AST Asset Servicing Times

ISSUE 144

20.07.2016 WEDNESDAY

assetservicingtimes.com

The primary source of global asset servicing news and analysis

Citigroup admits 15-year blue sheet violation and pays $7m penalty

Citigroup Global Markets has admitted wrongdoing and agreed to a $7 million penalty to settle charges that it provided incomplete blue sheet information to the US Securities and Exchange Commission (SEC) over 15 years.

The SEC found that a computer coding error caused Citigroup to omit certain trade information in the blue sheet data requested by the SEC. This data included trade volumes, times and prices, and other client-identifying information. In total, the SEC said that Citigroup failed to report 26,810 securities transactions across more than 2,300 blue sheet requests, between May 1999 and April 2014.

The resulting $7 million penalty is the largest ever issued for blue sheet violations, and, according to the SEC, reflects the significant length of time that the error went unchecked.

It was also found that, once it discovered the coding error, Citigroup failed to report the incident to the SEC.

Citigroup then took no steps to produce the omitted data until nine months later. A Citigroup spokesperson said: "We are pleased to have resolved this matter."

Robert Cohen, co-chief of the SEC enforcement division's market abuse unit, commented: "Broker-dealers have a core responsibility to promptly provide the SEC with accurate and complete trading data for us to analyse during enforcement investigations."

Continued on page 2

BoE keeps interest rates the same

The Bank of England has declined to raise interest rates in the face of increasing economic uncertainty following the UK's decision to leave the EU, but warned that volatility in property prices might require action in the future.

Monetary policy committee members voted eight to one in favour of keeping the UK's interest rate at 0.5 percent, despite a majority of market commentators expecting a cut to 0.25 percent.

They also voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

But the outlook for the UK is less than rosy. According to a statment from the bank, survey data suggests that the housing market will suffer a "significant weakening in expected activity" thanks to the uncertainty brought about the 52 percent vote to leave the EU in June.

Continued on page 2

South Africa makes the leap to T+3

The South African capital market has initiated its long-anticipated settlement reform by shortening its standard cycle to T+3, from T+5.

The revised market cycle went live on Sunday 10 July and the first trades were successfully settled with no fails on 14 July, according to the Johannesburg Stock Exchange (JSE).

A faster settlement cycle represents a significant opportunity for the country's securities lending market.

The JSE highlighted this as central to minimising fails in the new environment.

Continued on page 2

You need a partner who simplifies post-trade integration for you.

Our post-trade solutions are built around you.

COMMERZBANK

The bank at your side

Citigroup hit with $7m blue-sheet fine

continued from page 1

Cohen added: “Citigroup did not live up to that responsibility for an inexcusably long period of time, and it must pay the largest penalty to date for blue sheet violations.”

The case follows several other high-profile penalties paid for violations around blue sheet information.

In September 2015, Credit Suisse Securities admitted that technological and human errors led to the omission of more than 550,000 reportable trades from blue sheet responses over two years. It paid a $4.25 million penalty.

In June 2015, OZ Management LP paid a $4.25 million penalty for similar offences over almost six years, and, in January 2014 Scottrade paid $2.5 million for submitting incomplete blue sheet responses for more than six years.

BoE keeps interest rates the same

continued from page 1

The statement said: “There are preliminary signs that the result has affected sentiment among households and companies, with sharp falls in some measures of business and consumer confidence.”

“Early indications from surveys and from contacts of the bank’s agents suggest that some businesses are beginning to delay investment projects and postpone recruitment decisions,” it added. “Taken together, these indicators suggest economic activity is likely to weaken in the near term.”

Commenting, Darren Ruane, head of fixed interest at Investec Wealth & Investment, said: “It is likely that markets will comprehensively price in the likelihood of a rate reduction in August. The immediate reaction in markets is that UK government bond yields are higher, the FTSE 100 has fallen back by around 70 points (1 percent) to overnight levels and sterling has rallied against both the US dollar and euro.”

The BoE statement added: “Committee members made initial assessments of the impact of the vote to leave the EU on demand, supply and the exchange rate.”

“In the absence of a further worsening in the trade-off between supporting growth and returning inflation to target on a sustainable basis, most members of the committee expect monetary policy to be loosened in August.”

South Africa makes the leap to T+3

continued from page 1

At the same time, the move will boost the market’s limited liquidity levels.

Leila Fourie, executive director at the JSE, said: “Based on the average daily figure of trading to the value of ZAR 25 billion (USD 1.74 billion), this is expected to create a release of ZAR 50 billion (USD 3.48 billion) into circulation.”

“Experience from other international exchanges indicated that we could potentially be looking at a 7 percent to 10 percent increase in liquidity, depending on current markets and other macroeconomic factors.”

South Africa is now in line with the US settlement cycle, and will be until Q3 2017, when the US in turn will cut its settlement cycle down to match the EU’s T+2 system.

Fourie said: “This is a major milestone for our country and our capital markets. The alignment with global standards will increase interest from global investors who constitute more than a third of our equity market volumes.”

She added: “Coupled with this, the move to a shorter T+3 settlement cycle will significantly reduce the number of unsettled trades at any given point, substantially reducing the potential risks and losses between trading parties and enhancing investor protection.”

The JSE anticipates between 5 percent and 10 percent rolling of trades in the new environment, but is aiming to maintain a target of less than 5 percent, which is consistent with global best practice.

It is also working with market participants to minimise this percentage even further by improving the availability of securities for lending and borrowing activity and also by actively encouraging behaviour changes where required.

The reform was described by Brett Kotze, head of operations for clearing and settlement at the JSE, as one of the largest projects in South Africa since early 2000.

The T+3 project was initiated in 2013 and has since been through a three-step implementation process, which took place at national level and involved multiple test runs with all market participants.

The move was spearheaded by the JSE in close collaboration with the South African Reserve Bank, National Treasury, Financial Services Board and other stakeholders.

Clearstream: banks on track for T2S

The vast majority of banks are confident that they’re prepared for implementation of Target2-Securities (T2S), according to a survey by Clearstream and Accenture.

Contents

Latest News
The Basel leverage ratio fundamentally threatens the business model of clearing members and will endanger stability
page 3

Latest News
BNP Paribas extends its custody offerings in the US and Peru
page 6

Latest News
Nasdaq completes its purchase of the Intercontinental Securities Exchange
page 7

Post-trade Processes
Many institutions still rely on manual processes in the back office, but they will have to work together if they’re to improve efficiency
page 8

China Update
Investing in Chinese onshore securities is getting easier, bringing benefits for both investors and the local market
page 10

People Moves
New arrivals at Deutsche Bank, Pacific Fund Systems, GBST and more
page 14

Of the banks surveyed, 90 percent said they are ready for T2S, with half of these saying their preparations are part of a wider strategy.

Only 10 percent said they are not ready for implementation. The survey suggested that this could be because they have not identified specific risks during the impact assessments, or because they believe they are flexible enough to manage the change.

Although there are various access models to T2S up for discussion, the survey identified a trend towards using either a single point of access or a model with few points of access. The most popular option was connecting through an investor CSD, selected by 40 percent of respondents.

A fifth said they will connect through a custodian and an investor CSD; 10 percent said they will use an investor CSD and an international CSD; and 10 percent said they will use a custodian and an international CSD. The remaining 20 percent said they will connect through all three—a custodian, an investor CSD and an international CSD.

The survey also found that a majority, 65 percent, are not planning any connectivity rationalisation or optimisation either before implementation of T2S or alongside it. The report said this suggests that these activities—and the related costs—are being pushed back to later stages.

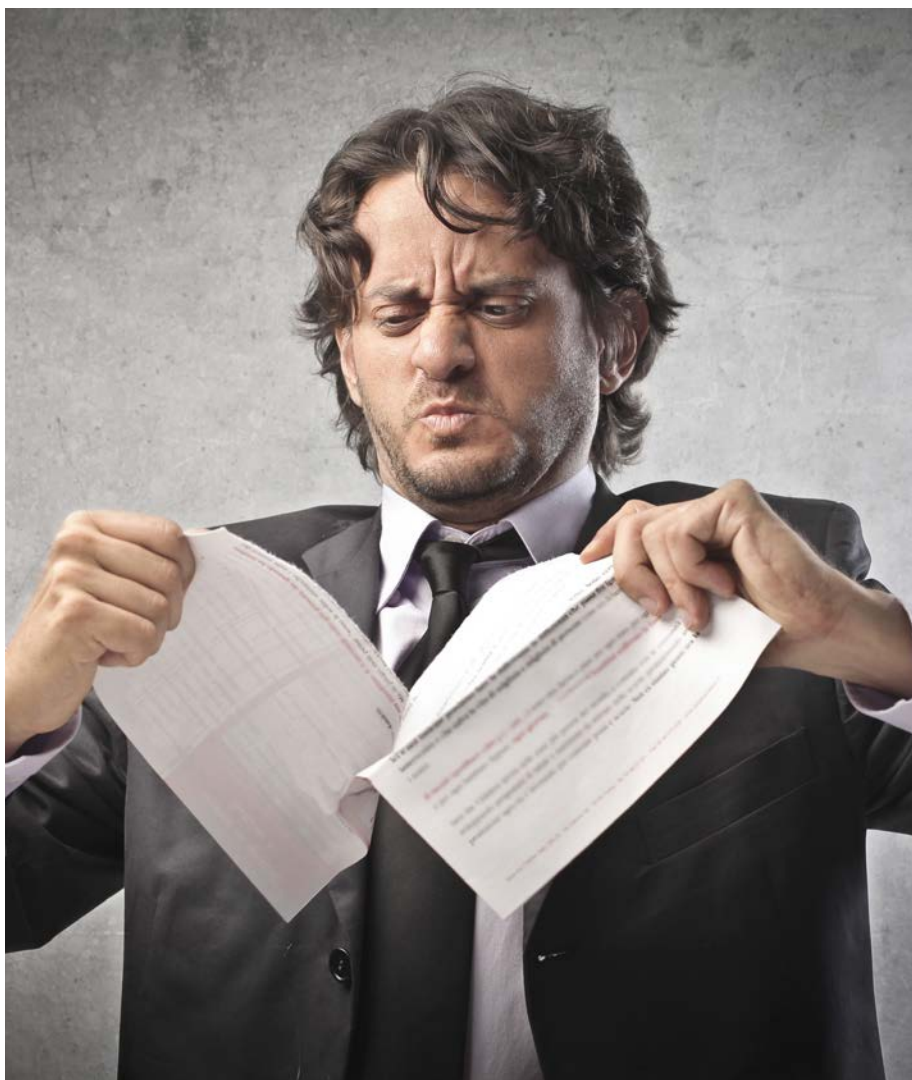
It said 25 percent of respondents plan to manage connectivity rationalisation and optimisation at the same time as connecting to T2S, thereby "leveraging resource synergies", while the remaining 10 percent plan to do this before connecting to T2S.

The report said: "T2S has, to a certain extent, served as a business and technology operating model accelerator for banks, particularly in certain geographies where market reforms have been significant."

Marc Robert-Nicoud, CEO of Clearstream Holding, said: "The launch of the T2S platform has been a success."

He added: "Although the market struggled with some delays in the migration timetable, the system now operates in accordance with the schedule."

Clearstream's CSDs in Germany and Luxembourg will migrate to the platform in wave four in February 2017.



Clearing industry criticises Basel III leverage ratio

The Basel leverage ratio fundamentally threatens the business model of clearing members and will endanger the stability of the global financial markets, according to a joint industry comment letter.

The 30 signatories, who represent exchanges, clearinghouses and other market participants including ABN AMRO Clearing Bank, Eurex, the Options Clearing Corporation and Nasdaq, issued a joint response to the Basel Committee on Banking Supervision's (BCBS) latest draft of the leverage ratio framework to highlight their concerns that further work is needed to minimise market disruption.

The letter's signatories took particular issue with the current exposure method (CEM), arguing that the standardised approach for counterparty credit risk (SA-CCR) offers a better alternative to calculating leverage for exchange-traded derivative (ETD) exposures.

"[With the CEM], the application of the leverage ratio will result in vastly increased capital requirements for general clearing members offering clearing services to market makers and liquidity providers."

"The leverage ratio does not take the different characteristics and risks of ETD and over-the-counter (OTC) instruments into account. For ETD, we believe that a different treatment compared to OTC derivatives would be warranted recognising the applicable netting rules and CCP clearing processes."

The letter also drew attention to a number of unintended consequences that the current leverage ratio framework threatens to impose on the affected industries.

"We note that a number of general clearing members (GCMs) have already ceased their operations while others are re-assessing their business models. Data from the US Commodity Futures Trading Commission shows a steady decrease in the number of futures commission merchants, while at the same time the number of total cleared client assets has increased significantly driven by new clearing mandates since 2009," the letter continued.

"We fear that a further reduction of GCMs will result in an undesirable lack of choice

for end-users and decrease available (global) balance sheet capacity for clearing of derivatives transactions, including those that are anticipated to become subject to mandatory clearing."

The letter was issued in response to the BCBS consultation on revisions to the Basel III leverage ratio framework, which was issued in April. The BCBS hopes to complete the review by the end of the year.

Global growth on the cards for ETFs

The global exchange-traded fund (ETF) market is gearing up for a growth spurt, according to a survey by PwC.

The survey report noted that ETFs saw a record $351 billion in global flows in 2015, while ETF assets under management have increased from $1.46 trillion in December 2010 to $2.96 trillion in December 2015.

Of the survey respondents, 41 percent predicted that global ETF assets under management will reach $7 trillion or more by 2021. Although 28 percent predicted this will only reach $5 trillion or less, 13 percent said they think it will increase to reach $10 trillion or more.

When asked what they perceive to be the biggest growth accelerators, better investor education was a popular choice across the board.

In Europe, investor education was named as an important growth indicator by 90 percent of respondents. This was followed by lower distribution costs and availability of new distribution platforms.

In North America, the availability of new distribution platforms was considered the biggest growth accelerator, noted by about 85 percent of respondents. This was followed by better education for investors, while lower distribution costs and lower costs for service providers came in joint third as accelerators.

Among Asian firms, however, the stock connect programme was unsurprisingly named the biggest growth accelerator, highlighted by about 80 percent of respondents. This was closely followed by availability of new distribution platforms and better investment education.

Despite the opportunities for growth, 47 percent of respondents agreed that regulations could prove to be an obstacle for growth. A further 42 percent said growth could be hindered by a lack of effective distribution channels.

Almost a quarter, 23 percent, said that an improved market environment could take

the focus off of the advantages of ETFs, presenting an obstacle for growth, while 13 percent said extreme market conditions could dampen demand, and 11 percent saw concern around market saturation.

Expectations around the demand for ETFs differed by region. In North America, more than 90 percent said they expect demand from financial advisors. Just over 80 percent saw demand from online platforms and 70 percent said they expect demand from individuals in the retail space.

Although about 50 percent of European respondents also said they see demand coming from financial advisors, this was equalled by those naming financial advisors and online platforms as drivers.

In Asia, the majority, about 70 percent, said insurance companies will be the main drivers for demand of ETFs. This was followed by ETF strategists, noted by about 60 percent, and financial advisors, named by about 50 percent.

With regards to globalisation, 71 percent of European firms and 83 percent of Asian firms expect to expand with ETF products outside of their home markets, compared to 50 percent in North America.

Of those looking to expand globally, European and North American firms said they consider effective distribution channels and infrastructure as the most important factor to cross-border success. In Asia, however, knowledge of market regulations and taxes in the local market was considered more important.

The report said: "Over the next five years, we expect that there will be increasing competition in ETF markets across the globe and firms will likely need to continue to seek ways to differentiate themselves in these crowded markets. Continued focus on investor education, adapting product offerings to evolving regulations, navigating complex global markets, and establishing strong distribution partners will be some of the keys to success."

"Further advances in the use of big data, digital technology and social media will help to improve decision-making processes,

This advertisement has been approved for issue by Pictet Asset Management Limited, authorised and regulated by the Financial Conduct Authority.
The value of an investment can go down as well as up and investors may not get back the full amount invested.

Our asset services are first rate and second to none. Perfect for third party funds.

Asset Management
Wealth Management
Asset Services

Geneva Lausanne Zurich Basel Luxembourg London
Amsterdam Brussels Paris Frankfurt Munich Madrid
Barcelona Turin Milan Verona Rome Tel Aviv Dubai
Nassau Montreal Hong Kong Singapore Taipei Osaka Tokyo
assetservices.pictet

provide opportunities for ETF sponsors to streamline costs, and transform client relationships in terms of communications, sales and distribution."

The survey included responses from 60 firms around the world, throughout 2015. More than 70 percent of respondents were ETF managers or sponsors, and the rest were either service providers or asset managers that do not currently offer ETFs.

According to PwC, the participating firms currently account for more than 80 percent of global ETF assets.

BNP Paribas extends custody offerings in Americas

BNP Paribas Securities Services has become a direct securities participant of the US Federal Reserve and the Peruvian central securities depository (CSD), improving its custody services in both markets.

BNP Paribas clients will connect to the Fed through its online financial services information and payment service FedLine, a move that completes the bank's connectivity to the US market.

The connection will support client set-up and growth in the local fixed-income securities market, improving settlement turnaround and offering first-hand pre-qualified information in income events.

It should also offer better protection for clients' securities margin and collateral movements.

Bruno Campenon, head of custody and clearing services for the Americas at BNP Paribas Securities Services, said: "This demonstrates once again our commitment to the US market and will benefit all our client segments."

BNP Paribas will connect to the Fed through Torstone Technology's Inferno platform, which will provide the operational support required to gain access to FedLine as a local custodian of Fed-issued securities.

Brian Collings, CEO of Torstone Technology, said: "We are pleased to be able to offer FedLine reporting connectivity to BNP Paribas, helping them to enhance their corporate action and settlement activities."

BNP Paribas Securities Services has also become a direct participant of the Peruvian CSD CAVALI and launched local custody and clearing services in Peru. This means BNP Paribas now has 26 markets in its local proprietary network.

CAVALI CEO Víctor Sánchez suggested that the move could contribute to the development of the Peruvian market. He explained "BNP Paribas brings its wealth of international experience and will help further promote the growth of our financial market."

Alvaro Camuñas, who is head of BNP Paribas Securities Services in Spain and Latin America, said: "We are committed to the Latin American region where we have been expanding our network and developing a strong local know-how. Peru is an exciting addition to our global network and we look forward to continuing to partner with our clients in the region."

Russia's corporate actions reform in full swing

The legal framework for Russia's corporate actions reform has come into force, cementing the National Settlement Depository (NSD), Russia's central securities depository (CSD) as a corporate actions centre and single source of information on corporate actions.

The corporate actions reform has included introducing a new approach to drawing up lists of securities holders, and new procedures for exercising security-holders' rights in corporate actions, through introducing a centralised safekeeping system.

It has also introduced e-proxy voting through the CSD and online e-voting as new methods of participating in corporate actions.

The new law names NSD as the single source of verified corporate actions information—a move intended to counter data multiplicity and inconsistency.

This should also improve efficiency for securities market participants, as they will not have to verify data from multiple sources.

As a corporate actions centre, NSD will offer stakeholders access to more reliable financial market infrastructure for processing corporate actions, and will serve as an information interchange on standards for corporate actions. It will also allow clients to switch to using the electronic data interchange without the use of hard copy documents.

NSD has launched NSDirect, a platform for market participants to form and send electronic documents when processing corporate actions. The interface allows data to be exchanged more quickly, and is protected by cryptography and data encryption.

Russia's corporate actions reform is intended to improve the investment climate in Russia, while improving the rights and legal interests of investors and increasing shareholder involvement in corporate governance.

Through improving the quality of corporate governance, the attractiveness of Russian assets could be improved, which would, in theory, introduce new opportunities for Russian companies to raise capital.

Legacy systems causing hassle for asset managers

Buy-side firms are still resorting to legacy IT systems and manual processes, according to a survey by SimCorp and TABB Group.

The survey, The Buy-side Legacy IT Hangover: Finding the Cure for Alpha, Compliance and Growth Impediments, included asset managers outside of North America, and followed a survey of North American firms only, conducted in February.

Of non-North American firms, 30 percent said they still rely on legacy IT systems, 34 percent said they use an integrated solution, and 27 percent said they use a 'best-of-breed' approach, sourcing solutions from different providers based on what they require.

Only 7 percent said they simply choose the least expensive option, and 3 percent said they have no strategy in place whatsoever.

These figures are fairly similar to those found in North America, where 28 percent said they use legacy systems, 30 percent use an integrated solution, and 24 percent use the best-of-breed approach.

Despite the introduction of new IT systems, 90 percent of non-North American firms said they still have to resort to manual processes, due to inefficiencies in their IT platforms. This in turn leads to errors in data and reconciliation.

The survey report suggested that, in order to make the best use of an integrated system and an investment book of record, firms should be gleaning their information from a single source across the front, middle and back offices.

The report said: "Firms that are experiencing pain in their trading processes due to inaccurate data across their various applications cannot afford to do nothing and to let their 'current' technology become 'legacy' technology."

Outside of North America, 14 percent of firms said they have issues implementing asset allocation strategies, citing errors relating to incorrect positions.

Of those experiencing these issues, 44 percent use legacy systems, 22 percent opt for the cheapest solutions, and 11 percent have no strategy.

However, asset allocation strategies were found to be a bigger problem among North American firms, with 30 percent highlighting implementation as an issue.

Setting up operations in new geographies and asset classes was also highlighted as a challenge by 58 percent of non-North American firms as well as 66 percent of North American firms.

Of those outside North America that struggle with this, 43 percent said they are using legacy systems, however 23 percent said they use an integrated strategy and 23 percent use best-of-breed strategies.

Dayle Scher, senior analyst at TABB Group, said: "As investment organisations and their clients continue to invest in new jurisdictions and asset classes, the supporting IT infrastructure must be able to support growth and scale."

"Added to this, the growing regulatory pressures that are emerging globally means those who choose to implement integrated investment management solutions will be those that can best navigate an increasingly competitive environment."

Martin Engdal, director of global product marketing at SimCorp, added: "For many firms, legacy investment management systems continue to be the cause of delays in setting up new geographies and instrument types, running pre-trade compliance checks, and front-office staff spending time on manual processes and error handling rather than alpha-generation."

He added: "These findings show that an integrated solution that utilises a single data repository is the most effective way to avoid all these challenges facing investment management firms."

ISE sells for $1.1 billion

Nasdaq has completed its purchase of the Intercontinental Securities Exchange (ISE) from Deutsche Börse group for $1.1 billion cash. ISE operates three US equity options exchanges. The deal includes transfer of ISE's PrecISE Trade execution management system for options and stock option combinations, plus ISE Ventures and ISE's Longitude technology for aggregating liquidity.

Nasdaq and Deutsche Börse entered into a sale agreement in March, and the transaction has now closed, having gained all necessary regulatory approvals.

The purchase is intended to improve efficiencies for Nasdaq clients and its technology offering, and to create more opportunity for innovation within the equities options segment.

It will also increase market share as, according to Nasdaq, ISE exchanges serve as the venue for more than 15 percent of trading in US options.

When the acquisition was agreed, Nasdaq CEO Bob Greifeld commented: "The equities options business has been core to our long-term strategy, and we believe an essential component to the strength of the Nasdaq franchise."

"I believe this transaction advances our ambitions with all our stakeholders, including clients and shareholders."

On completion of the acquisition, Tom Wittman, Nasdaq's executive vice president and global head of equities, said: "The hallmark of Nasdaq's DNA is to provide innovative solutions to reduce inefficiency and improve the way market participants trade and interact.

"The acquisition of ISE squarely fits within these objectives."

"The merger of Nasdaq and ISE's innovative options franchises will result in a combination of talent and technology from both organisations," Wittman added.

Jeanine Hightower, currently senior vice president for business development at ISE, will take on the role of ISE COO, and will oversee the business throughout the migration to Nasdaq's INET technology platform.

Hightower has been with ISE since 2004, with previous roles at the exchange including head of options business development, and director of business development and product management.

In her new position, she will work closely with the US options team, and will report to Kevin Kennedy, head of US options.

Do you have a story we should cover?
Let us know via:
stephaniepalmer@blackknightmedialtd.com

Firms who innovate together win-ovate together

Post-trade is still riddled with manual processes, inefficiencies and risk, but firms need to work together to become more streamlined and technology-savvy, according to John O'Hara, CEO of Taskize

A number of processes in the custody industry remain highly manual, and imbued with cost overheads and chronic inefficiencies, and this needs to be rectified in the immediate term. Nowhere is this more evident than in the post-trade space, where manual interventions around corporate actions, trade settlement, clearing and reconciliations continue to dominate. This breeds more inefficiencies and risks, which can potentially harm end clients.

Achieving standardisation and moving towards a straight-through processing (STP) environment in these manual processes must be achieved throughout the custody chain. There are multiple counterparties involved in the post-trade space including global custodians, sub-custodians, central securities depositories and central counterparty clearinghouses, none of which have standardised processes.

It is critical that these organisations collaborate and implement STP, so as to create efficiencies and realise automation, and potential cost-savings. This will be a costly process and will require a considerable amount of work to be done, but the long-term benefits of collaborating now—rather than waiting—will be enormous. Streamlining costs—be it through outsourcing, offshoring or the induction of STP into post-trade areas—should be a focus for financial institutions.

Technological disruption through innovations such as blockchain will not become the business standard overnight, but over several years. Creating efficiencies today can enable a more orderly implementation of blockchain across the post-trade space. Standardisation can take a long time, so it is crucial the industry works now towards achieving a degree of uniformity in post-trade.

Any solution must be implemented incrementally and thoughtfully, with minimal disruption to legacy systems and processes. It is crucial that any standardisation be done with due consideration to existing technology and implemented in a way that does not require continual system rebuilds as technology evolves.

Blockchain has the potential to disrupt a number of segments across the custody chain including asset servicing, corporate actions, reconciliations, clearing and settlement. A number of issues around firms' existing technologies, not to mention blockchain and its usage, must be resolved if its potential is to become reality.

Blockchain must also make advancements of its own, including further standardisation. Efforts are being made to enact a joined-up approach towards blockchain through the R3 Consortium, while the industry and regulators are in discussions about how distributed ledger technology can be leveraged, as well as its possible systemic risks.

The potential of blockchain could be significant and there is a strong possibility it may disintermediate large components of the post-trade space and bring numerous advantages to these antiquated processes. However, this success will only happen if firms work together towards standardising the current post-trade environment and improving existing technology. **AST**

Where asset managers come for **regulatory reporting** and **investor disclosure**, worldwide.

Asset managers are challenged with increasing demands from the market, their distribution networks, and regulators. Regulatory reporting and investor disclosure is one of the more visible, time and resource-consuming obligations they face.

Over the past two decades, we have worked with fund managers and administrators around the world to aggregate, format, file, disseminate, and ensure the quality of their fund data and documents.

Let us show you how to gain peace of mind in managing all of your regulatory reporting and investor disclosure obligations, so you can concentrate on your core business.

Discover the new face of KNEIP.
Visit our website at **www.kneip.com**

Softly, softly

Investing in onshore Chinese securities is getting easier, and the benefits will reach far and wide. Florence Lee of HSBC Securities Services explains

What are the major developments you're seeing in the Chinese market?

When international investors look into Chinese onshore securities, there are two major markets that they should consider. One is the equity market, which is available via the two local stock exchanges, and the other is the China interbank bond market (CIBM). Accessing each of these is quite different, but both attract international investors.

Investing in Chinese securities from the offshore market is easy, you can just buy Hong Kong H-shares or go through the stock connect programme, but the onshore market is still very restricted. It's subject to quota systems, lengthy application processes and regulatory hurdles.

To invest in the equity market, you have to obtain a qualified foreign institutional investor (QFII) licence. The QFII scheme has been around since 2003, when China first opened up the onshore securities market to foreign investors, allowing a lot of the investors such as central banks, pension schemes, endowment funds, international asset managers and banks to access China. However, there were still a lot of restrictions.

In 2011 China rolled out the Renminbi QFII (RQFII) scheme, which is more tailored to fund/asset managers, to provide more flexibility in terms of liquidity for those financial institutions managing UCITS funds or other regulated funds.

But RQFII has its own restrictions. It works on a country-to-country level negotiation, where quotas are specifically allocated to certain countries or markets. At the moment there is a total of 17 countries/markets in the RQFII scheme, and if you're a fund manager in a country/market that is not on the list, you will have to work through a legal entity domiciled in country/market with an RQFII quota.

The China access programmes typically start small—for example, the RQFII scheme used Hong Kong as a kind of testing ground. It was very modest, very simple, and very small in scale; but once the regulators felt comfortable that the model was working, they extended it by increasing the scale and the coverage.

Over the last three or four years, the programme has been expanding, and now it covers Australasia, the Middle East, Asia and Europe. In the Americas, however, it was only rolled out to Canada and Chile. The US was conspicuously absent until June this year, when it was finally named as an RQFII market.

What was the significance of the US being granted RQFII status?

The US is no doubt one of the biggest markets in terms of fund assets and investment managers, and it is a major financial centre, so there were questions around when it would get its RQFII quota. Once the Chinese government and the People's Bank of China (PBOC) announced that they had grated RQFII status to the US, they gave the market a huge RQFII quota of RMB 250 billion ($37.39 billion), the largest quota ever awarded to a market at initial stage.

That is very significant. Firstly, because it means China realised the US market was a gap, and that they had been working on it, but also because it shows they're thinking about utilisation.

In the past, the large US fund managers would have used their overseas offices, in Singapore for example, to apply for an RQFII quota, but it's beneficial to them to have more direct access. The smaller US managers, those that focus on the US—and the US local market is a big one—can now also have an RQFII quota to buy China A-shares.

When the Chinese government sees demand from international investors, it can be very quick to react; for example they have taken similar approaches in Singapore and South Korea when they noticed high volumes of applications. China has seen that the US market will be significant for RQFII, and I think both governments will have done some research to estimate the demand, and to come to this RMB 250 billion figure.

What does it mean for the Chinese market?

In China, the domestic market is still very infant, comparatively. It started to develop in equity in the 1980s, and it is still dominated by local retail investors. It's not a very rational market, and it is a natural evolution for the government to try to introduce more institutional investors.

Emerging markets typically have at least 15 percent, sometimes as much as 30 percent, foreign participation. At the moment, because China has historically been so difficult to access, it has foreign participation of just 5 percent. At times, this has fallen to 3 percent. These changes are opening a door to foreign institutional investors.

Liquidity is important for international investors, too. Fund managers need to know that they can get their money back in order to meet their daily liquidity requirements, not just for investors, but also to meet regulatory requirements. That is why the RQFII allows fund managers to use the UCITS structure to invest, and why it strives to remove barriers and provide more flexibility.

The Chinese economy is growing quickly; it's already the second-largest economy in the world, but the equity stock market is not reflecting this. It's a large stock market, and now the doors have been further opened it will benefit the market and investors alike.

How is the bond market faring?

Again, in China there is a very big bond market. The CIBM has an outstanding value of over US $7 trillion, making it the third-largest bond market in the world after the US and Japan. However, again, foreign participation is still very low, less than 1.5 percent.

The CIBM has grown very quickly, and there is a high demand for capital in China—in the past investors have had to rely on the top local banks lending. The government is trying to move on to develop a new, more sophisticated capital market, allowing investors to rely more on bond issuance to raise capital.

A lot of foreign investors are interested in these Chinese government bonds as the credit rating is relatively good—they have a yield of 2 to 2.5 percent, which is rarely found in government bonds these days.

So, the fund manager is relatively safe; given that there's an attractive yield and good credit rating, plus the chance to get some currency gain depending on the market conditions. It's very suitable for central banks and sovereign wealth funds, whose risk appetites are very conservative. In theory, it's a natural matching.

Previously, investing in the CIBM involved a very long process. The fund manager had to be certified by the Chinese regulator as a QFII or RQFII, gain a quota allowance from a second regulator, and then get permission from a third regulator to buy in to the CIBM. All in all, it could take nine to 12 months, and involved a lot of work and determination.

In February, however, the PBOC amended this, so that those who want to invest in the CIBM simply have to find a bond settlement agent, like a sub-custodian in China, and complete a much simpler filing process.

How has the process been improved?

In the past, the application could have involved 11 or 12 documents for each of the three regulators. Now, all investors have to do is find a local settlement agent, such as HSBC China, and complete a much simpler registration form of two or three pages.

There is also no quota requirement. In the QFII and RQFII programmes, investors would have to tell the regulators how much they wanted to trade, and they would be granted a quota amount as decided by the regulator. There was a limitation to the amount they could trade, and if they got close to the limit they would have to flag it up and go through another process to request more quota.

Now there is less commitment to that figure. Investors can indicate how much they intend to trade, but if they exceed that, they just have to inform the PBOC via a filing process.

The changes simplify and streamline the whole process, and, working on a conservative estimate, the whole market setup process can take just two to three months.

It is a very significant change, as it not only makes access much easier for foreign fund managers, but also for central banks, insurance companies, commercial banks, pensions, active funds and passive funds, which can access China via this registration process now. It also removes geographical barriers, as funds don't have to get the RQFII approval first.

Have you seen any immediate effects of the changes?

Since the changes to CIBM access in February, the market has responded well. One notable development is that some of the index providers have agreed to look into including China bonds in major indices, and have made this announcement public. That would be a ground-breaking move, which could change the game again for fund managers, and may encourage more capital to gradually flow into the market.

If you look at the wider picture, China is opening up more and more doors to foreign investment, and those doors are opening wider and wider. I don't think they're going to close again. The government wants to internationalise the currency and cement it as an investment currency, so it has to get people making use of RMB-denominated assets.

It is just a matter of time at this stage. This trend will continue, and it will affect our industry, not just in the US or Europe, but globally. **AST**

China is opening up more and more doors to foreign investment, and those doors are opening wider and wider. I don't think they're going to close again

Florence Lee, Head of China sales and business development, EMEA
HSBC Securities Services

Industry **Events**

Sibos

Date: 26-29 September
Location: Geneva

Sibos is the world's premier financial services event. Sibos is the annual conference, exhibition and networking event organised by SWIFT for the financial industry. What started out as a banking operations seminar in 1978 has grown into the premier business forum for the global financial community to debate and collaborate in the areas of payments, securities, cash management and trade.

winds of change were a recurring theme at the Association of the Luxembourg Funds Industry (ALFI) Global Distribution Conference this month, with digital innovation, the ever-shifting world of regulation, and the changing face of pension funds all featuring, while the weather also pro-

10th Annual Collateral Management Forum

Date: 21 October
Location: Amsterdam

The 10th edition of the Annual Collateral Management Forum in Amsterdam is looking to offer an overview of the most crucial topics in the field today. In a shifting regulatory enivornment, with the margin requirements soon to come into play, the call for advanced tools for collateral management is as loud as ever.

winds of change were a recurring theme at the Association of the Luxembourg Funds Industry (ALFI) Global Distribution Conference this month, with digital innovation, the ever-shifting world of regulation, and

For more events visit assetservicingtimes.com/events/events.php

Industry Recruitment

Head of AIS Relationship Management

Recruiter: HornbyChapman Ltd
Location: London

Our client, a major global custodian, is looking for a Head of Relationship Management to manage a team of Relationship Managers and also oversee a portfolio of large Hedge Fund and Alternative Investment relationships

Business Analyst - Salesforce - Sales cloud -Financial Services

Recruiter: Alexander Ash
Location: London

For this investment banking giant we are looking for a Lead Business Analyst

Business Analyst-Fund Accounting, Fund Administration, Custody

Recruiter: Alexander Ash
Location: London

For this global financial services organisation we are looking for a Business Analyst with excellent Fund Accounting / Custody experience

Senior Sales Executive

Recruiter: HornbyChapman Ltd
Location: London

Our client, a major Global Custodian, is looking for two salespeople who will drive the sales process from identification of key prospects, origination of opportunities through to execution of the sales strategy and closing deals

New arrivals at Deutsche Bank, PFS, GBST and more

Deutsche Bank has appointed Werner Steinmüller, current head of global transaction banking, to take on the role of CEO for the Asia Pacific region, and has named John Gibbons to his current role.

Steinmüller, who has worked with Deutsche Bank since 1991, will relocate to Hong Kong. He will remain chairman of the Postbank supervisory board.

John Gibbons will succeed Steinmüller as head of global transaction banking, and is expected to start in October.

Gibbons will join from J.P. Morgan, where he is regional executive for Europe, the Middle East and Africa (EMEA), and global head of banks and broker dealers for treasury services.

He will be based in London and will report to Jeff Urwin, head of corporate and investment banking.

Urwin said: "I am grateful to Werner Steinmueller for his long-standing leadership in global transaction banking and look forward to continuing our work together on the management board."

He added: "[John Gibbons] has the right combination of client focus and experience in running a transaction bank to manage our business for the future."

Pacific Fund Systems (PFS) has appointed two new senior staff members, Martin Heany and Kelly Ashe, to the executive team, based in the new operational headquarters in the Isle of Man.

Heany has joined as senior business analyst and head of testing. He has more than 25 years of experience in banking operations and fund administration, and joins from Abacus Financial Services Limited, where he was managing director.

Ashe is the new sales and marketing manager, responsible for facilitating and enabling the efficient and successful delivery of the PFS marketing and business strategy plan.

She brings core industry knowledge and experience in software sales, vendor marketing and business development.

HSBC Securities Services has appointed Paul Heffernan to the newly-created role of head of cross-border sales for securities services for EMEA.

Heffernan will be responsible for driving business development and offering guidance to fund managers establishing offshore traditional and alternative investment structures.

He joins from Northern Trust, where he was a global funds business sales executive, focused on the European markets. In his new role, Heffernan will be based in HSBC's Dublin office.

Tony McDonnell, managing director and head of HSBC Securities Services in Ireland, said: "Paul Heffernan will add depth to our sales offering across a comprehensive product range and his strong knowledge of cross-border activities will support our full service, cross-product and multi-jurisdiction solutions."

State Street's Marc Russell-Jones has become the latest recruit to MUFG Investor Services, joining as head of business development for EMEA.

Russell-Jones will be responsible for driving growth in MUFG's asset servicing solutions, including fund administration, middle-office outsourcing, custody and depository services.

He joins from State Street where he was head of asset management solutions for the Nordics and UK. In his new role, Russell-Jones will report to John Sergides, managing director and global head of business development and marketing at MUFG.

Sergides said: "With his extensive experience in the alternative investment industry, Marc Russell-Jones will play a significant role in extending our best-in-class asset servicing solutions for our clients in EMEA. His appointment demonstrates our commitment to the

industry and supports our ambition to become the leading player in the market."

This is the latest in a string of new appointments at MUFG. In May, it was announced that Blackrock's McAllister 'Mac' Kirschner joined as global head of client relationship management. Daniel Trentacosta and Michael McCabe were named as a sales directors in April, and Mark Catalano joined from Atlas Fund Services as executive director of business development in February.

David Simpson has joined GBST as head of EMEA, based in London.

In the newly created role, Simpson will be responsible for managing client activity and driving regional growth of the group's retail savings platforms for wraps, life and pensions and banks, and institutional capital markets.

Robert De Dominicis, managing director of GBST, commented: "We expect to benefit from [David Simpson's] knowledge of international markets such as the US and South Africa, and sectors such as private banking, asset management and services for high net worth individuals."

Bob Moritz, the new chair of PwC has appointed his leadership team, which took office on 1 July.

Moritz took over the role from Dennis Nally, who has retired after 42 years at PwC.

New leadership appointments include Richard Oldfield, who joins as head of global markets and services, Carol Sawdye, who will be COO, and Mary Waldron, who will be chief risk officer.

Seven of the previous leadership team are staying on under Moritz, including Robert Swaak, head of global clients, industries and sectors, and chief information officer Sigal Zarmi.

Moritz will work closely with senior partners in China, the US and Germany, aiding with setting the overall strategy for PwC.

Moritz said: "The leadership team reflects our focus and ambitions for the future, the international nature of our network, and the very diverse pool of talent we have at PwC. The whole team is excited to work together to deliver our global strategy and to make a positive difference for all our stakeholders around the world."

"Finally, I would like to thank Dennis Nally, who has retired after seven years as network chairman and 42 years with PwC. [He] made an enormous contribution to PwC overseeing a period of great growth and expansion and we wish him all the best for the future." **AST**

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
+44 (0)203 750 6022

Deputy Editor: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
+44 (0)203 750 6019

Contributors: Becky Butcher and Shirley Fehr Rodriguez

Associate Publisher: Joe Farrell
joefarrell@assetservicingtimes.com
+44 (0)203 750 6027

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
+44 (0)203 750 6028

Designer: Steven Lafferty
design@securitieslendingtimes.com
+44 (0)203 750 6021

Recruitment Manager: Chris Lafferty
chris@assetservicingtimes.com
+44 (0)208 750 6024

Office Manager: Chelsea Bowles
accounts@securitieslendingtimes.com
+44 (0)203 750 6020

Office fax: +44 (0)20 8711 5985

Published by Black Knight Media Ltd

Copyright © 2016 Black Knight Media Ltd.
All rights reserved.

Raising The Bar In Recruitment

Telephone: +44 (0) 20 3411 2759 I Email: enquiries@hornbychapman.com
Web: www. hornbychapman.com I Postal: The City Arc, 89 Worship Street, London EC2A 2BF