decision, as much of the cost for complying with the latest regulatory demands shifts to the vendor and lessens the burden placed on the asset manager.

Furthermore, building technology in-house often progresses at a very slow pace, which increases the risk that the technology is obsolete by the time it comes in to use. In-house builds can also suffer from infrequent upgrades and enhancements, leading to decreased performance over time.

Hybrid outsourced solutions pieced together from multiple vendor products lead to a more fragmented back office, which eventually impacts the overall efficiency. Many firms are using too many single-point vendor applications that are often limited in their ability to integrate with and reuse existing data from other systems.

In order to achieve greatest system efficiency and business flexibility to address current and future regulatory requirements, asset managers should look for a solution partner that can leverage the right functionalities to efficiently reuse data and rapidly develop new reporting modules when needed.

Flexibility and adaptability

In this new regulatory era, data transparency and accountability for large-scale data collection is soon to be the norm, and data inaccuracies can no longer be tolerated. Asset managers need to focus on these key areas to ensure that they are best prepared to meet new and future regulatory deadlines.

In this sense, flexibility and adaptability are master themes when it comes to data management. Any solution should be built to accommodate continuous regulatory change.

Keeping up with growing regulatory initiatives without hindering growth, stability or profitability is the real challenge. But while it is unlikely that costs and regulatory pressures will decrease, continued growth is never a given, and addressing that challenge will require implementing a new operating model for asset managers. Yesterday's data management best practices aren't viable in today's market environment.

To maintain and improve their competitive advantage, asset managers must do more than just change—they must adapt. And this can be much more easily achieved when partnering with the right solution provider. AST

Todd Moyer
Executive vice president of global business development
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Fund of their providers

RBC Investor & Treasury Services, State Street, HSBC Securities Services and Societe Generale Securities Services dominated the R & M Fund Accounting and Administration Survey 2015

MARK DUGDALE REPORTS

RBC Investor & Treasury Services, State Street, HSBC Securities Services and Societe Generale Securities Services dominated the R & M Fund Accounting and Administration Survey 2015, either topping the overall results or leading the charge in certain European jurisdictions.

R & M Consultants received 122 responses for 11 different providers, seven of which met the minimum criteria for inclusion in the overall results. Countries responding included the UK, France, Italy, Canada, Australia, Belgium, the Netherlands, Ireland, the US and Luxembourg. Services assessed covered those supplied out of the UK, Ireland, Luxembourg, France, Germany and Italy.

The overall winner was RBC Investor & Treasury Services, with a score of 6.06 for 2015. This was down slightly on 2014 when the bank scored 6.46, and 2013 when it scored 6.62. RBC Investor & Treasury Services also came out on top for services supplied out of Luxembourg and continental Europe, although, again, its results were slightly down on 2014's.

Joanna Meager, global head of client operations and head of investor and treasury services UK at RBC, commented: "We are delighted that the results of this year's fund administration survey continue to recognise our efforts to provide the best possible service to our clients."

"We strive to continue to build on our position as one of the top providers of fund administration services across the globe as we continue to enhance our capabilities to meet the evolving needs of our clients."

State Street was this year's most improved, achieving a score of 6.3 for fund administration and accounting services rendered out of the UK. The bank beat both its 2014 score of 5.37 and its 2013 score of 5.67—leaps that John Campbell, head of State Street Global Services in the UK, Middle East and Africa, attributed to close partnerships with clients.

He said: "We are delighted with this year's results. The outcome of R & M's fund administration survey this year reflects our continual focus on excellence in how we work in close partnership with our clients in order to meet their individual business needs. In an ever evolving landscape we will continue to support our clients locally while building on our position as a key global player."

Ireland is where it's at

Ireland's best provider was HSBC Securities Services, which scored 6.62 in 2015's survey. The result was slightly down on 2014's 6.68 but remained on a par with 2013's 6.62, suggesting a consistency in service that fund clients in Ireland have come to rely on.

Tony McDonnell, head of HSBC Securities Services in Ireland, said: "We are delighted to once again top the Ireland category in the Fund Accounting and Administration Survey 2015. Ireland is a key market for HSBC Securities Services, reflecting the country's increasing importance as a European hub for the funds management industry as a whole."

Indeed, Ireland has become something of centre for HSBC in securities servicing, where it works to meet the needs of many of its fund clients from around the world. McDonnell explained: "The award is testimony to the hard work and quality of our team here in Dublin, and also to the quality of our client portfolio. Over the last five years, our operation in Ireland has grown substantially as we have developed our operating model to service clients from Asia, Europe and North America from a central processing hub in Ireland."

"This growth is based not just on investment in products and an operating model development process, but also as a result of a significant client refocusing. We have spent a considerable amount of time speaking to our existing clients and prospects to understand the strategic direction of their business. We are also ensuring that our clients are globally connected to the HSBC's resources and have the full weight of the group behind them. When knitted together, this has created a powerful offering for our clients."

Societe Generale Securities Services was the only provider to be praised in France and Italy, with the bank scoring 5.85 and 5.37 for these jurisdictions, respectively. The scores were down on 2014, but the bank had an impressive response rate from a significant mix of jurisdictions.

Laurent Plumet, head of business development for fund administration at Societe Generale Securities Services, said: "With over 20 customers responding to the survey (which is the double of the required threshold), Societe Generale Securities Services is once again the supplier which involved the largest number of clients in the survey."

"Customers from different countries (France, Germany, Italy and Luxembourg) responded to the survey and Societe Generale Securities Services has been classified in three of these countries (France, Luxembourg and Italy)."

Plumet added: "Societe Generale Securities Services is the only competitor with enough respondents in France and Italy, demonstrating its ability to accompany customers on a global basis but also more locally. The results obtained from a large database of over 20 clients (overall average 5.75) had slightly decreased compared to 2014 (6.02) but are higher than in 2013 (5.70) and reflected a certain continuity of the quality of service at Societe Generale Securities Services."

For more results from the R & M Fund Accounting and Administration Survey 2015, **visit www.clientalkback.com.** AST

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R & M Fund Accounting and Administration Survey 2015

	Overall	2015	2014	2013	Change
1	RBC Investor & Treasury Services (1)	6.06	6.46	6.62	-0.40
2	HSBC Securities Services (2)	6.03	6.36	6.15	-0.33
3	State Street (8)	5.96	5.23	5.66	0.73
4	J.P. Morgan (4)	5.81	6.00	5.74	-0.19
5	Northern Trust (6)	5.79	5.57	5.47	0.22
6	BNP Paribas Securities Services (5)	5.77	5.59	5.62	0.18
7	Societe Generale Securities Services (3)	5.54	6.02	5.65	-0.48
	Overall Average	5.83	5.89	5.85	-0.06

	Ireland	2015	2014	2013	Change
1	HSBC Securities Services (1)	6.62	6.68	6.62	-0.06
2	J.P. Morgan (2)	6.44	6.3		0.14
3	Northern Trust (4)	5.83	5.35	5.4	0.48
4	RBC Investor & Treasury Services	5.71			
	Overall Average	6.05	5.9	5.99	0.15

	UK	2015	2014	2013	Change
1	State Street (5)	6.3	5.37	5.67	0.93
2	HSBC Securities Services (1)	5.87	5.94	5.93	-0.07
3	Northern Trust (2)	5.61	5.713	5.52	-0.10
4	J.P. Morgan	5.49			
5	BNP Paribas Securities Services (4)	5.45	5.57	5.7	-0.12
	Overall Average	5.7	5.705	5.64	-0.00

	Luxembourg	2015	2014	2013	Change
1	RBC Investor & Treasury Services (1)	6.52	6.63	6.61	-0.11
2	BNP Paribas Securities Services (4)	5.99	5.33	5.61	0.66
3	J.P. Morgan (3)	5.8	5.79	5.61	0.01
4	HSBC	5.58			
5	Societe Generale Securities Services (2)	5.34	6.34		-1.00
	Overall Average	5.89	6.05	6.11	-0.16

	Continental Europe	2015	2014	2013	Change
1	RBC Investor & Treasury Services (1)	6.52	6.63	6.61	-0.11
2	BNP Paribas Securities Services (4)	5.98	5.33	5.61	0.65
3	J.P. Morgan (3)	5.8	5.79	5.34	0.01
4	HSBC Securities Services	5.58			
5	Societe Generale Securities Services (2)	5.54	6.02	5.65	-0.48
	Overall Average	5.78	6	5.86	-0.22

	France	2015	2014	2013	Change
1	Societe Generale Securities Services	5.85	6.18	5.74	-0.33

	Italy	2015	2014	2013	Change
1	Societe Generale Securities Services	5.37	5.82		-0.45

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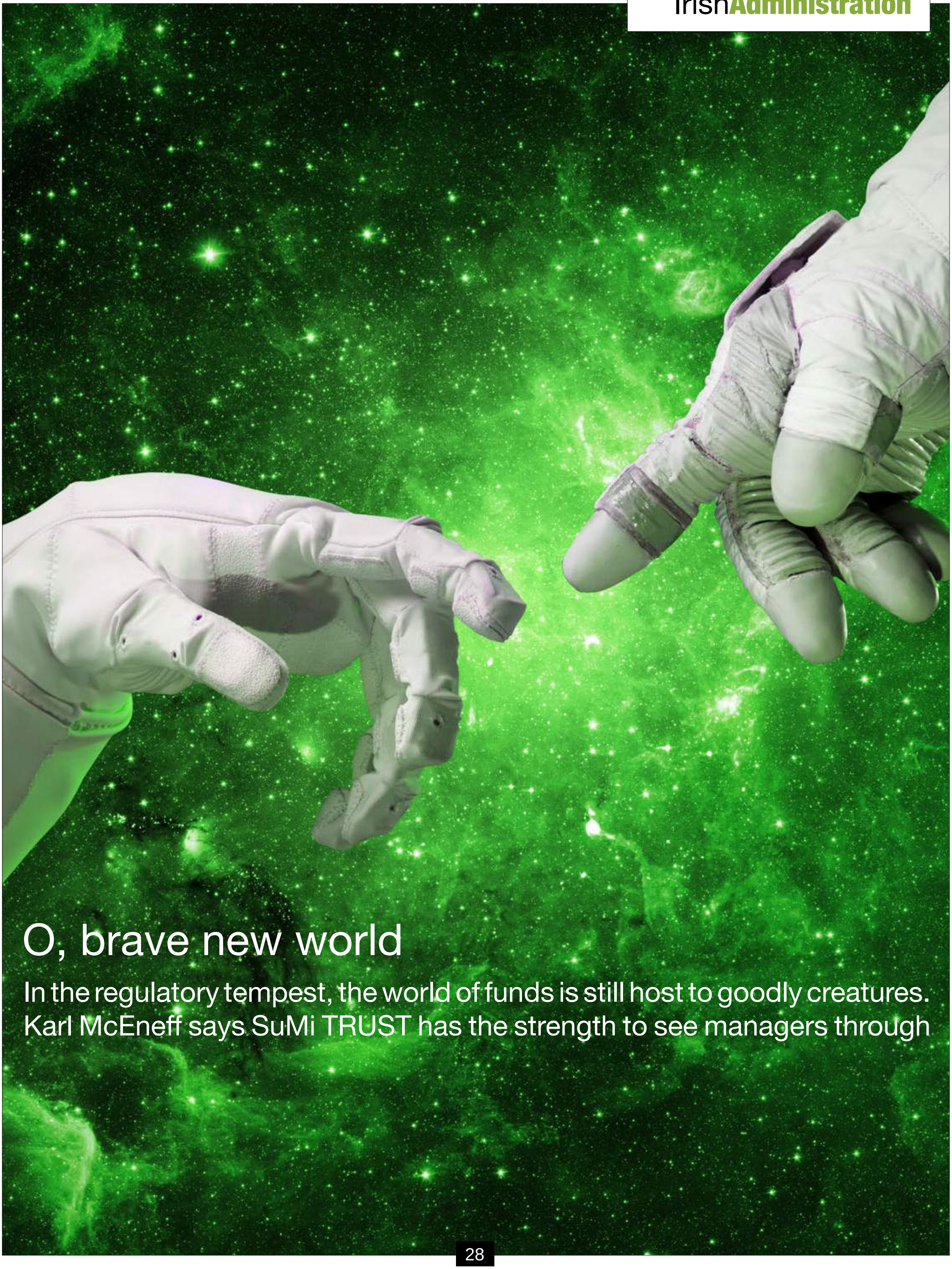


O, brave new world

In the regulatory tempest, the world of funds is still host to goodly creatures. Karl McEneff says SuMi TRUST has the strength to see managers through

SuMi TRUST has had a busy summer of mandates. What were the key drivers for new business, and where were the funds established?

New business mandates resulted from a number of different areas. Firstly, from the Sumitomo Mitsui Trust Bank (SMTB) group and their affiliated clients establishing new Cayman products, but also from existing clients building out new Cayman Islands or Ireland-regulated funds, and UCITS using our Irish platforms. We also saw business from new fund launches, and from managers concerned about the ongoing service quality, commitment and balance sheet strength of their existing providers.

We are also securing new depositary mandates for Irish and international alternative investment fund managers, given the financial strength and fiduciary expertise of SMTB. The key drivers are our proven service quality developed for the very demanding Japanese clients, speed of response and very strong networking, focused on creating a partnership environment and tailored solutions for clients.

How have the demands of the financial services industry changed in the last five years?

The market is continuously changing, with the introduction of additional regulatory and reporting demands from the EU and US affecting both asset managers and the fund servicing industry. In addition, investors are always looking for greater transparency and timely accurate reporting to support investment decisions. Due diligence has become ever more thorough and demanding, with investors looking to source more independent data and information flows direct from the service providers, rather than through the asset managers as historically was the case.

Also, corporate governance and anti-money laundering (AML) requirements continue to place further pressure and demands on servicing. All of this requires ongoing technology investment and specialist human resources.

Have you seen a change in the requirements and demands of asset managers and fund promoters? How have you developed services in line with this?

Asset managers are increasingly dependent on their servicing partners as they look to focus their energies on core portfolio management and investor relations. With the arrival of enhanced regulations and reporting, they are increasingly looking to outsource operations and other functions and to identify servicing partners to support this. Fund promoters are also absorbing all of the new distribution rules, and the increasing pressure to bring the industry onshore and identify the optimum distribution strategies and products.

We have created Alternative Investment Fund Managers Directive (AIFMD) and UCITS solutions, enhanced risk reporting, middle office, FX currency share class hedging, and increasingly detailed portfolio reporting.

How should the fund servicing industry be adapting to handle the requirements of AIFMD? How will services differ from UCITS?

From the depository perspective, the AIFMD requirements have been broken into three key areas: cash flow monitoring; safekeeping of alternative investment funds' assets; and oversight obligations.

Safekeeping of assets and oversight are already required for UCITS. However, there is a distinction under AIFMD between 'assets in custody' and those categorised as 'other assets', that is, not in custody. For loss of assets in custody, the depository is subject to a higher standard of liability, which is close to strict liability and needs to support this.

The cash flow monitoring requirement is new, and has had a significant impact. Depositories take on the full overview of all fund cash accounts on a daily basis, reconcile the various cash flows, and monitor for significant and inconsistent fund movements.

AIFMD also has specific requirements for asset segregation, which are becoming standard in Europe but pose greater challenges for US prime brokers who adopt a different model. From the perspective of fund administration, AIFMD has created a new regulatory reporting requirement under Annex IV, and investment managers will usually look to their administrator to support this.

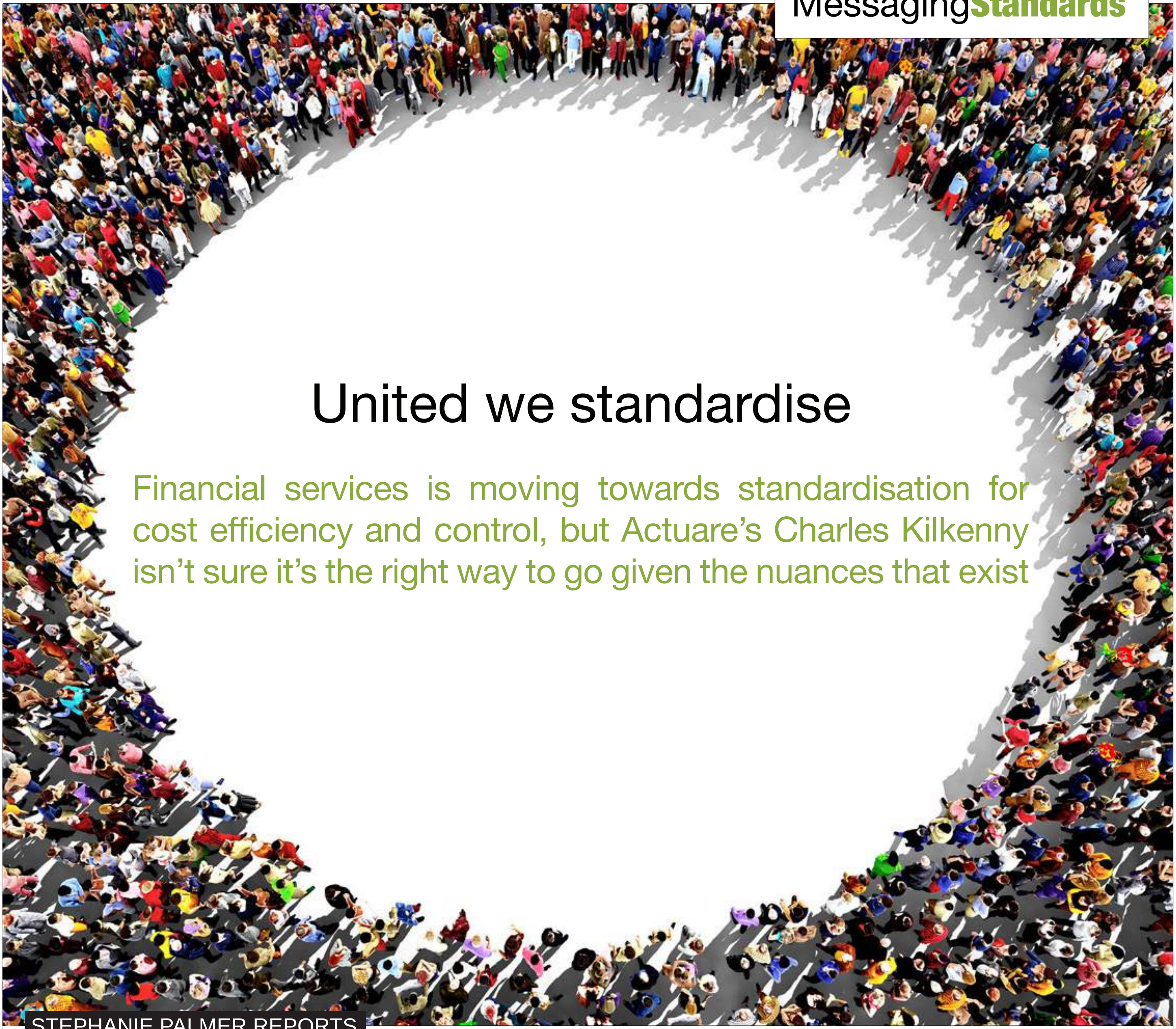
UCITS V will also introduce further depository liabilities as regulators attempt to synchronise the two regulatory regimes. A key requirement will therefore be balance sheet strength and adequate capital ratios to be able to manage the increased risk for the depositary and to provide investors with the appropriate level of financial comfort.

What will fund services look like for clients from further afield, for example, those entering the market from Asia?

Asian managers looking to raise assets in Europe and other markets will increasingly look to the UCITS brand, which is now recognised in more than 70 countries. They will also look for a respected Asian brand. Given SuMi TRUST's experience in Asia, and its operational model of delivering accurate daily net asset values, plus the balance sheet and corporate strength, we believe we are well positioned to support Asian managers. AST

> “Asset managers are increasingly dependent on their servicing partners as they look to focus their energies on core portfolio management and investor relations”

Karl McEneff
Chairman
SuMi TRUST, Ireland



United we standardise

Financial services is moving towards standardisation for cost efficiency and control, but Actuare's Charles Kilkenny isn't sure it's the right way to go given the nuances that exist

STEPHANIE PALMER REPORTS

How important is it to have a single global messaging standard?

It is commendable to want to have a single standard for everything and, indeed, we do need to do more to standardise. However, having one single global standard for all things in financial services is nonsense, really. There's no logic in mixing everything together. Imagine throwing lots of different tiny items into a bucket, only to have to separate them out again. It probably makes more sense for each business to try to progress with what they have and to align to common technical standards. In funds distribution, for example, there is a need for more participants to standardise. However, it does not make sense for them to have to adopt the latest over-the-counter (OTC) derivatives vocabulary or even to understand such definitions.

On top of this, there are the economies of scale to consider. Anything that is more efficient for the market as a whole is likely to reduce costs for the end customer. But, on the other hand, if there is a lot of pain involved in getting to that standard, or if that standard is not appropriate—if it actually prevents market participants from getting things done—then it's going to be more costly for everyone in the long run.

There's a balance to be struck. A standard is something that is adopted and used by the majority of market participants. If it hasn't been adopted then it's just a proposed standard, it's not a standard yet. A critical mass is required for it to have any value.

Are certain standards being adopted?

Most certainly, there are a number of standards that have meaning and purpose. The ISO 20022 messaging standard supported by SWIFT is very much a focus for securities settlement and payments, and it has been adopted by many SWIFT members, including Actuare. However, in the UK, EMX remains the dominant standard for funds; FIX for trading generally; and FpML for OTC derivatives. ViaNova (a variant of 20022) is also used by many pension administrators.

I would ask, though, if achieving a single standard with 20022 is actually the best thing for the industry. I know a lot of people think it is, and it has certainly done a lot to bring everything in line, but in some cases businesses are moving a lot faster than 20022. Even within 20022, there are so many different flavours of it, that it is almost not a standard within itself.

At the end of the day, it is important to achieve the simplest solution for the market. For example, even comma-separated value (CSV) files may actually be more useful and relevant than a complex messaging structure such as 20022, which can take years to become fully crafted and properly standardised.

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There is a risk that by the time standards such as 20022 are implemented they are already out-dated. Depending on the area of business, regulation and competition can change things rapidly and the industry needs an effective way of being able to craft and update standards just as fast. Feeding these changes back into a broader common standard takes time and it almost has to be done in the background.

ISO 20022 isn't a bad way to go necessarily, but I doubt it will solve everyone's problems, or be the right solution for everyone.

Why is this drive for standardised messaging happening now?

I suspect the industry now realises that there are real benefits to standardisation and it is necessary for progress. Cleaning up things like corporate actions and OTC derivatives has become important, especially in terms of reporting and trying to automate them for various back-office systems. When these things are manual, or not properly reported, it leads to unnecessary risk. Automation can make them both timely and cost-efficient.

Of course, it won't be possible to automate everything, and our industry can be complex, so the more visibility and standardisation we can achieve, the better.

What about security? How can you make sure messaging data stays safe?

Information security is a big topic and not necessarily specific to electronic messaging. Most organisations now understand that they need to do much more up-front to become more secure. Yes, it's about authentication, confidentiality, integrity, availability and non-repudiation, but it's also much more than that. Organisations can't just react to security breaches. They have to start with their company policy and implement proper risk assessment to ensure that they have the necessary controls and internal processes in place to prevent security breaches.

It has become more hazardous because we're a lot more connected now. You're only ever as strong as your weakest link and, as ever, the devil is in the detail. For example, a lot of security breaches occur because a software or network component has been overlooked or because an employee has accidentally misplaced something that contains confidential data. Whether it's a large amount of data or just one or two records, these accidents can be very serious and represent a lack of effective controls within an organisation.

We really are more connected now and more information is available electronically. When organisations use software-as-a-service, they are essentially outsourcing their security. Outsourcing has become more prevalent and complex, so it's increasingly important to understand the data you have and where it is, and the security in place with suppliers. The risk increases with every supplier. If firms don't conduct due diligence to ensure that their suppliers' controls are as robust as theirs, then they're going to be exposed. And it's not just the firm's data at risk, it's the firm's clients' data, and it's clients' clients' data, and so on.

Firms need to have good housekeeping in place, and that includes investigating suppliers properly, and then managing those relationships properly.

How much control do financial institutions have over their own messages, once they're sent?

Banks should know where their messages are, depending upon sensitivity, and have control over them. However, having said that, in trade finance in particular, some participants will pass messages on, and there is always a risk of fraud. It is possible in some cases for people to intercept messages and to mess around with them to create fake messages, and it has become more challenging to know what is genuine. In other cases, genuine messages are being distributed where they're not supposed to be—including messages that are supposed to be confidential.

Once something is in electronic form outside of an organisation, it can be passed around more easily, so you will have less control, especially where there is a chain of intermediaries involved.

You can dictate the extent to which suppliers and partners safeguard messages, and you would conduct due diligence. You can also ensure contractual obligations with other parties. Additionally, we have certain standards and minimum expectations across our industry for parties such as correspondents, trade counterparties and settlement parties.

I thus feel confident financial institutions are in control over their messages when it matters. **AST**

> “Whether it's a large amount of data or just one or two records, these accidents can be very serious and represent a lack of effective controls within an organisation”

Charles Kilkenny
CEO
Actuare

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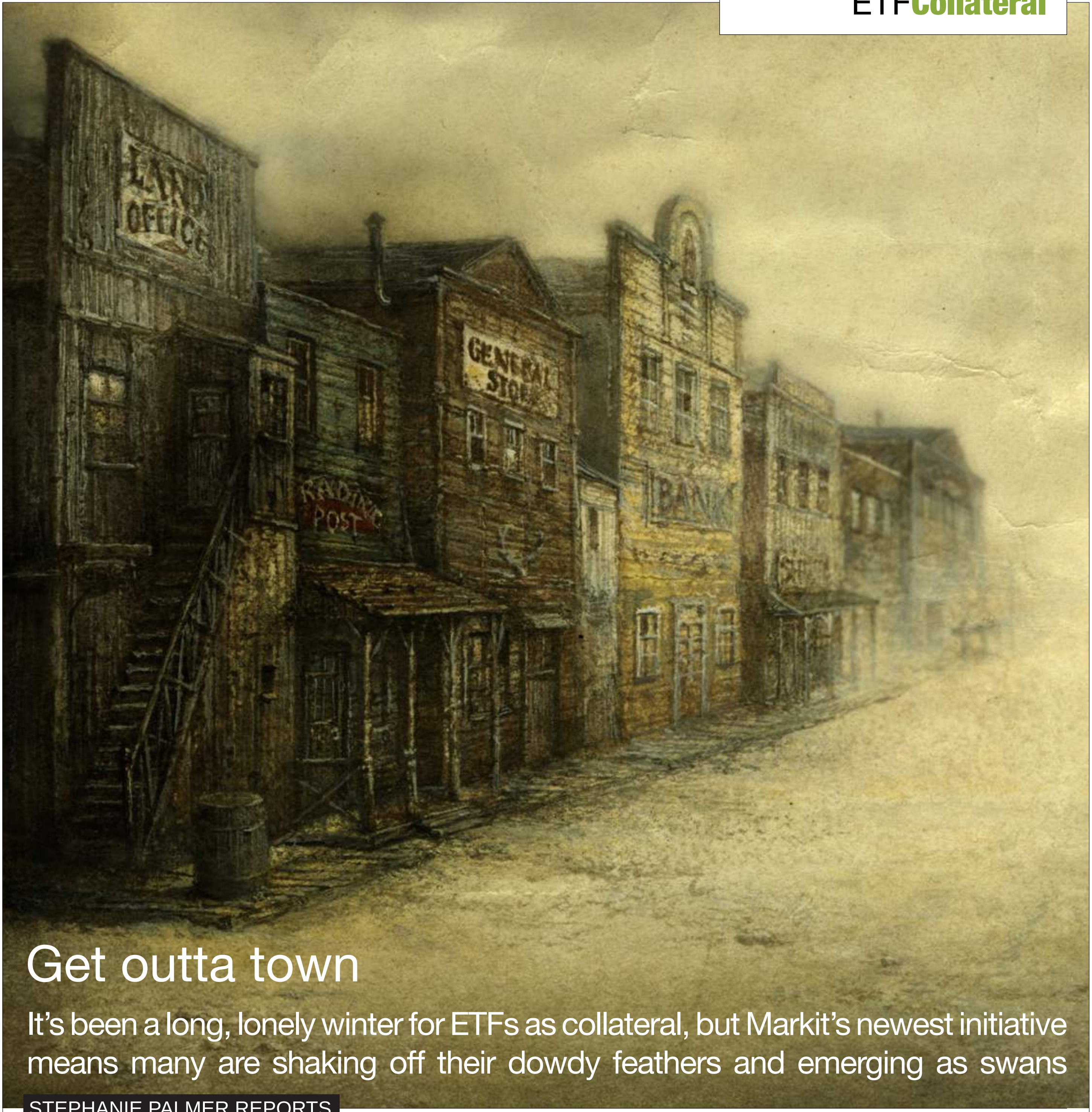


Get outta town

It's been a long, lonely winter for ETFs as collateral, but Markit's newest initiative means many are shaking off their dowdy feathers and emerging as swans

STEPHANIE PALMER REPORTS

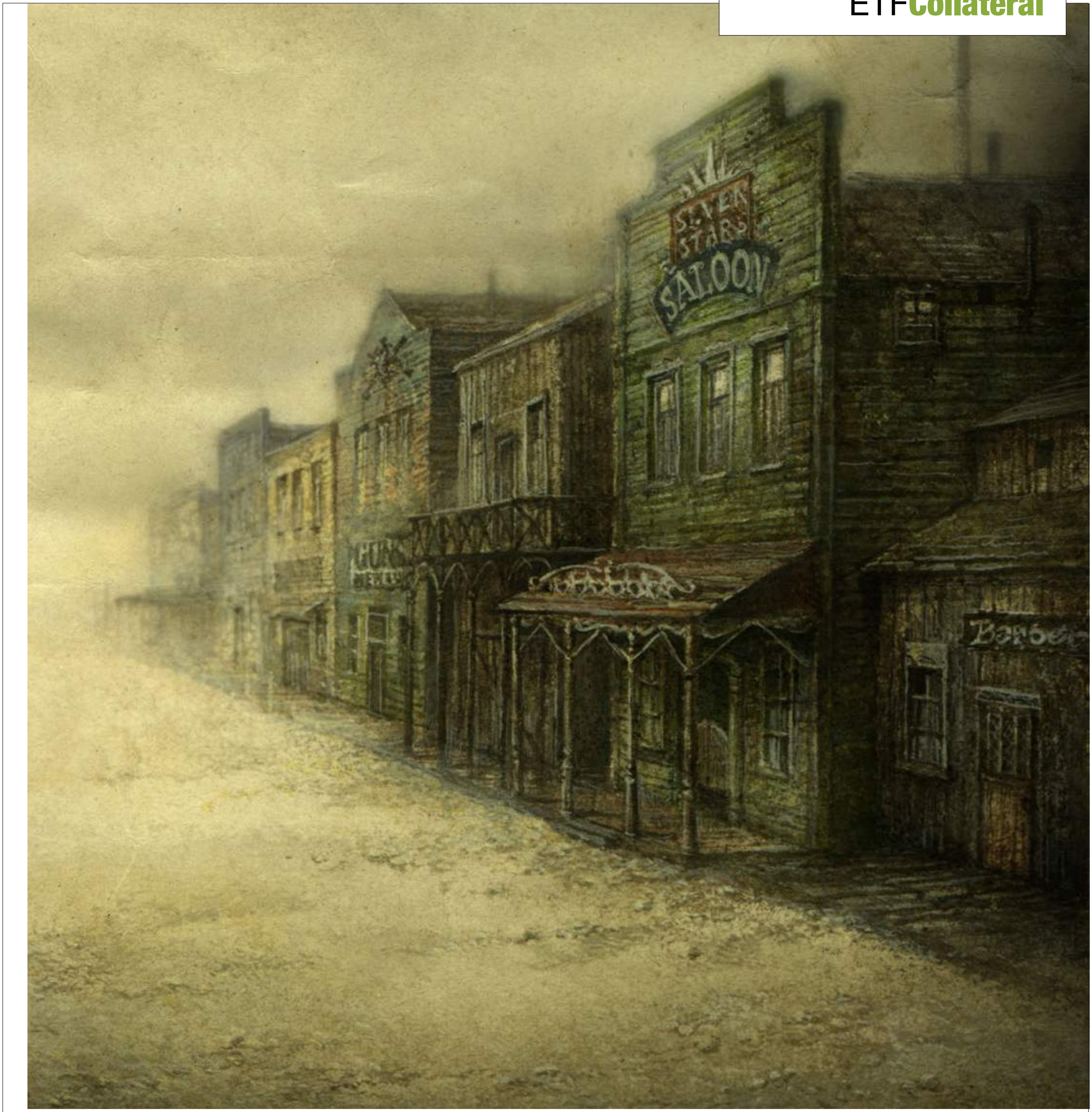
Exchange-traded funds (ETFs) are the ugly ducklings of the collateral world—shunned, mistrusted and, overall, avoided.

But in a world where collateral is becoming scarce and efficiency is everything, many of these mallards are proving themselves to be not so ugly after all—many more are veritable swans.

The problem, until now, for collateral managers has been deciphering the bad eggs from the good, a time consuming and inefficient task. But in August, Markit released its ETF collateral lists function in order to take care of some of the hard work for collateral managers and encourage use of ETFs as securities lending collateral.

The lists filter ETFs and highlight those that track assets in short supply on the collateral market. They pick out fixed-income and equity ETFs that track liquid indicies in developed markets, and hide any subscale funds, and those that have a market value deviating more than 1 percent from the value of assets held. Essentially, they pre-select those ETFs that are suitable, and safe, for use as collateral. It's a simultaneously high-tech and simple response to reluctance from money market participants to accept ETFs as collateral. At Markit's London Securities Finance forum, 43.9 percent of attendees said they do not accept exchange-traded products (ETPs) as collateral, and 12.2 percent said they would like to, but cannot. Only 31.7 percent answered with a straight 'yes', and the other 12.2 percent said they do accept ETPs as collateral "on very few occasions".

Markit put this down to a lack of standardisation in the criteria of ETFs and a lack of transparency in the markets, as well as the lengthy management process for risk departments



and triparty agents. Mark Schaedel, managing director of indices at Markit, adds to this, saying that although collateral managers can see the benefit of ETFs, they are often deemed more effort than they're worth.

He says: "One of the issues is that ETFs don't meet that criteria for liquidity, but actually they're misunderstood—that measure is inappropriate for an ETF asset class."

"Collateral managers understand this, but the tedious process of having to evaluate and assess each fund individually is unmanageable. Therefore, the managers don't bother, and ETFs remain underutilised."

On top of this, while ETFs may be generally desirable in the market, underutilisation has led to a reduced presence.

Andrew Jamieson, global head of broker-dealer and market-maker relationships for iShares at BlackRock, suggests that lenders have a perception that there isn't demand from the buy side to put up ETFs as collateral, and conversely, borrowers don't see the opportunity from lenders to pledge ETFs, either.

"You end up having that self-fulfilling prophecy where people think there's no supply and people think there's no demand, and as a consequence, nothing much happens," he says.

"The Markit collateral filter process will bring a much greater transparency and an understanding of the product. Adoption by the triparty agents will also automate the process for the first time, making it much simpler, so it's a win-win."

Even if collateral managers wanted to make proper use of ETFs, and if borrowers and lenders were on the same page, the process would have previously involved significant manual efforts to wheedle out those that are worth accepting or posting as collateral.

Keshava Shastry, head of ETP capital markets at Deutsche Asset & Wealth Management, says: "There was a lot of manual work done on checking every ETF that had to be approved as collateral. Any initiative that helps to reduce the work and resource spent by collateral management teams, by outsourcing to an independent firm that then publishes a list of products meeting certain criteria, is helpful."

The new Markit tool removes some of the complication, facilitating the risk management normally conducted by the collateral taker.

Essentially, according to Jamieson, it's "allowing a trusted third party to do a lot of the heavy lifting with regards to the initial due diligence".

Schaedel explains: "We provide tools to analyse the fund compositions and their exposures."

He adds: "These tools can be used to further customise these collateral lists or to create new collateral lists, which we would be happy to publish as well."

For now, the solution is focusing on the European markets. Although use of ETFs has seen a slight increase in popularity in the region, and the consensus seems to be that the intentions are there, according to Markit's data, utilisation is significantly lagging.

In the US, lendable ETF assets equate to about $90 billion, a figure that has doubled in the last five years, and utilisation levels tend to be between 20 percent and 40 percent. In Europe, however, the total figure for lendable ETF assets has stayed fairly flat for the last five years at $26 billion—even seeing a decline of about 10 percent. Utilisation levels are consistently below 5 percent.

Schaedel says: "What we're trying to do is stimulate securities lending in the European market. There is an untapped potential for using ETFs as collateral, and when it's compared to the US market, it becomes clear that there is a link between the use of ETFs as collateral and the growth of assets under management (AUM)."

The lists aren't solely aimed at the European markets—only, as Schaedel puts it: "The campaign to raise awareness at the moment is focused on Europe."

Eventually, the function will affect funds all over the world, including those in Asia. But, the fact that the US and Europe are being used as the testing ground is, perhaps, only natural.

Steve Kiely, head of securities finance and new business development for the Europe, Middle East and Africa markets group at BNY Mellon, says: "New trends and trade types tend to be formulated in Europe or the US first, so it is natural that any development will take place there before being assimilated in Asia."

"I don't believe the Asian market is anti-ETF, it's just that they are still getting comfortable with equities, so it will take time before there is a natural progression to physical ETFs."

Shastry takes a similar, if inverse approach, suggesting that actually the listing processes should be finalised before they're extended further afield.

> "This is partly because there hasn't been a significant enough issue to justify regulatory oversight, because there is still plenty of collateral in the system, and not enough pressure to force the use of ETFs"

He says: "This is a work in progress. Over time there will likely be more collateral lists coming from independent parties that meet various criteria covering different requirements of collateral managers, as well as ETFs domiciled in various regions."

Jamieson takes an alternative viewpoint, citing the global nature of ETFs and the various exposures included. He calls the US '40 Act and the European UCITS range the "two major manufacturing hubs" that represent domiciled funds used by investors worldwide.

He says: "Asian investors can typically buy globally listed products and gain exposure that way, so in terms of actual product usage, the US and the European product domiciles represent the vast majority of assets under management."

"The important point is that Asian clients are able to, and do readily, buy both UCITS and '40 Act products so they're not disadvantaged in any way by the initial Markit filters focusing on these product domiciles. Therefore, hopefully the lists will encompass everything of interest to them."

What is interesting, and perhaps unusual, about this European 'campaign' is that it represents a fairly significant change in the culture of collateral that's driven purely by market initiative and innovation, rather than by regulation borne from market risk or from dire necessity.

Jamieson suggests that this is partly because there hasn't been a significant enough issue to justify regulatory oversight, because there is still plenty of collateral in the system, and not enough pressure to force the use of ETFs.

He says, however: "What the individual participants have felt is that they have an inefficiency around collateral that is not being utilised, and therefore commercial drivers have really pushed this forward."

Ultimately, it is in the commercial interests of all securities lending players to tap in to a new kind of collateral, and to increase the total figures of AUM.

According to Shastry, it's not necessarily something that falls under the regulators' responsibility. He says: "We are being proactive in addressing this, and once there is some momentum hopefully others will follow."

In more specific terms, Kiely says: "The solution is in the interests of all market participants and maybe the answer is in being more imaginative with this type of trade. For example, if 107 percent is the standard margin for equity versus equity, maybe ETFs could reach 110 or 112 percent."

"It is the responsibility of all protagonists to explore potential routes to market, and the financing of ETFs and their general use as a collateral asset class is something that should be widely discussed."

As far as Schaedel is concerned, however, the initiative is not only not mandated by the authorities, but successful by virtue of being industry-led. Rather than a reaction to market failures, the solution has come about from a roundtable of ETF market players and several discussions to determine the common objectives, and which are the most pressing.

A solution coming from within the industry promises to be organically suited to that industry and, perhaps more importantly, one that all participants will be likely to get behind. Schaedel says: "It's a thought leadership exercise, really. But it has got a great deal of support from the market, and we feel like everyone's intentions are very much aligned. The things that we can change, we are trying to. Those that we can't—that require more regulatory support—are still meaningful, but we choose to focus on things we can really be proactive on. And with this, the market is ready to engage, too." **AST**

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Centre of excellence

Paul Roberts of IFDS anticipates that the continuing effects of regulation and requirements for continual investment may see further contraction in the number of providers within the industry

What sets transfer agency services in Ireland apart from other regions?

Ireland's geographic location combined with a competitive tax regime, transparent regulatory system and highly educated and cosmopolitan talent pool have all contributed to the country becoming the major centre for the servicing and distribution of investment funds.

Over the past 25 years Ireland, and Dublin in particular, has developed a sophisticated and scalable transfer agency environment with the ability to service a wide range of fund types and products to a global audience. The industry operates within an open regulatory environment, coupled with favourable tax regimes, both of which are key drivers for Ireland being rated as one of the best countries in the world in which to do business.

Ireland offers a dynamic and innovative business culture enabling fund promoters to quickly bring new and exciting products to market and for these to be administered efficiently within one of the most developed transfer agency infrastructures in Europe.

For me, the quality of people and availability of skilled labour is one of the biggest differentiators over other fund centres. At International Financial Data Services (IFDS), we benefit from a fantastic mixture of highly educated individuals from diverse backgrounds, creating a truly international feel within our organisation. Such an approach means we are more knowledgeable of, and sensitive to, different cultures and I believe this

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Another key advantage is the business and labour costs in Ireland, which make it a highly appealing location for international fund groups to locate to, particularly those from the US. This is complemented by the fact that a large proportion of local residents, 500,000, are fluent in a foreign language, and almost one-fifth of the population originates from international roots. About 30 languages are supported, making Ireland an ideal base from which to service global markets.

What kinds of products are popular in the Irish market? How much interest is from overseas?

With a number of global expert service providers such as IFDS and State Street, Dublin has positioned itself as a leading fund centre capable of supporting a wide range of institutional and retail products, from traditional to alternative, passive to active, liquid to illiquid.

Ireland is viewed as a centre of excellence for UCITS products with almost 80 percent of locally domiciled funds falling within this framework, allowing overseas fund promoters a competitive entry point to tap into the 500 million consumers within the European marketplace and to benefit from distribution into more than 70 countries internationally.

As a leading specialist in the administration of exchange-traded funds (ETFs)—with 50 percent of the European market share—and in money market funds, Ireland is currently the fastest growing domicile in Europe for the cross-border distribution of UCITS products. Fund administrators help more than 450 fund promoters to distribute their Dublin-domiciled ranges into all corners of the globe.

In addition, Ireland is a world leader in its ability to service the alternative investment fund industry and was the first regulated jurisdiction to provide a specific regulatory framework for this type of product. This approach has resulted in Ireland becoming the largest administration centre in the world for hedge funds, servicing over 40 percent of assets globally, according to the Irish Funds Association.

How important is technology in reducing operational risk in transfer agency?

A recent State Street survey showed that 81 percent of asset managers have increased their investment in technology (and in technology providers or transfer agents) by more than 5 percent over the past three years. This highlights the significant role technology plays in complying with regulatory changes, reducing operational risk and creating innovative solutions for investors.

Industry-wide investment in technology infrastructure and standardisation has resulted in Dublin achieving the highest automation levels for transaction processing in Europe (83 percent), reducing administration errors and resulting in an increase in fund processing efficiencies and productivity—something Ireland is ranked best in the world for.

Following the implementation of multiple tax and regulatory-led changes such as the Foreign Account Tax Compliance Act (FATCA) over the past couple of years, transfer agents like IFDS have needed to balance operational efficiency with the ability to introduce additional checks within the functionality of our technology platforms. We have addressed this within our organisation by introducing a dedicated operational control unit focused on removing manual process and controls.

With fund promoters domiciling in Ireland to take advantage of the growing distribution ecosystem and global reach, technology becomes a key enabler to ensuring applicable due diligence and know-your-customer checks are performed on new investors, in line with national and regional anti-money laundering and counter terrorist financing legislation.

Ireland benefits from being a centre of excellence for innovation, research and financial technology. These insights and developments play a major part in helping the industry to deploy new technologies that help fund organisations manage and reduce risk.

What else should asset managers and owners be doing to further improve their back-office processes?

To achieve the operational functionality required to support the cross-border distribution of investment funds, transfer agents need to be fully integrated with distribution engines worldwide, having capabilities that manage the servicing requirements of multi-lingual, multi-currency and multi-time zone processes.

Increased standardisation will continue to improve operational efficiencies, lowering administration costs in the process, and that will ease some cost pressures faced by asset managers. In addition, investment in to the harmonisation of data across funds, investors and jurisdictions has the ability to gain greater insights in to investor behaviour, and has the potential to transform the future distribution landscape through the introduction of predictive analytics.

Lastly, asset managers should be placing greater emphasis on innovation to improve the customer experience. With the industry becoming ever more transparent and, in some cases, dis-intermediated following the introduction of commission bans in EU states, it will become more important for asset managers to rebuild relationships with their investors and to be able to clearly articulate where their services add real value. Having already established an administrative relationship with investors, asset managers can benefit from the services and connectivity of transfer agents to support them during this transitional phase.

What kind of developments would you anticipate in the Irish transfer agency market in the next six to 12 months?

In February 2014, the Organisation for Economic Co-operation and Development approved the Common Reporting Standard (CRS), referred to as 'global FATCA' in the industry. Ireland has elected to be an early adopter of the standard, meaning that from 1 January 2016 Ireland-based transfer agencies will collect data on tax residency for qualifying new investors.

For some, investor categories data is collected for reporting to the Irish Revenue Commissioner (IRC) regardless of whether investors' countries of residence have signed up to CRS. Reporting to the IRC will commence in June 2017.

Further developments include the publication of Investor Money Regulations (IMR) for fund service providers on 30 March 2015 by the Central Bank of Ireland, with an effective date of 1 April 2016. The IMR sets out key changes which impact how transfer agencies collect and hold investor money and will impact some promoter distribution models.

The Client Assets Regulations (CAR), which was also published by the Central Bank of Ireland, comes into force in October for investment firms. The Irish funds industry is working with the central bank to identify how adherence to the spirit of IMR may be achieved under the CAR regime.

We anticipate the continuing effects of regulation and requirements for continual investment may see further contraction in the number of providers within the industry. As a provider purely focused on record keeping and transfer agency, we remain focused on growth within this market. AST

Paul Roberts
CEO of funds
International Financial Data Services

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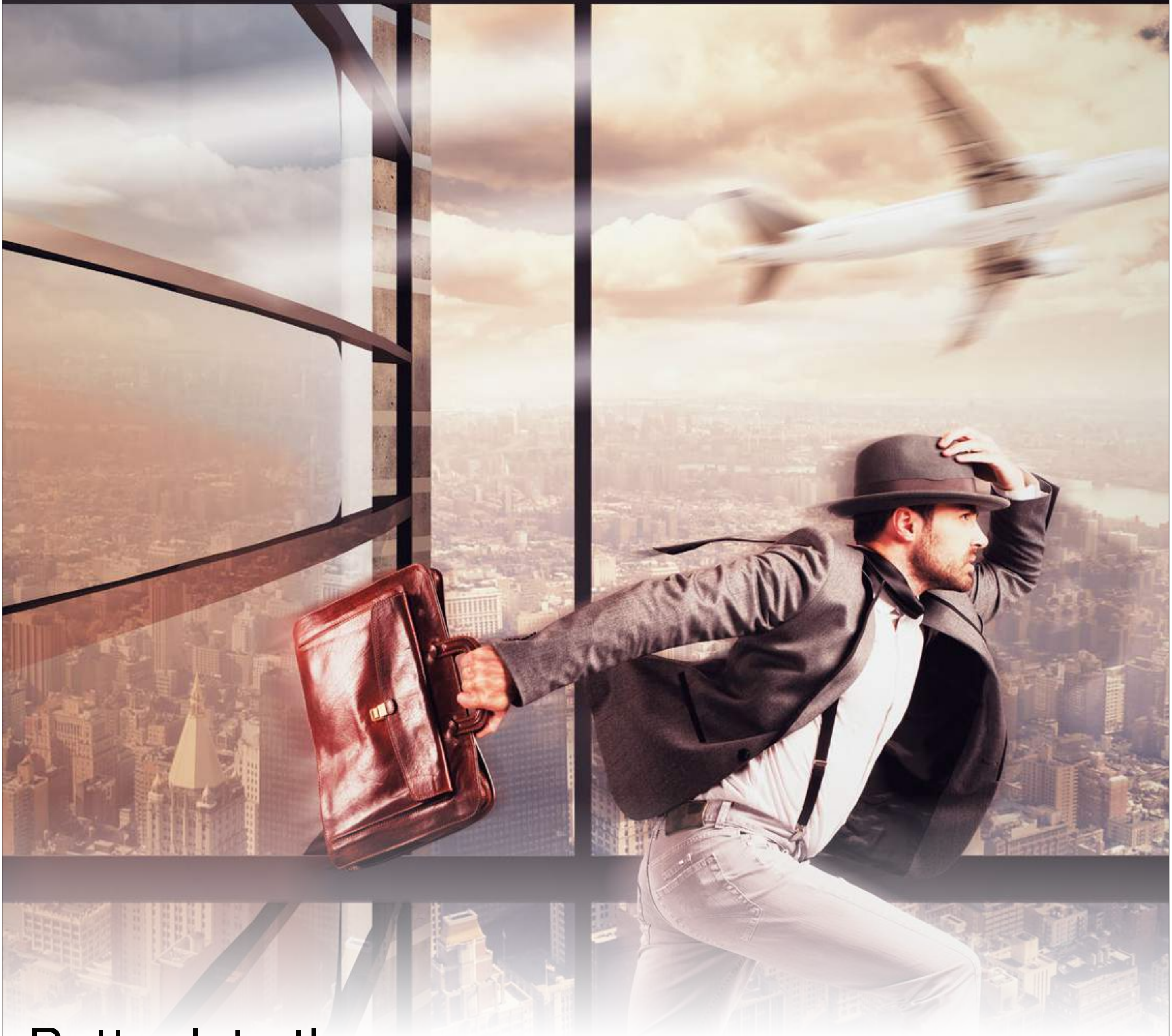

Better late than never

Italy may be a little late to the party, but now it's up and running on the T2S platform, Monte Titoli is bringing the va-va-voom. CEO Mauro Dognini explains

STEPHANIE PALMER REPORTS

Monte Titoli migrated to T2S on 31 August—how did it go?

It was a very big job and a long weekend ahead of go-live on the Monday, but all in all it went very well. It was a joint effort between Monte Titoli and the banks involved—we migrated 60 banks over the weekend, and moved 250,000 positions from the old legacy settlement system to being fully reconciled with Target2-Securities (T2S).

There was a slight delay to the original go-live date, but due to the size and nature of the project it was ultimately a very small one. Any issues were solved and well communicated to the market, and overall we consider the migration a big success.

Monte Titoli is by far the largest central securities depository (CSD) in the first wave of T2S, and so naturally we faced the biggest challenge to be ready for day one. We managed to complete all of our European Central Bank (ECB) testing, begin the migration process, and move all legacy settlement system positions, to ensure we were ready as part of the first wave. This was slightly later than 22 June, but ultimately a great achievement.

The actual system, and the solution, is similar to the other CSDs that went live in June, but the main difference is that ours is larger, and will process much higher volumes.

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Some reports suggest that since 22 June, there haven't been many trades on the T2S network—would you expect that to change now?

From the ECB's official statistics, I understand that in the first two months of T2S, the platform has been processing an average of 2,000 trades per day. Monte Titoli averages about 80,000 trades per day, so it will be a significant change in terms of volumes.

This means Monte Titoli will be processing 97 to 98 percent of all the volumes on the T2S platform. We were happy that the system proved its resilience in its first days and we are confident that it will continue to do so.

The ECB's system is structured to support volumes from 21 countries, so when the entire onboarding process is complete there will be considerably more trades to deal with. Monte Titoli is the first CSD testing with such large volumes and the platform has coped well at this stage.

What are the benefits of being in the first wave? Do they outweigh the risks and the expense?

Monte Titoli supported the T2S project right from the beginning, and we committed early on to be the first large CSD to go in to production as part of the first wave. We believe that if you're going to make the investment, it's better to do it earlier rather than later, to start realising the benefit as soon as possible. We also think we will have a competitive advantage as part of the first wave and this should put us in good stead in the future.

T2S represents a key strategic opportunity for our business and fits with London Stock Exchange Group's open access approach to market infrastructure. We can now offer custody and settlement services on European securities to our existing clients, which will transform Monte Titoli from largely an issuer CSD in to an investor CSD. Offering custody on European securities is not entirely new to us, but we have extended our offering and invested in our infrastructure in this area. Being part of the first wave has given us the opportunity to prepare ahead of our competitors; something we think will benefit us and our customers in the long term.

Of course, it is a risk to go first. It means more investment, more testing and more experimenting, but it's that preparation that reduces risk and ultimately provides opportunities in the long run. We have strong expertise in-house and were always confident that we would be ready as part of the first phase.

What kinds of asset servicing solutions have emerged?

One trend we have noticed in the last few months is a demand from large global custodians to directly access CSDs in Europe. In the past, global custodians would connect to a CSD through an agent bank, but this new trend means agent banks are being dis-intermediated, and as a result we have to be able to offer an increasingly comprehensive range of services. This is where we have invested considerable time and resource and see it as a big area of potential growth.

We are launching a full asset servicing capability for Italian securities. The requests from custodians are driven mainly by a desire to reduce costs and risk wherever possible. For global custodians acting as a trustee or a depository bank for investment funds, there are strict rules on risk related to loss of financial instruments, coming from the Alternative Investment Fund Managers Directive and UCITS V. If they're linked to a CSD, that minimises their risk, and therefore the execution duty related to that risk.

We remain in active dialogue with many global custodians with regards to this and we have, in parallel with T2S, developed a full fiscal service for domestic securities. We are also taking further steps towards building our asset servicing solutions.

Now Monte Titoli has joined T2S, what is the next step?

T2S will bring more standardisation and harmonisation to the market, but at the same time, the CSD Regulation that is about to be introduced is likely to bring more competition in a number of ways, perhaps between CSDs, but mainly between CSDs and custodians—agent banks, in particular.

Our priority now is to offer our customers as comprehensive a range of services as possible, and to benefit from the opportunities brought about by recent changes. The strategic investments we have made for T2S will help with this, but we are also planning to further expand our offering.

We have launched our collateral management solution, X-COM, and developed our asset services and fiscal services for domestic securities, and now the plan is to continue investing in these areas, working towards becoming a fully-fledged investor CSD. AST

Mauro Dognini
CEO
Monte Titoli

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Industry Events

FundForum Middle East 2015

Date: 5–6 October 2015
Location: Dubai

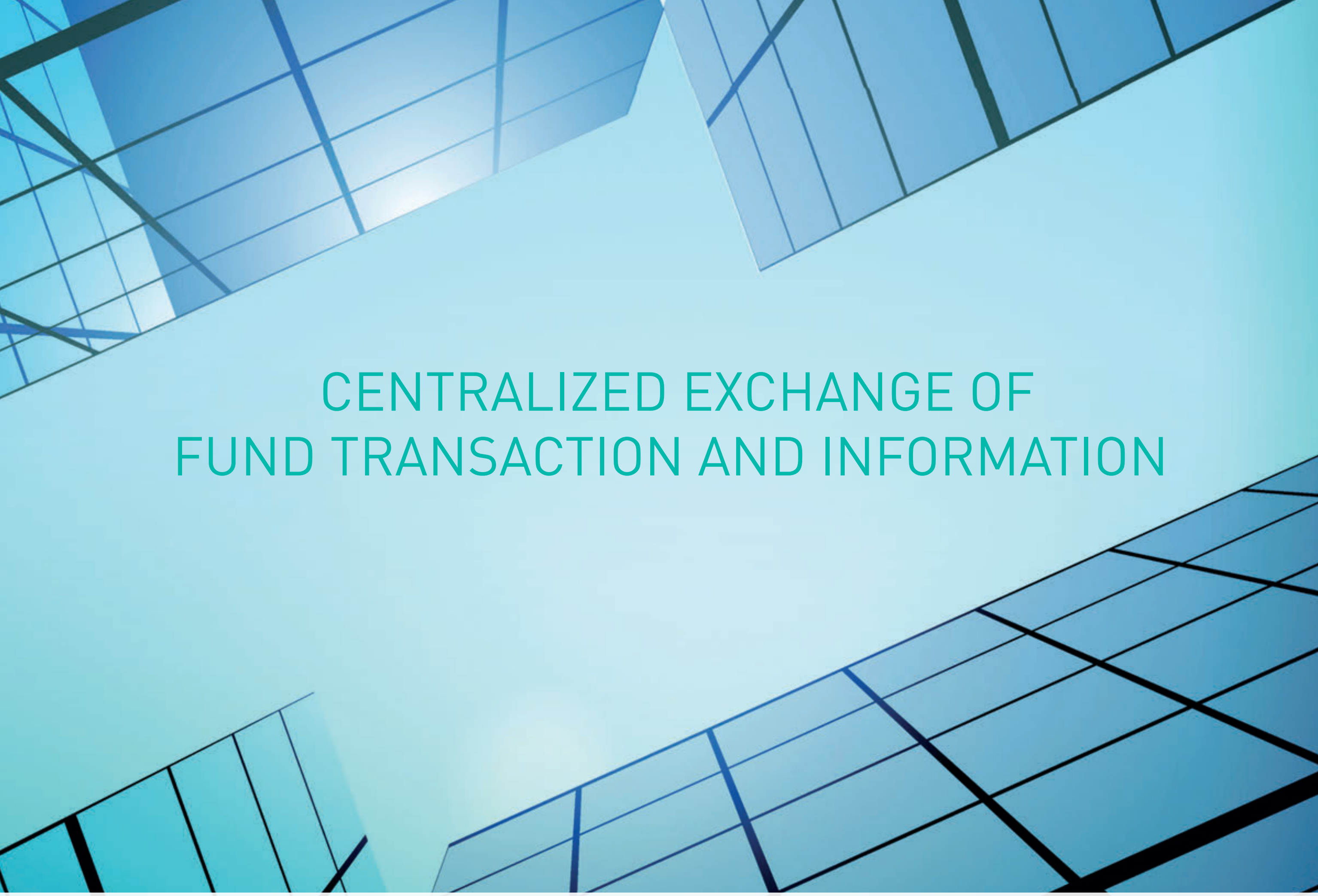
Saudi Arabia opened its markets to foreign direct investments on 15 June. There has never been a more pertinent reason to invest into Middle Eastern markets and the FundForum community can't wait to explore and discover those opportunities during our 9th annual FundForum Middle East conference in October in Dubai.

NeMa Americas 2015

Date: 27–28 October 2015
Location: Miami

The conference provides a unique gathering of industry speakers, from global and sub-custodians, brokers and exchanges to CSDs, CCPs, regulators and technological innovators.

Do not miss this opportunity to find out from your peers, both on and off the record, how to survive and excel beyond 2015.



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Industry Jobs

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Location: Singapore
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Industry appointments

ENSO Financial Analytics has appointed **Michael McMahon** as chief technology officer.

McMahon will join the executive team and will be responsible for expanding ENSO's network infrastructure and core analytics. He will report to partner and co-founder, Dwaine Alleyne.

Prior to his new role, McMahon served as managing director at BNY Mellon, where he led several engineering and architecture teams in building a data analytics platform for the bank.

Law firm K&L Gates has appointed **Edward Dartley** as a partner in its investment management, hedge funds, alternative investments and private equity practice, in the New York office.

He joins from Pepper Hamilton LLP, and brings experience of the asset management industry focused on alternative investment asset classes, private equity and venture capital funds, and managed accounts.

John Bicks, administrative partner of the K&L Gates New York office, said: "[Dartley] is well-respected in the marketplace and will serve as a great addition to K&L Gates's New York investment management team and overall global practice."

Dartley is the fourth addition to K&L Gates's investment management, hedge funds and alternative investments practice this year.

Societe Generale Securities Services (SGSS) has appointed **Frédéric Barroyer** as CEO and country head for Italy.

Barroyer has been in his new role since 1 July. He replaces **Jeanne Duvoux**, who will move to another position in the Societe Generale group, yet to be announced.

Barroyer is responsible for overseeing development of SGSS's range of securities in Italy, in an environment of evolving regulatory and structural changes in the industry.

He has had a long career at Societe Generale, most recently holding the position of deputy CEO in Italy.

His previous positions have included CEO and country manager for SGSS in Germany and CEO of Societe Generale Asset Management in the Asia-Pacific region, excluding Japan.

He will be based in Milan and report to Bruno Prigent, global head of SGSS.

Prigent said: "Barroyer will play an important role in continuing to develop our business in Italy, including our service offering designed for the recently launched European T2S settlement platform."

SIX has appointed **Jürg Weber** as division CEO of SIX Payment Services, and to sit on the board of directors.

Weber is founder and owner of Golden Horn Management, where he has worked for the last 15 years.

He currently also serves on several boards based in Switzerland and Turkey, and is chairman of the Board of Directors of Bensys Holding, based in Amsterdam.

Mirabaud Asset Management has hired **Ken Nicholson** to manage its European small- and mid-cap equity team.

Nicholson joins from Standard Life Investments where he was investment director manager of the Standard Life Morningstar rated European Smaller Companies fund, a position he held from 2007.

He will be joined by **Trevor Fitzgerald**, another new hire to the small- and mid-cap equity team.

Fitzgerald was previously responsible for pan-European small- and mid-cap equities sales at Credit Suisse.

Paul Boughton, head of sales and marketing for the UK and Northern Europe, said: "[Nicholson and Fitzgerald] are well regarded in the market and will be an excellent addition to the existing stable of talent we have built over the past few years."

"In addition to many other strategies, we are also well known for our expertise in small- and mid-cap equities in the Swiss and Spanish markets; to have this strategy in our fund range is a natural evolution." **AST**

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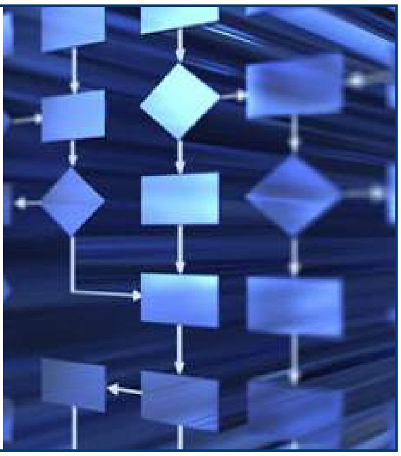

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