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London pension schemes set to join forces in cost cutting move

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London's 32 councils are in talks to establish a pooled pension fund, loosely based on the Ontario Municipal Employers Retirement System's infrastructure vehicle 'Borealis'. If the merging of the 34 schemes takes place, a new entity could see £30 billion of assets available.

Advocates of the pooled fund state that by cutting administration costs of running separate schemes, a combined fund could direct as much as 7.5 per cent of assets, or £2.25 billion, into local projects.

One concern, most particularly for custodians, is whether one company or several will act as custodian for the £30 billion of assets, and how that decision will be made. Currently Northern Trust and State Street provide the lion's share of custody for pension funds in the boroughs, with BNY Mellon, J.P. Morgan, HSBC and BNP Paribas also offering services.

Ray Bloom, head of LGPS at Northern Trust said: "It is absolutely the time to push ahead and investigate new methods such as the potential benefits of being part of a Common Investment Fund, which allows a number of registered pension schemes to pool their investments. Under this arrangement the pension schemes would not need to merge, but could continue to operate separately and gain the many benefits of this arrangement including improved governance and reduced costs.

"We are also working closely with the UK Treasury to facilitate the set-up and operation of the new UK tax transparent fund (TTF) pooled investment vehicle.

"Through this, LGPSs should be able to generate actual savings, through reduced investment management fees and provide smaller schemes with the opportunity for enhanced diversification and the ability to gain access to a broader range of asset classes."

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Societe Generale wins Metropole Gestion mandate

Societe Generale Securities Services in Italy (SGSS S.p.A.) has been appointed by Metropole Gestion to act as its local transfer agent in Italy, providing it with paying agent and investor relations management services.

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Northern Trust welcomes UK tax law

Northern Trust's custody and fund administration services are ready for the launch of the new UK authorised tax transparent fund (TTF) vehicle, due to be effective around August 2012.

readmore p3

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Societe Generale wins Metropole Gestion mandate

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SGSS in Italy offers securities services including clearing, custody and trustee services, fund administration, liquidity management and transfer agent services.

Metropole Gestion is an independent asset management company based in Paris and specialised in stock-picking (European equities, euro zone and Japanese equities) and bond-picking (euro zone bonds and convertibles).

Northern Trust welcomes UK tax law

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First announced in the 2010 UK Budget, the UK tax transparent fund will enable fund managers and institutional investors to pool their assets to achieve cost and administrative efficiencies through withholding tax treaties that exist between countries in which investors are based, and those in which they invest.

It is being established to ensure the UK can compete with fund jurisdictions already offering tax transparent fund structures, such as Ireland, Luxembourg and The Netherlands, and becomes the location of choice for master feeder structures under UCITS IV.

"In order for the master-feeder provisions in UCITS IV to be attractive to investors on a cross-border basis, the master fund needs to be a tax-transparent vehicle," said Aaron Overy, business development, asset pooling and retirement solutions at Northern Trust.

"We believe the introduction of a tax transparent fund in the UK would become the natural choice for asset managers already operating large UK fund ranges as well as support UK pension funds wishing to pool all their assets in the UK, and helping life insurance companies mitigate the effects of the Solvency II directive."

"In addition, we would expect interest from Europe, Asia and US-based asset managers looking to operate a central platform in the UK for their global fund distribution needs," he added.

Good fortune for Halo Companies

Halo Companies, which provides services for distressed assets, announced profitable fourth quarter results, with revenue of $3.2 million, an increase of 188 per cent, and net income of $461,000 for the quarter ended 31 December 2011.

Cade Thompson, chief executive officer stated: "The past two years have been a period of transition as we shifted our core business from a consumer financial services company to a distressed asset services company. A large part of the fourth quarter success is due to growth in the distressed asset verticals, primarily asset management and portfolio advisory services, indicating the completion of that transition."

Halo Companies is a publicly-traded, nationwide distressed asset services company, providing technology-driven asset management, portfolio analytics, acquisition, repositioning and liquidation strategies for the private investment and mortgage servicing industry.

Northern Trust fund administration secures 22 clients

Northern Trust's hedge fund administration division has secured 22 client wins in the last seven months. After the unit was formed by the acquisition of Omnium LLC in July 2011, new Northern Trust mandates include six new clients in the Asia-Pacific region.

Julius Wang, MD of Samena Asia Managers for Samena Capital, said of his firm's administrator: "The quality of the overall team and people in Hong Kong gave us confidence that they could deliver top service levels for a wide range of investment strategies. We have not been disappointed."

Northern Trust now has more than $170 billion in hedge fund assets under administration.

CIBC Mellon wins Bloom funds asset servicing mandate

CIBC Mellon will provide asset servicing solutions for the Bloom Income & Growth Canadian Fund, and the upcoming Bloom Select Income Fund.

CIBC Mellon will provide Bloom with custody services, securities lending, accounting services, and real-time access to investment information via CIBC Mellon's Workbench platform.

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Moving Forward

“We selected CIBC Mellon as our asset servicing provider based on the impressive dedication to client service permeating the company’s culture,” said Paul Bloom, president of Bloom Investment Counsel, Inc. “We have worked with many custodians and have found CIBC Mellon to be the best at allowing us to focus on our goals.”

CIBC Mellon now provides asset servicing for more $370 million of assets managed by Bloom.

NYSE Liffe US to launch new repo futures

NYSE Euronext will launch repo futures market trading on 16 July, if it passes regulatory approval.

Seeking to compete with CME, which is aiming to own a futures exchange in London, NYSE will launch its repo futures trading through its NYSE Liffe US that comply with the Depository Trust and Clearing Corporation’s (DTCC) trademark – GCF Repo Index.

With Libor, a diurnal fixing of interbank overnight dollar lending rates, under scrutiny for manipulation, and benchmark rates offered by Federal Reserve losing lustre following the transaction tax introduced by Federal Deposit Insurance Corporation (FDIC), NYSE is optimistic about exploring the $400 billion GCF repo market.

Thomas Callahan, chief executive of NYSE Liffe US, said at an investor meeting earlier this month: “The two things that market participants would usually look at in terms of a short-term benchmark, fed funds and Libor, are both in their own way broken right now,” he said. “The market needs a new benchmark and we think that this could be it.”

Para Advisors expands onshore relationship with Maples Fund Services

Para Advisors, a hedge fund manager with approximately US$200 million of assets under management, has expanded its relationship with Maples Fund Services to include administration for the firm’s onshore funds.

Maples Fund Services has served as administrator for Para’s offshore fund since early 2010, but Para had previously handled administration for its US onshore funds internally. MaplesFS was awarded the onshore business to help Para stay ahead of growing industry needs for more independence and transparency.

“The expansion is a testament to our value of independence, client excellence, customised approach, and our ability to service both onshore and offshore funds,” Toni Pinkerton, global head of Maples Fund Services said.

Para launched its flagship onshore fund in 1991.

German institutional investors willing to pay more for extra services

German institutional investors are willing to pay more for services above and beyond that of a standard custodian, according to BNY Mellon.

The survey, conducted by German consultancy firms itechx Consulting and FAROS Consulting, analysed investors’ latest demands for new products and services.

Oliver Draeger, senior investment consultant at FAROS, said: “ We can answer the initial question - are depotbanks at a ‘dead end’ - with a definite ‘no’.”

According to the survey, institutional investors are willing to pay separately for services such as transaction cost analysis, performance management and risk measurement, but custodians are not taking full advantage of available opportunities to sell such new services on a stand-alone basis.

CACEIS new custodian for Luxembourg SICAV Esperides

Luxembourg SICAV Esperides has selected CACEIS as the fund’s custodian, depositary bank and its administrative agent.

The SICAV is managed by Contassur Assistance Conseil, a subsidiary of Contassur, the life insurance company that provides group insurance for the GDF Suez Group and companies in the Belgian gas and electricity sector.

The new partnership strengthens the links between Contassur and CACEIS, which already provides the safekeeping of the insurance company’s assets in the form of mandates.

Kaufman Rossin Fund Services launches in Texas

Kaufman Rossin Fund Services (KRFS) will open an office in Dallas in order to focus on administration and relationship management for hedge funds, commodity pools, private equity funds and family offices.

Formerly vice president for Jefferies & Co.’s prime brokerage division in Dallas, James Davis will head the new office.

“Better serving the needs of our clients located in Texas and the Southwest is the primary reason for our expansion,” said Jorge de Cardenas, co-founder and director of KRFS. “Our physical presence, along with the experience and leadership of James Davis, reinforces our commitment to serve this leading alternative investment community.”

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BNP Paribas to provide hedge fund administration for Anchor Risk Advisors

BNP Paribas will provide Anchor Risk Advisors hedge fund administration services for its latest insurance-linked investment strategy.

Anchor Risk Advisors, an investment manager focused on the insurance-linked securities and catastrophe risk investment sector, are continuing their relationship with BNP Paribas who have provided them with a range of fund administration services over the years.

Andrew Dougherty, managing director and head of alternative & institutional solutions at BNP Paribas, said: “Our service model means that Anchor Risk Advisors has direct access to the operations and accounting specialists responsible for administering its funds at BNP Paribas.”

Another mandate for Italian SocGen Securities Services

Societe Generale Securities Services in Italy (SGSS) has been appointed by Financiere de l’Echiquier to act as an additional local transfer agent in Italy, providing it with paying agent and investor relations management services.

Created in 1991, Financiere de l’Echiquier manages a small range of mutual funds invested in the main equities and bonds markets for private and professional investors.

Vistra looks to Netherlands with acquisition of FTC Trust

Vistra has expanded into the Netherlands through the acquisition of FTC Trust, bringing Vistra staff numbers in the region to 60.

FTC Trust provides services including company formation, management and domiciliation, and corporate services. It is expected to be rebranded under the Vistra umbrella during the second quarter of this year.

Director of FTC Trust Jack Willems said: “Clients will be able to benefit greatly from the broader range of services and on the ground presence in other key jurisdictions that Vistra can offer and at the same time, will find that they are still dealing with their existing contacts in the new enlarged company, which will help ensure business continuity.”

The enlarged Vistra Netherlands company will be led by managing director Sjaak ten Hove and executive directors, Tako van Ginkel and Jack Willems.

LCH.Clearnet to sell majority stake to London Stock Exchange

Shareholders of LCH.Clearnet supported its plan to sell a majority stake to London Stock Exchange Group for €463 million.

LCH.Clearnet said 94.4 per cent of votes cast by investors at a meeting in London today were in favor of the merger, with LSE reporting a 99.9 per cent agreement to the deal.

The clearing house attracted interest from Nasdaq OMX Group (NDAQ) and NYSE Euronext (NYX) before agreeing to the LSE bid last month. The firms intend to complete the transaction by the fourth quarter.

NYSE Euronext, the owner of the New York Stock Exchange, has a stake of about 9.1 per cent in LCH.Clearnet and plans to stop using the venue to clear European securities and derivatives in 2013.

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www.ingcommercialbanking.com

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Central and Eastern Europe

It is impossible to stereotype - or even define - the CEE region, but the financial crisis has led to leaner, meaner operations

GEORGINA LAVERS REPORTS

A blanket statement about custody in central and Eastern Europe is no mean feat, considering the intensely heterogenic nature of the region. Custody provision in Serbia and Montenegro is almost non-existent, while just across the border, Hungary is recording average daily trading turnover of €42.8 million: a veritable feast for custodian banks. Technology in Ukraine still, as Matthew Grabois from BNP Paribas admits, "has got some roadwork to go", while IT solutions in Austria are remarkably mature. So how to characterise a region that consistently resists definition?

The CEE region's back story over the last 10 years has been notably torrid. Significantly impacted during the 2008 crisis, international banks and their subsidiaries lent a helping hand to all countries in the region as they prepared to stand on their own two feet. The Vienna Initiative was launched in January 2009 to align the activities of leading private sector financial institutions and support offered by the International Monetary Fund and the European Union arguably played an important role in protecting the liquidity of CEE and CIS banking markets and in helping national governments to devise policy decisions that stabilised the economies of the region.

However, the recovery that was expected has not materialised. At the beginning of 2011, the European Bank for Reconstruction and Development (EBDR) predicted a growth rate of 4.3 per cent for the 29 countries in Central and Eastern Europe over the year. However, it now expects the combined gross domestic product of central and eastern Europe to grow by just 1.4 per cent, down from 1.7 per cent in October 2011.

The World Bank's October 2009 report on the CEE countries, 'From Stabilisation to Recovery', seems accurate in its prediction of growth to be: "feeble and uneven," and a report by RSM International was similarly gloomy, stating: "At the regional level, CEE growth appears unlikely to reach pre-crisis levels in the foreseeable future, and will fall well below growth rates of other emerging markets. At the country level, the CEE states display wide variations in GDP growth trajectories that demonstrate the region's increasing diversity."

Katalin Bóta, deputy regional head of Securities Services for Austria & CEE Region at Deutsche Bank, comments: "There was a slight window when the Arab Spring started; because of risk considerations, they thought the focus may come back to Europe. But that was only a very slight chance. However, things are cyclical: Asia may have the upper hand now, but everything is circular."

Within the region, there seems to be a mixed outlook. The EBRD raised growth forecasts for Latvia, Poland and the Slovak Republic, and left those for Estonia and Lithuania unchanged. Yet Hungary and Slovenia were forecast to

contract by 1.5 and 1.1 per cent respectively, with the ERBD stating that governmental domestic policy mistakes in Hungary had unnerved investors.

The Russian and Ukraine economies are still expected to grow by 4.2 per cent and 2.5 per cent respectively in 2012, with the EBRD stating that countries further to the east of the euro zone, which are less reliant on it as an export market and a source of credit, will suffer to a lesser extent.

Against this dynamic background, custodians are continually looking at the growth of countries; deciding when to exit markets, when to enter - and when to expand.

Jockeying for front runner

In terms of major players, Bóta asserts: "The market is changing: there are players disappearing and players coming. Along general lines the main competitors for Austria, Poland, Czech Hungary and Turkey are definitely UniCredit, Citibank, and I would say ING but to a lesser and lesser extent. I think its focus is different, because if I go down to Russia, Romania, Bulgaria, historically ING is very strong. If you look at Poland, Czech Republic or Hungary, I would say it is prominently Citibank, Unicredit and Deutsche, and if you go to Russia, it's ING. But we must not forget about the local banks. DTP is very strong. It is very well-capitalised, and it has the liquidity."

The need for splitting the region into component parts is vital when defining competitors, as global head of sub-custody at SEB Ulf Norén notes. "SEB is a sub custodian in five CEE markets: Estonia, Latvia and Lithuania, which are all EU Markets, plus Ukraine and Russia. From our perspective, we need to separate the two. Talking on the CEE as a whole, you have certain areas where you find SEB is really big, like in the Baltics. Looking at the greater CEE, ING, Unicredit, Citi, Deutsche and Raiffeisen have strong positions. The two flagship markets of CEE region are Russia and Poland, and also Hungary and the Czech Republic."

Global head of custody at ING Commercial Banking Securities Services Lilla Juranyi defines her company as a traditional custodian, but agrees with Katalin that the market is changing:

"Currently the main traditional custodians in the CEE are ING, Citibank, UniCredit, Deutsche Bank, and there are a few smaller custodian banks offering their services to special type of clients, mainly local ones. What is interesting is that in the last two to three years we have also seen a few providers who have stepped into the CEE region on selective basis to establish their operations in a few "strategic countries". With the local custody business, J.P. Morgan decided to build a strategic full-scale

local operation, however they will not be a Central & Eastern European multimarket service provider. Within their strategy they identified a few important markets all around the world: in Eastern Europe, it is Russia, and J.P.Morgan announced that they intend to extend their local presence there. This strategy of a global custodian is different than that of a multimarket local sub-custodian like ING, who has a much bigger market coverage – with the eight major markets in Central and Eastern Europe. ”

The Asian influence

Europe is a mature market where investors have been, and will continue to look for opportunities. However, the fast inflow of money into Asia and Latin America are proving attractive to asset managers.

Custodians have opposing views on the effect of Latin American and Asian markets on the CEE region. Says Katalin Bóta of Deutsche: “I think the focus in the whole custody business is going away from CEE and everything goes to Asia. That’s one of the major obstacles. My feeling is for the time being, Central and Eastern Europe is forgotten, and we’re considered not that important because the balance is not there, with the only two countries of interest being Russia and Turkey.”

Global sales and relationship manager at BNP Paribas Securities Services Matthew Grabois argues that the growing attractiveness of Latin America and Asia is beneficial to asset owners in the CEE region. “Is the growth of Latin America and Asia a worry? Absolutely not. Asset owners want growth and so the current growth markets – Latin America and Asia included – are attracting a proportion of the emerging markets risk based assets. More assets in general will be allotted to growth markets including the CEE and some of the pocket growth markets. I would say that this attractiveness in the Asia and Latin markets will actually help the CEE as more attention will be paid to emerging markets in general. It’s like what you see in retail psychology; the opening of a Subway next to a McDonalds. Competition is healthy. We’re always interested in emerging markets and the growth of these markets will only help the growth of the CEE.”

Noren takes a more moderate view, acknowledging that SEB’s position as a sub-custodian means that Asian growth is not a hot topic. “It is certainly an indication that Europe has to be aware of its attractiveness in comparison to the growing attractiveness of other areas. For us as a sub-custodian, that’s not something we worry about in the medium time perspective.”

The future of regional custody

Some bigger players in the custodial market in the CEE region are close to offering a pan-European service, although in the smaller markets, will still require the services of sub-custodians. Whether the use of regional custodians will lessen as these bigger forces move into markets, is a fiercely debated issue.

Grabois comments: “Global players are more likely to open markets where they see immediate scale, and scale is important in our business. The regional providers need these markets for their own scale, so pressure will continue in the region and consolidation is foreseeable. The requirement for sub custody providers will continue from non-global SIFIs and SIFIs alike, but the global revenues for the existing regional providers will be under pressure and SIFIs need to use other SIFIs where big positions are held. This will have a dramatic effect on smaller markets but also create opportunities to consolidate there, and gain the requisite scale to continue to be a specialist for small markets. This will not come without investment so those willing to invest will benefit.”

Noren agrees that further consolidation is possible but argues that there is still a considerable timeline until this takes place. “We will definitely see fewer, especially the smaller single market ones will be subject to considerable pressure. Predicting outcomes is hard, because targets are moving all the time. I think sub-custodians’ contribution to the value chain will increase all the time; not least from risk absorption and mitigation viewpoint.”

Bóta adds that whilst there has been much talk of regional providers disappearing from Deutsche, sub-custody remains a force to be reckoned with. “I participated in so many conferences where we discussed the possibility of single market providers disappearing. Tiny regional providers disappearing, with only global providers surviving. Then again, how many times after the crisis have we seen announcements that this global provider is withdrawing from this location or that location? I would say that the function or role of sub-custodians might increase, and it’s going to be a reshuffling between the big providers. Don’t forget about the Russians, either. They are starting to buy up banks in Central and Eastern Europe: Poland, the Czech Republic, Hungary - it’s a clear trend. It’s an absolutely changing landscape.”

Regulation, legislation and harmonisation

The so-called ‘flood of regulation’ has become a somewhat worn-out expression, but in cliché there is truth, as legislation from both the EU and the US continues to impact on custodians. Matthew Grabois states that UCITS V in particular will give opportunities to players with large scale, and with global custodians taking liability through to the agent bank with regulations AIFM and UCITS V, there will be profound changes as to how the providers choose and organise themselves.

Yet, in terms of harmonised financial regulation, the consensus seems to be that countries are too disparate to offer any kind of congruence in the near future.

“To a certain extent harmonization has definitely happened,” says Juranyi. “The CEE countries are trying to harmonise and implement European legislation into their own local legislation. But it does not mean fully harmonised financial regulation in all the CEE countries. I’ve seen this as understandable, because the capital market legislation is related to several other laws and complex regulations including, but not limited to civil law, law on taxation etc., and its complexity would be near-impossible to implement in a standardised way. On the other side I see operational processes being harmonised, and I believe that institutions that are offering custodian services can offer a lot of standard service supporting their clients with the harmonised operations as much as possible including reporting to clients as well as reporting to local authorities.”

The idea of similar regulation across the board is also difficult due to countries wanting to protect their national identity. Says Bóta: “These countries will definitely keep their national flavour. They try to protect their markets.” Matthew Grabois asserts that whilst larger, more developed countries are taking steps to standardise regulation within their own country, harmony across the CEE will prove a challenge.

“In December 2011, Russia passed the law for one common CSD, which was a good step towards harmonisation. Poland is also moving forward with the nominee concept. Furthermore, there is also the Vienna Stock Exchange project, pushing towards a single exchange market with a common CCP model. Though cross-CEE harmonisation is not yet a reality in the near future, I believe it will also improve the overall cost situation, since systems and operational procedures could be used across countries, thus streamlining overall set-ups.”

The disparity of legislation also means that whilst non-EU member states have 900-odd pages of Dodd-Frank to contend with, they will be let off from regulation specifically targeted at EU member states such as Basel III and KIIDs. “I cannot say 100 per cent, but the general view is that non-EU member states will benefit from not having to comply with this regulation,” says Bóta. Juranyi and Grabois both agree, but state that being a non-EU member means less protection and a higher risk for investors.

“There is no doubt that non-EU member states are facing less development and organisational costs,” says Grabois. “However investors are most likely to look first at asset safety and for countries that have high risk mitigation and regulation – and that also applies in the rest of Europe.”

A future hub?

Unlike America, the UK and Asia, a future hub for investment into CEE countries looks unlikely. “Every bank defines the CEE region differently”, says Bóta. “We define it as the six locations that we operate in, so I would say that as a hubbing solution, Vienna would make sense. If we look at Turkey, however, as the gate to a different part of the region, Istanbul could be a good solution. And also, you must consider if it is really necessary to create a hub.”

“Scale and the best IT will be the drivers,” concludes Grabois. “The market that innovates the fastest will win, but the economy will also play a major role.” **AST**

Eesti, Danmark, Lietuva, Norge, Deutschland, Sverige, Россия, Україна, Latvija, and Suomi.

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SEB

An island affair

AST assembled a panel of experts to look at how Jersey plans to keep its status at the top of the market

AST: Despite economic conditions, Jersey has seen increasing levels of business in the alternative funds sector during 2011, with recent figures showing 2.5 per cent year on year growth in the net asset value of funds administered. What has made Jersey such a success story?

Nick Solt: Jersey has a deep pool of talent when it comes to professional service providers with many organisations like ourselves providing very specialist and bespoke services. Combine this with a strong reputation for robust regulation and you have a jurisdiction that instils a high level of confidence in investors and promoters.

Whilst the global recession has been a difficult time, recently we have seen renewed interest in both private equity and real estate fund investment and Jersey has created a funds regime to take advantage of this.

Combining these green shoots of recovery in the very areas in which Jersey has become a market leader with the constantly adapting Jersey regulatory framework, has meant that we have been able to continue to grow despite the on-going economic challenges.

Phil McGowan: A significant driver of the growth in net asset values has been the quality of the assets held here. As a centre for asset management and servicing, Jersey is used by highly professional, sophisticated investors supported by strong service providers.

Another set of factors is the infrastructure here, which comprises major audit firms, law firms, tax advisers, banks and asset managers, and our 12,000 finance industry professionals. At the same time we are located in the right time zone to service Far Eastern as well as European and North American investors and their advisors. Jersey's infrastructure is therefore tried and tested.

professional and institutional end of the market. There are fund regime options ranging from the most highly regulated retail funds, through to more lightly regulated fund regimes and unregulated funds for the most sophisticated investors: Recognised Funds, Unclassified Funds, Private Funds, Expert Funds, Private Placement Funds and Unregulated Funds.

> As a centre for asset management and servicing, Jersey is used by highly professional, sophisticated investors supported by strong service providers
>
> **Phil McGowan, State Street**

Lastly, Jersey is adjusting well to the raft of new regulation affecting the asset management sector. We are well placed to deal with, for example, the requirements of AIFMD. In addition, Jersey structures are well known and proven. In summary, Jersey presents an attractive package to the global, professional and institutional investment community.

Geoff Cook: In contrast to other centres that remain focused on specific niche activities or single asset classes, Jersey's overall competitive position is based on a balanced portfolio approach, offering one of the widest ranges of fund regimes and vehicles.

The emphasis in recent years has moved towards alternative investment funds and the more

Jersey has built up particular expertise in alternative, specialist and institutional funds, with a specific focus on private equity, hedge and real estate asset classes.

Alongside are the long term strengths of the jurisdiction. Located within the European time zone and through its unique constitutional position, Jersey has been able to develop and enhance a legal, regulatory and fiscal environment which has proved ideal for corporate clients including fund managers and lawyers structuring fund vehicles.

The appeal of political and economic stability should not be underestimated, nor the inherent skills that the jurisdiction's workforce can call upon through decades of growth and diversification into different aspects of financial services.

AST: Jersey is working to change its perception from an offshore specialist to a more diversified centre. Do you think perceptions are changing, and if so, what implications might this have for your business and the attractiveness of the domicile?

Solt: Jurisdictions such as Jersey are at risk of being pigeon holed due to a general perception that often groups all the jurisdictions that are classed as part of the offshore industry together.

This means that Jersey must constantly adapt itself to develop and provide a range of services that are not solely providing structures for what is seen as the traditional remit of the offshore industry.

Jersey is working hard to change how it is perceived both within the UK and globally, with Jersey Finance Ltd, several major law firms and other industry bodies establishing secondary offices in other, non-offshore, destinations such as Abu Dhabi, Singapore and Mumbai.

Whilst the changes in perception are only taking effect slowly, we believe that once they are established it will mean a wider market and range of services that are available, which consequently will strengthen Jersey's financial reputation and, of course, we see ourselves in a strong position to take advantage of the expected resultant expansion.

Cook: For Jersey one of the telling elements has been the findings of the Global Financial Centres Index (GFCI), which releases rankings for jurisdictions every six months. In recent reports, In addition to being the top ranked offshore jurisdiction, ranked at no 21, Jersey is the only offshore location with a top 10 position in one of the specialist categories globally.

For two successive reports, it has been in the top 10 for private banking and wealth management. In the funds arena, Jersey is competing with jurisdictions regardless of whether they are onshore or offshore. I think these factors are significant in that they demonstrate its frequently not about being offshore, instead the criteria that international investors are looking for are expertise within the jurisdiction, the quality of the regulation, its reputation for corporate oversight, the political and economic stability of the location.

AST: How have funds established under the UCITS directive been embraced within Jersey, and what's next for UCITS?

Cook: Jersey does not offer retail UCITS funds (the units in which can be marketed across Europe) The ability of offshore investment funds to offer shares directly to investors in the UK has been restricted by the Financial Services and Markets Act 2000 (FSMA). However, section 270 of FSMA provides a procedure for the recognition of investment funds established in designated territories whose laws afford investors in the UK protection at least equivalent to that provided under FSMA. Jersey has obtained designated territory status under section 270 of FSMA and a number of recognised funds have been recognised by the Securities and Investment Board.

A recognised fund which qualifies under the regulations made pursuant to the FSMA (Collective Investment Schemes) (Designated Countries and Territories) Order 2003 and is granted a Collective Investment Funds Certificate is freely marketable in the UK and may offer its shares for direct subscription by the public in the UK. Jersey recognised funds may also be marketed to the public in a number of other territories, including Australia, Belgium, Hong Kong, the Netherlands and South Africa and provide investors with access to a statutory compensation scheme.

The knowledge required to deal with asset administration and data warehousing is abundant here. More generally, Jersey has a very good story to tell and there is an opportunity to publicise its capabilities more widely to assist clients with the regulatory changes that they are seeing.

Solt: FATCA is one of a number of international legislative and regulatory changes that will no doubt impact how funds services business operate.

However, the reaction of the funds services industry in Jersey to FATCA and other proposal changes such as AIFMD demonstrates we have the regulatory flexibility and high level expertise to meet any challenge that is presented.

At MSFA we have already established working parties looking at our approach to these changes to ensure we are compliant where necessary and can maintain our high levels of service to our clients.

> Jersey has obtained designated territory status under section 270 of the FSMA and a number of recognised funds have been recognised by the Securities and Investment Board
>
> **Geoff Cook, Jersey Finance**

Solt: As a business, the areas that we provide expertise in mean that we have not entered the UCITS arena. However, the fund regime in Jersey is such that it provides the framework that has enabled some of the larger organisations to embrace UCITS compliant funds.

With the constant review UCITS leading to the prospect of further changes, we feel that the ability of Jersey as a jurisdiction and the service providers individually to adapt to such shifts will continue to be important to maintain our competitiveness when compared to other financial centres.

AST: Will new regulations such as FATCA will have an impact on Jersey, and how will companies deal with this changing regulatory landscape?

McGowan: The wide range of new regulation affecting our industry is certain to have an impact. We are in constant dialogue with our clients to assist them to understand and deal with the demands that new regulations will place on them.

Many of the forthcoming regulatory initiatives, such as FATCA, AIFMD and Solvency II, will demand enhanced compliance and reporting needs. Larger asset servicers such as State Street, which are experienced and skilled in data management and reporting, are strongly placed to support clients as they navigate the new environment.

Given that these changes are, perhaps, inevitable given the political pressures in the major economic centres, we believe that these changes should not be seen as a threat, but should be approached with a positive mind-set and be seen as an opportunity for Jersey to demonstrate that it is a top notch funds centre.

Cook: It is agreed that FATCA will have an impact across international financial services generally and all locations will be affected. Jersey's finance industry is fully engaged with the regulatory authorities and government in assessing the potential impact of the US regulation across all sectors including funds. We have established a specific FATCA Working Party in order to support members in dealing with the introduction of FATCA.

The FATCA provisions are in the form of guidance, which make it clear that the US has taken into account representations from foreign governments, of which Jersey was one, in seeking to minimise the reporting burden.

That said, it is also important to note that not all financial institutions in Jersey will be engaging in activities that are affected by FATCA or, if they are, some to only a rather limited extent. Since the FATCA provisions will apply to all jurisdictions they should not adversely affect Jersey's competitive position.

Jersey also enjoys an excellent relationship with the US. It has signed a TIEA with them as far back as 2002 and has a Statement of Co-op-

eration between the Jersey Financial Services Commission and the four United States financial regulators) to formalise existing arrangements for cooperation and information sharing. (204)

AST: How do you see the new Private Placement funds regime affecting the industry?

McGowan: Against a background of increasing lead times for private placement funds in other jurisdictions, the new regime is an additional competitive advantage that Jersey has to offer professional, sophisticated investors. It helps sophisticated investors to quickly seize on investment opportunities when they arise and make the most of them.

Although it's early days yet, the new private placement funds regime is a great additional strength of Jersey's. It was a good response to what the industry was looking for — something that was quicker, simpler, and also more cost effective to set up.

Cook: Similar in scope to Jersey's existing COBO (Control of Borrowing Order) private funds, the new Private Placement Fund offering further widens the choice available to investors and is designed for 'fast track' approval, usually within three business days, providing the speed and certainty for investors that is becoming increasingly important in today's market where arrangers need to react quickly to new market opportunities.

The regime, with its appropriate regulatory oversight, is expected to be attractive across the alternative asset classes, including real estate, private equity, mezzanine, cleantech and emerging market funds.

The Private Placement Fund also is positioned to support fund managers who do not want to operate funds within the EU and the stringent requirements of the AIFM Directive and the additional costs of compliance that will inevitably arise. Jersey's Private Placement Fund regime will provide fund managers with structuring opportunities to navigate an alternative route around the Directive.

For those specialist private funds which do not fall within the scope of the new Private Placement Fund offering, Jersey will continue to operate its COBO regime.

Solt: The PPF regime is a positive move for the industry. This regime will allow us to compete with, or even be ahead of, rival jurisdictions in terms of our ability to set up fund structures quickly and efficiently where required.

It will be of particular interest to fund promoters who wish to move quickly to take advantage of an investment opportunity and who have a pool of sophisticated investors to whom they are able to market their products.

The PPF regime is part of the on-going evolutionary process of ensuring that Jersey's fund regulations enable us to provide a competitive and streamlined service and it contains facets such as the certification of the application by a regulated service provider that will hopefully be expanded to other fund products as part of this process.

AST: Taking into account the evolving needs of international investors and the changing nature of global regulation, how do you see 2012 panning out?

Solt: We believe that Jersey is in a strong position to continue to benefit as the green shoots of recovery, hopefully, continue to flourish.

The continuing challenges in the financial sector can also present opportunities for the sophisticated investor and we in Jersey are in a strong position to take advantage of this. For example, we have seen real estate funds successfully moving from direct real estate investment into investing in real estate backed loans as a number of banks continue to divest themselves of parts of the real estate loan portfolios.

As far as the changes in global regulation, these should present an opportunity for the service providers in Jersey to demonstrate their ability to provide the high quality of service within a well regulated jurisdiction and ensure we are able to continue expand throughout 2012.

Opportunities for the sophisticated investor and we in Jersey are in a strong position to take advantage of this.
Nick Solt, Moore Stephens

McGowan: There's a lot of change and challenge in prospect for 2012. This environment creates opportunities that it is important for us to be prepared for in order to provide solutions to our clients. If we can help our clients to be successful in asset raising, asset management and delivering good returns to their investors then we will all be successful.

The greater focus on transparency and reporting is driving innovation at the moment. Investors and asset managers are looking for ever-increasing amounts of data. Moreover, they need this information increasingly quickly. Consequently, investment administrators need to be able to provide clients with industrial-strength data processing and reporting capabilities. Clients need to be able to identify quickly and with a high degree of granularity exactly where their exposures are so that they can react quickly to the risks themselves as well as meeting the regulatory reporting requirements.

International investors are tasked with having to report to different regulators globally and they can only do this to the extent required if they have administrators who can help them do so. Larger, more established administrators with strong track records are best placed to meet this need.

In particular, clients who are launching new products need to be able to access support in carrying out rigorous due diligence. It appears that investors are placing more money with fewer managers and performing deeper due diligence on them, and transparency from those managers for being early investors in new products and funds. We believe that the trend towards outsourcing can only grow as regulatory pressures increase.

Cook: The outlook for alternatives in 2012 is promising, particularly if you reflect on the statistics in 2011 which was a challenging year. At the end of 2011, alternative funds business continued to perform strongly, standing at £145 billion - over 75 per cent of the total. Hedge fund business in Jersey stands at just under £50 billion, and private equity funds at £39 billion – an eight per cent increase on the previous year and an impressive 56 per cent increase on 2009. We believe Jersey's fund offering has been further enhanced in 2012 and should encourage more growth.

The debate about regulation and changing investor demands has actually presented specialist jurisdictions like Jersey with an opportunity to enhance their product range, provide more choice and safeguard their regulatory standards.

The global funds industry is seeing some real shifts. However, if Jersey can continue to demonstrate an acute understanding of the key trends impacting the funds arena, retain a commitment to innovation and maintain the regulatory conditions to support the needs of corporate and private investors, we will ensure the long-term success of our growing funds sector. **AST**

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Automated messaging

Calastone's Luxembourg head explains the issues and solution surrounding automated messaging within the fund distribution market

BEN WILKIE REPORTS

AST: Can you tell me a little about Calastone - why it was formed, what it offers and who your clients are?

Sebastien Chaker: Despite years of investments in trying to automate fund orders, the levels of automation in the fund space remain extremely low compared to what we see in the equities space. We were convinced that existing solutions to automate fund processing did not completely meet the needs of the industry.

What Calastone is doing can be compared to what a travel adaptor does for the international traveller - it provides a simple, reliable and cost-effective way of electronically connecting fund distributors and fund managers irrespective of the chosen standard used by other parties.

Calastone was set up as a private company in 2007, and we started to operate the first transactions in 2008. Our clients are fund managers who operate across multiple jurisdictions as well as fund distributors. Our services were initially focused solely on the UK fund market, but by 2009 clients were pushing us into the cross-border market. So we started offering the same model for cross-border funds domiciled in Luxembourg and Ireland. We opened our Luxembourg office in 2010 to cater for the European market, and in 2011 we started to expand in Asia.

AST: How automated is communications in the mutual fund industry?

Chaker: There has been 10 years of intensive effort and millions have been spent to automate the space. ISO standards have been created, and ICSDs have moved into the market by using the systems created for bonds and equity to go into the fund space. There are a number of industry groups who have recommended the use of the ISO standards.

But the latest EFAMA-SWIFT survey on the level of automation of third party cross-border fund orders shows that in the first half of 2011, the rate of transactions that use the ISO standards is still quite disappointing, at 37.8 per cent. The rest of the transactions are bilateral flat files and there are still over six million faxes processed by transfer agents in Luxembourg and Dublin. The scary thing is that this number is increasing each year, mainly because cross-border distribution continues to expand into new regions and to new types of distributors.

AST: What is holding back the move towards automation?

Chaker: There has been a myth from the beginning of 2000 that all the players in the fund industry would all invest in their IT infrastructure in an attempt to move to a single standard. Many fund managers believed the SWIFT ISO standard would solve the problem and all their clients would move to it. But this didn't happen. Fund distributors have not been willing to invest in their infrastructure to automate fund orders by developing new communication standards solely used by the European fund industry.

It's worth remembering that fund distributors come from diverse types of organisation - they could be banks, brokerage firms, insurance companies, pension firms or even specialised fund platforms. They all have different business models, different levels of sophistication and different IT infrastructures - they do not necessarily think of themselves as being part of the fund industry.

Going back to the analogy of the electric adaptor, you can see that countries or regions have different voltages and frequencies around

the world. But there's very little debate about whether or not to harmonise electrical supplies, which is what the fund industry is trying to do. Even if the electrical suppliers were able to agree on one global standard, which is unlikely, just try and imagine the level of investment to change supplies in the countries that need to adapt. But the main reason why there isn't a debate is because there is a simple solution - plug adaptors.

In the fund industry, we think we can solve the problem and accelerate the automation take-up by creating this interoperability. Everyone can keep their own communication standards and we can put the technology in the middle to translate messages from various messaging protocols. The ability to communicate orders between counterparties is not new, but the translation capability is where we add the value.

AST: What is driving the move towards automation in this sector - is it simply down to cost?

Chaker: If we look at the UCITS industry we can see there is a strong trend of growth coming from cross-border funds rather than domestic funds. Luxembourg and Dublin have been very successful in promoting UCITS funds across the world – fund managers with UCITS products that were initially set-up for distribution in a selected number of European countries can very easily expand their distribution market across the globe as more Asian and Latin American countries adopt UCITS.

The impact of this is that distributors in new markets often have different operating models and different IT infrastructures, so each time you increase distribution, transaction numbers increase but the level of automation falls.

Cost is one of the main drivers. Some clients are reporting savings of up to 60 per cent when they move to automated messaging. So it's a big driver, but it's not the only one - scalability is vital. As firms expand into new markets they would need to increase their staff if they kept everything manual, but having automated processes make the whole expansion much simpler.

Another very important factor is service levels to distributors and this is particularly vital in Asia, which has a culture of zero defects, there's no tolerance of errors. And when you're expanding into other markets, particularly those where the time difference is significant, doing everything by fax can mean up to two days before the end investor gets its trade confirmation.

AST: Are there particular types of funds that are seeing the benefits sooner than others?

Chaker: In terms of cost reductions, retail funds with high dealing volumes from multiple distributors tend to see the cost savings sooner. But the risk reduction aspect is the key driver for institutional or alternative funds - they have the high value tickets, where the financial risk of missing a dealing deadline is much higher. And if you look at service levels, everyone benefits in the same way.

AST: Is there a difference when you implement the solution in new markets, compared to those that are more established?

Chaker: They have the ability to start building automation more quickly, so in one sense it's

easier. But often they don't have the ability to go onto the SWIFT network. Across Asia, there are fewer than 10 distributors with SWIFT fund messaging capabilities.

AST: Who needs this automation?

Chaker: Fund managers are the ones that need the automation - it's their industry. Fund distributors, be they banks or brokers, distribute funds as well as other financial products, so they don't think of it as their industry, they just want to have a cost efficient and secured way of processing fund orders. The main costs of manual processing lies at the transfer agent level, they need to charge fund managers more for manual transactions. There's one fund distributor we speak to who says that Asian distribution represents 20 per cent of its total fund holdings but these distributors account for 50 per cent of its total transfer agency costs, simply because the levels of automation are not yet there.

AST: What is driving the growth in cross-border markets?

Chaker: The growth is coming from emerging markets. At the moment, Asia is the biggest region for fund managers, but there is an increasing focus on Latin America.

> The way we have been operating is by helping fund managers to accelerate the automation of their European distributor base

Fund managers who set up a global distribution platform in Luxembourg or Ireland, for example, benefit from the economies of scale of having one fund range distributed globally. Initially UCITS were created for distribution in the European market, and that remains about 60 per cent of where the assets are sourced from. But the rest of the world now often accounts for up to 40 per cent of the assets, and that's growing.

Most of the cross-border fund expansion comes from European funds looking outward – UCITS is currently the only true global fund product We don't see many US, Asian or Latin American domestic funds sold on a global basis, it's a one-way traffic.

AST: How much is changing regulation altering the way fund managers operate?

Chaker: I don't believe that regulation is a direct driver for the automation of the business. However, all the regulations imposed on fund managers have a big impact on costs and as a result fund managers have become much more cost-conscious. Automating is an easy way to reduce the cost burden, thereby reducing funds TERs.

AST: Asia is a growth area for both the industry as a whole and for Calastone. How do you see the market in this region?

Chaker: What we have seen over the past three to five years is a growing number of global fund managers either setting up operations in the region or expanding their presence there. But we now also see large Asian asset management companies creating a UCITS product to exclusively distribute back into Asia.

The way we have been operating is by helping fund managers to accelerate the automation of their European distributor base. As Asian flows have rapidly grown, we have received an increasing number of requests to provide a solution in Asia. So this year we have put people on the ground in Hong Kong to cover this region - essentially following the needs of our clients.

When you look at the opportunities in the global markets, for our clients Asia is the most important region in terms of manual transaction volumes - at the moment there is very little adoption of automation and several of our clients have seen transaction levels double year on year for the past few years.

We tend to work within the more mature markets in Asia, and there are two reasons for this. Firstly, the likes of Vietnam, Thailand and Malaysia are still relying mostly on domestic funds and there is still very little cross-border distribution. There's also the issue of labour costs. The increasing need for automation in Europe is generally down to the cost of labour. In Hong Kong, Singapore and Korea, labour costs are still cheaper, but rapidly growing and also becoming a significant expense for fund managers. In countries like Vietnam, labour costs remain very low, which means the cost of manual processing is not yet a major issue.

AST: You already have a successful base in Australia - does this translate well for the rest of the Asian market, or are the requirements very different?

Chaker: The Australian funds landscape is very similar to that of the UK, with domestic funds mainly distributed through financial advisers. We set up a base in Australia in 2011 and in less than nine months we've created a pilot group that includes one of the largest wrap platforms and several large domestic funds. We are now successfully expanding our network to other major players in this market.

Although the regulations and dynamics are different in every country, we have demonstrated that our model is exportable in different markets. So we have already replicated the Australian experience in Singapore, where people have been talking about automation for more than five years with very little achieved. In April we will have four of the largest local distributors running a pilot with several large domestic and offshore funds distributed in Singapore, and we will then roll out our network to all the major players in the second part of the year.

We're currently setting up similar pilots in Taiwan and Hong Kong which we expect to start in June. I think this proves our model is exportable - of course every market is different but because we are interoperable, none of our clients needs to make significant IT investment to take advantage of the benefits, which is a big difference from the past and makes the whole process to move to automation much quicker.

AST: How do you see the market developing in the future? What is Calastone doing to prepare for this?

Chaker: One trend of particular interest in our space is the changing behaviour of investors over the next 10-20 years. Current investors come from the pre-internet days and still rely on traditional advice channels - banks, financial advisers and so on. What we see happening over the coming decade is the Facebook/Twitter generation becoming the new clients of asset managers. This will mean a big change in behaviour of clients in relation to professional advice - they are expected to be less reliant on financial intermediaries, to get information directly online from product providers and to deal into funds online.

This would not be short of a revolution for the fund industry. Transaction volumes could increase significantly, payment mechanisms and investor servicing models would need to be re-engineered. Needless to say that if the major players do not get the automation levels up to-day, this could be a big missed opportunity for the industry. **AST**

Sebastien Chaker
Managing director
Calastone Transaction Network Luxembourg

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All exchange

The chief executive of Channel Islands Stock Exchange explains the benefits of listing on a recognised stock exchange

CISX FOCUS

There are three main benefits to be derived from listing securities on a recognised stock exchange, of which the CISX is one such exchange within the European time zone:

- Transparency
- Marketability
- The potential of enhanced liquidity.

Transparency underpins the expectations of investors, regulatory bodies and market participants in the post financial crisis environment. As a result, over the past two or three years there has been greater focus on the transparency benefits of listing, particularly on an internationally recognised stock exchange. A listing on any exchange should add value and enhance information flow to investors (and the public generally) and it is the exchange's role to facilitate this.

The exchange's public disclosure regime is designed to provide information flows not only to investors but credit institutions that may also rely upon the listing status of securities. The CISX requires directors of listed companies, including investment funds, to adhere to ongoing disclosure requirements in relation to corporate actions, trading activity and adherence to the Model Code. At the heart of the disclosure regime is the need to ensure that directors of listed issuers keep the market informed and to ensure there is equality of treatment of shareholders.

Now more than ever, it is particularly important to restore public confidence in the financial markets and exchanges can play a significant part in restoring that confidence by maintaining high standards for the conditions of listing and public disclosure of information. In this regard, the exchange's expectations and that of any code of corporate governance converge: both are interested in transparency and ensuring the equality of treatment of shareholders.

The CISX Market Authority has always worked to ensure listed issuers understand fully the implications and practicalities of the listing rules, offering information and guidance through workshops, seminars and conferences – for example, an upcoming workshop on due diligence by listed issuers post-listing. This educational role has always been a key element of the exchange's work, but in the aftermath of the financial crisis there is even greater emphasis on disclosure and transparency and the role of listing in achieving these goals.

A stock exchange is traditionally the place where companies go to raise capital. It has a further function of enabling the shares which represent ownership of a company to change hands at a price that reflects, not only supply and demand, but also to some extent, the value of the company. Of course the stock market mechanism can be use for other processes which require securities to be distributed, such as privatisations and open market operations for a central bank.

There are many reasons why a company may choose to list. Most often, the main reasons financial institutions wish to list are to create a market value

There are many reasons why a company may choose to list. Most often, the main reasons financial institutions wish to list are to create a market value, to provide investors with an exit route, to extend their product's visibility, to secure a kite mark which demonstrates they have met rigorous disclosure requirements or to at-

tract certain types of investors. But regardless of the underlying reason, a listing will enhance the marketability of the security in question and in certain circumstances give the listed issuer a competitive edge. This is particularly true within the investment funds sector.

As stated, in some instances it is essential for a security to be listed in order to attract a specific type of investor. For example, institutional investors usually have limitations upon the percentage of unlisted securities that may be included within a portfolio such as a pension fund. Likewise, SIPPS or ISAs require investments to be listed. Other examples include the desire to obtain the quoted Eurobond exemption or UK REITS status, both of which require a listing on a recognised stock exchange in order to be eligible.

A listing is a definite kite mark that will create information flow to investors. This will, in turn, enhance investor relations and raise the public profile of the listed issuer. A listing may also open up new distribution channels and it will certainly increase visibility.

Enhanced visibility through a listing may also lead to increased liquidity. Whilst is difficult in this short space to provide meaningful insight on how liquidity may be achieved, on a very simplistic level, there needs to be three key elements:

- a security the type and quality of which will be of interest to market makers (A minimum of two market makers would be required in order to optimise price movement and generate market activity);
- how well the issuer/product is marketed (both initially and ongoing); and
- whether there is a mixed shareholder base. (A large and a more mixed shareholder base should correlate to more share activity, with some exiting at some point and others entering at different times creating a secondary market in the shares.)

There is strong evidence to suggest that regardless of whether shares are closely held with investors taking a long term view (and therefore little secondary market activity may arise) a listing can also assist issuers in raising additional capital post the initial capital raising.

Facilitating the market for the buying and selling of shares is one of the main areas of responsibility for exchanges: to set standards for trading and settlement, rules on disclosure of directors' interests and other disclosures in relation to price sensitive information.

It is reasonable to suggest that a listing can create investment opportunities that would otherwise not arise – whether a technical listing to attract investment, to facilitate market value or to provide a potential exit route for investors through secondary market trading. Whatever the reason, the CISX is an internationally recognised stock exchange whose facilities can open up additional distribution channels and unlock new categories of investors such as pension funds, insurance companies and collective investment schemes and offers a full and unrivalled service. **AST**

Tamara Menteshvili
Chief executive
Channel Islands Stock Exchange

Eyes wide open

Linedata's Noreen Crowe examines the impact that FATCA will have on firms both inside and outside the US

REGULATORY UPDATE

The Foreign Account Tax Compliance Act (FATCA) was signed into law in 2010 as a component part of the HIRE Act which was legislation aimed at stimulating the US economy and encouraging jobs growth. In order to pay for programmes which seek to raise employment, the US needed to look for new or missed revenue opportunities and the spotlight fell heavily on tax evaders. Nobody likes a tax cheat especially in a tough economic climate where ordinary taxpayers have had to shoulder the burden of unprecedented bank bailouts. At the same time, the US was engaging in a much publicised tug-of-war with the Swiss banking system over the privacy laws that some US citizens were using for tax avoidance purposes. With a jobs programme to fund and with taxpayer sentiment firmly behind them, it was abundantly clear to lawmakers that now was the right time to tackle tax evasion and the provisions that gave rise to FATCA sailed through the legislature. The regulations have yet to be completely finalised as the IRS has elicited significant feedback from the financial institutions, foreign governments and various industry lobby groups. However, the final proposed regulations, which were released on February 8, 2012 encompass most of the provisions that become the final law.

Overview

The primary purpose of FATCA is to ensure the proper documentation and disclosure of offshore investments by US persons. It does this by mandating that foreign financial institutions (FFIs) and non-financial foreign entities (NFFE's) with substantial US ownership provide information to the IRS on their US investors and account holders. In order to ensure that those foreign entities comply with the reporting provisions of the Act, the US has introduced a new 30 per cent withholding tax on any US source income earned by any non-compliant foreign entities.

The scope of FATCA is very broad and will provide significant challenges for institutions as they try to prepare for the various implementation deadlines starting in 2013. Despite these challenges, successful implementation is achievable, especially if the project is broken into smaller more manageable subsets. FATCA can, for example, be generally distilled into three general categories:

- FATCA categorisation of your firm or firms/ entities that you manage;
- Identification of US Persons;
- Reporting and Withholding.

Categorising your organisation

The correct categorisation of your organisation or of entities that are managed by your organisation, such as fund or other investment vehicles, is arguably the most important step in meeting your FATCA requirements. This step determines the extent to which FATCA applies to your organisation. Firstly, all non-US entities are broken into two main categories: Foreign Financial Institutions (FFIs) and Non-Financial Foreign Entities (NFFEs). FFIs are, generally speaking,

institutions that deal in money or investment while NFFEs are foreign institutions which are engaged in a business unrelated to finance.

The FFI category includes banks, investment companies, brokers, traditional funds, alternative investment funds and insurance companies. From a FATCA perspective there are good and bad FFIs, namely participating or non-compliant FFIs. Participating FFIs will enter into an agreement with the IRS by July 1, 2013 and as part of that agreement report information to the IRS and perform withholding on US source income. Any FFI that does not enter into this agreement will be deemed non-compliant and will be subject to a 30 per cent withholding on income and gross proceeds from the sale of US assets.

There are some exceptions to the broad FFI classification, the most notable of those being deemed compliant FFIs which do not have the same reporting and withholding obligations as Participating FFIs. Deemed compliant institutions are broken into two categories – Registered and Certified. Registered deemed compliant will still need to register with the IRS and re-certify every three years. A typical registered institution would be a Local FFI or a restricted fund. This group would also be made up of FFIs in countries that have FATCA-related reciprocity agreements in place with the US. Currently only France, Germany, Spain, Italy and the UK have signed information sharing accords with the US. We should expect to see more countries enter into similar arrangements over the next year.

Certified deemed compliant are more or less self-certifying. They are made up of entities such as local banks, pension funds, non profits or FFIs with a low value (up to $50 million). They have the easiest time from a reporting perspective but they will need to be diligent to ensure they maintain their status by excluding US and recalcitrant accounts or non-compliant FFIs.

The final FFI subset consists of Limited FFIs and Branches with affiliates of organisations in countries where certain aspects of FATCA are prohibited. These organisations can get this limited status for two years so that their affiliate group can achieve a Participating FFI status. After the two years, the entire group will lose its status if that branch has not come into compliance.

The rules relating to NFEEs are less onerous than those of a FFI. When a NFEE, such as a foreign corporation, trust or partnership, makes a US-related investment it will need to either certify that it has no US investors or disclose information on its substantial US owners. Substantial means 10 per cent ownership or any ownership if the institution is a collective investment scheme. Certain institutions are exempted from categorisation as an NFFE such as foreign governments or publicly traded institutions.

Identifying US investors

Once you have established that your institution must comply with FATCA, the next step is to identify which investors or account holders are subject to reporting under FATCA, namely US investors. Individual and entity accounts may be excluded from reporting where the balance is less than $50,000 and $250,000 respectively. An electronic search for US indicia will need to be performed on any accounts with balances above these thresholds. The IRS provides guidelines on what comprises US indicia, but, in general, an institution can lean on information obtained as part of their existing AML/KYC policies.

If an account has a value of greater than $1,000,000, a more diligent review will need to be performed including a manual search of paperwork. In addition, a 'responsible officer' in your organisation will need to certify that a relationship manager has reached out that that investor to validate their status. This certification must happen within one year of signing the agreement. It will be vital to thoroughly examine your internal control framework as part of your FATCA preparations, especially as you need an appointed officer to sign-off on compliance.

Reporting and withholding

Reporting will be gradually phased with the first phase commencing in 2014. The IRS has not yet released the forms but we can expect that reporting for 2014 and 2015 will consist of the name and address details of all US investors as well as their tax identification number (TIN) and account balances. The account balances can be reported in either US dollars or local currency. Most of this information should be readily available on existing systems with the exception of the TIN which many non-US institutions may not have been capturing as part of their normal onboarding process. For 2016 and 2017 reporting will commence on income and gross proceeds from US sources.

Institutions in countries that have an information sharing agreement in place with the US will report to their own governments rather than to the IRS. These governments will then relay the relevant information to the US. The details of the information sharing agreements are still being negotiated, leaving institutions in these countries with a large question mark around details of their local FATCA reporting requirements. However, we can probably expect that local reporting will require information that is similar to the initial FATCA requirements for 2014.

Withholding is an area that the IRS addressed in a significant manner in the recent proposed regulations. For 2014 and 2015, withholding will focus on withholding on income and the gross proceeds from the sale of US assets. Income includes interest, dividends, annuities, rent and salaries from US sources or interest from foreign branches of US banks. Gross proceeds are subject to withholding based on the total gross proceeds. For example, if you buy shares at $100 and sell at $150, you will pay $45 in withholding which is 30 per cent of $150, resulting in a net profit of $5.

The 2017 date is the earliest date on which there will be withholding on foreign pass-thru payments. Pass thru payments were of particular concern to financial institutions in that significant system and procedural reworks would need to be in place in order to perform this function correctly. The original guidance stated that an investment vehicle would calculate a pass thru payment percentage which is the percentage of US assets over total assets. When a payment is made from a fund, the amount to be withheld upon (pass thru payment amount) would then be calculated by applying the pass thru payment percentage to the total payment. Institutions raised practical concerns with respect to the working of these calculations. The IRS took this on board and extended the withholding date to 2017 at the earliest while requesting comments from financial institutions and industry groups for practical resolutions. Stay tuned.

Aside for some exceptional situations, most entities in the asset management industry will fall into the Participating or Registered Deemed Compliant categories of FFI which means that they will need to perform reporting on US investors either directly to the IRS or to their own governments. Organizations should already have a FATCA project team in place with representation from almost every area of the organization such as legal and compliance to operations and IT. A FACTA impact analysis will need to be performed in such areas as the account onboarding, investor maintenance, tax withholding and system design. In addition, organisations will need to analyse their existing databases for US indicia to determine which investors qualify as US investors or require outreach for additional information. Plans should also be put in place to handle the reporting aspects of FATCA once the reporting details are finalised. From a withholding perspective, organisations will need to determine if they qualify as a withholding agent in any circumstance and upgrade systems in order to handle situations where they either withhold or are withheld upon. The road to a successful FATCA implementation is certainly long and laden with challenges; however it is achievable if the correct plan is in place. **AST**

Noreen Crowe
Vice president
Linedata

Asian fund administration

Our panel of experts debate the latest developments in the Asian funds market, and discuss how the market will grow

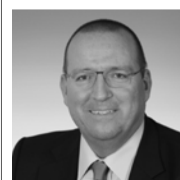
Ben Wilkie, editor

Francis Braeckevelt
Asia-Pacific COO
BNY Mellon Asset Servicing

Lilian Wong
Head of fund services, Asia-Pacific,
HSBC Securities Servives

Mark Neary
Managing director, client relationships & business development, Asia-Pacific
Milestone

Keith Hale
Executive vice president, client and business development
Multifonds



Colin Lunn
Head of fund services, APAC and head of business development and CRM APAC
UBS Fund Services

Contact me to arrange a meeting at Fund Forum Asia.

Michael Brady
Asset Servicing Times

AST: How has the past 12 months been in the Asian market for fund administration?

Colin Lunn: The past 12 months have been challenging, in particular, for hedge funds. According to recent research published by AsiaHedge, a combination of fund closures and negative returns caused Asian hedge fund assets to decline by eight per cent to US$140 billion in 2011. However, encouragingly, growing investor demand for Asia-specific knowledge and capabilities is reflected in an increase in the amount of assets now managed in the region to 78 per cent of the US$140 billion.

Typically, administrator revenue is linked to assets under management so consolidation can be expected to have a direct impact on the bottom line. However, I am confident that the shift of capital from West to East as well as the emergence of China will continue to create significant opportunities for asset servicing in the region.

Keith Hale: With the world and particularly the European Union economy stuttering, the resultant slowing of the various high growth Asia economies made and continues to make the markets across Asia volatile. That said, with Asia constituting approximately only 10 per cent of the global mutual fund market, there remains exponential growth potential in the Asia funds market, given the global demographics and relative economic growth.

The expected investor excitement in RQFII didn't meet expected demand, but from a fund administration perspective, there will be opportunities and challenges for fund administrators in the region: from new product and fund structures across Asian markets such as China and India becoming more prominent, as well as the ever increasing levels of regulation.

Mark Neary: The last 12 months has seen increased competition in the Asian fund administration market as it becomes a point of focus for global providers looking to provide a global service and positioning themselves for regional growth.

Lilian Wong: 2011 continued to be a challenging year for the Asian funds market generally. The aggregate assets under management were under pressure and many funds were also performance-constrained. Add to that the increased investor expectations around reporting, especially in the alternative segment and the uncertainty of regulatory change coming from the US and EU impacting Asia meant that 2011 was a challenging year. Fund administrators in Asia were not immune from those forces

as their interests are generally aligned with those of their clients. With increased client and investor demands, along with the regulatory changes, clients are typically expecting more of their fund administrators. Challenging market conditions have increased pressure on managers to look at new avenues in terms of products and geographies - these place additional demands on administrators. The administrators that are better positioned to effectively deal with these challenges are ones that have sufficient size, scale and presence to invest in system enhancements, which help them to navigate these changes.

Francis Braeckevelt: The fund administration services space in Asia continued to evolve significantly over the past 12 months. Even though we continued to note ongoing domestic and offshore fund launches, the speed and size of the launches varied widely by country. In selected markets, regulators have become more conservative in their approach to approving new fund launches whereas in other markets, the lack of product innovation and differentiation has been reported as an impediment to the growth of the funds segment in Asia.

So even though the number of fund launches and the size of the funds launched have been negatively impacted by the recent turmoil, the general trends for future growth appear to remain intact as, across the region, investors appear to continue to embrace funds as part of their overall investment strategy.

In addition, global financial institutions have continued to explore Asian manufacturing and distribution strategies, requiring market service providers to look at rolling out or expanding upon their trustee or (Sub-) transfer agency capabilities across the region.

AST: Which regulations are causing the biggest stir in the industry and how do you see them taking shape in 2012?

Braeckevelt: Unlike the regulations in other regions, which are primarily geared towards regulating the capitalisation of the different market participants or towards mitigating systemic risks, the regulators in Asia are focusing more closely on distribution and investor protection related processes.

Obviously, a number of the global regulations that are currently being finalised and rolled out in other regions and jurisdictions, such as, but not limited to, the Dodd Frank act, Basel III or the FATCA regulations will also have a profound impact in Asia on all market participants including the investor services providers. As such, it will be critical in 2012 and beyond to focus on the ongoing analysis and implementation of these new global and domestic regulations.

Even though the details around a lot of the recent measures are still being worked out and the full impact may as such not be known yet, we have noted a heightened focus and interest by investors and regulators alike to understand and prepare for the implementation and impact of the various regulations and we expect this to continue and expand during 2012.

Neary: The key challenge with regulation in Asia is similar to other global markets where the rate of change has increased on a number of fronts to address investor protection. This has resulted in increased demand for operational transparency. The challenge is magnified in Asia as regional firms have to deal with multiple regulatory environments and jurisdiction specific compliance and tax regimes, often requiring multiple operating models and multiple servicing arrangements across countries. We see this trend continuing in 2012.

Wong: Regulatory changes over the last two to three years impacting the funds industry are emanating primarily from the West, though many of these have a global impact including Asia.

The regulatory development causing the single biggest stir is Foreign Account Tax Compliance Act (FATCA). We've had a programme running since 2010 to understand the impacts and there's no doubt it will be the most challenging for the funds industry in Asia. 2012 will be the year where Asian managed funds turn their minds to readying themselves for the practical impacts of FATCA and consider the position their funds will take with respect to this new regulation.We expect most funds to comply and as such become a participating Foreign Financial Institution (FFI). For us, 2012 will be focused on deploying our technology and process changes, and, most importantly, supporting our clients in understanding what the regulations will mean for them.

There is also residual concern that the Alternative Investment Fund Managers Directive (AIFMD), in its final form, may work to effectively exclude Asian managed funds from the EU though the private placement regimes will continue to co-exist till 2017.

Finally, the Dodd-Frank requirements in terms of registration and disclosures/reporting along with Central Counterparty Clearing requirements for Over-the-counter (OTC) are also expected to impact managers, and consequently administrators over the next year.

Hale: The FATCA regulation, while instigated by the US government, will have significant impact across the industry with any fund with either US investors or US investments impacted. The Asian fund industry will be affected as much as European funds. Cost estimates vary between 20 and 50 USD per account to identify whether an investor is US, non-US, or recalcitrant (won't say). The impact is huge with very little benefit to anyone other than probably the US IRS (even that is questionable) and no differentiating outcome other than to be compliant.

While there is much talk of some form of Asian passport, for the time being UCITS remains a well regarded fund vehicle across Asia, particularly in the cross border funds. However there is, quite rightly, a lot of concern about the potential impact of a European financial transaction tax on the funds business. The cost impact of imposing a transaction tax within funds could significantly change the preferred structures used in Asia and damage the reputation of UCITS as the international standard for funds, and perhaps hasten an Asian passport.

Lunn: The Foreign Account Tax Compliance Act (FATCA) and the Alternative Investment Fund Managers Directive (AIFMD) probably have the greatest impact on service providers. Due to its extra-territorial scope, FATCA is particularly challenging while AIFMD affects both a manager's ability to raise assets in the EU, as well as the extent of liability vis-à-vis depositories.

In my view, the developments will be beneficial for the industry in Asia as they have the potential to trigger a shift of capital eastwards. This is not to say that Asian regulations are in any way deficient, but rather that Asia's growth potential will encourage more investors and so managers to seek an Asian domicile.

AST: Has Asia seen the same rising demands for transparency in the face of increasing market volatility and regulatory scrutiny as elsewhere in the world? How is this being addressed?

Wong: As a general rule, yes. And whilst market volatility and regulatory change have played a part in driving that change, the expectations of investors has been a significant catalyst for change. In turn, fund managers and service providers are positioning themselves to address these demands. The increased demand on transparency come with cost implications which need to be looked at, there's also a need to ensure all investors are treated equally and bear-

ing in mind the proprietary trading information and intellectual property of the investment manager.

Braeckevelt: Similar to the other regions, the recent market turmoil has resulted in heightened investor uncertainty and risk awareness as well as increased regulatory oversight across Asian markets. As a result, therefore, transparency has been and continues to be a critical component of the current investor requirements which are primarily focused on getting detailed insights in their holdings and activity history, portfolio valuations and risk exposures.

Investors today increasingly recognise they may not necessarily be as well equipped to deal with this renewed focus on transparency as they had previously thought. As a result, where investors previously entered into arm's length vendor based associations, they have since moved on to enter into more holistic partnership relationships, leveraging the partner's unique position as a central repository of their data.

In turn, providers continue to invest in their middle and back office infrastructure to provide clients with more, better and faster information, covering all aspects of their activities, including areas such as valuation, reporting, performance and risk analytics services or investment guideline reporting assistance.

Hale: Post the financial crisis, there has been a significant regulatory push and an increasing demand from investors for more transparency, particularly for alternative funds. Traditional funds typically already have reasonable levels of transparency incorporated in the structures by the regulation imposed on them.

The diverse nature of regulation in Asia compared with Europe means that transparency is much more fragmented at a regional Asian level. For the more mature Asian markets, such as Singapore and Hong Kong, regulators have taken steps to improve investor awareness and disclosure. Fund offering documentation now needs to be accompanied by product highlights sheets in Singapore and key fact statements in Hong Kong to explain the investment product and risks in layman terms to investors.

Lunn: Yes. European and US investors are responsible for around 80 per cent of all investment into Asian hedge funds and seek the same standards from Asia-based managers as they do from those in their home countries. At the same time, and as evidenced by short selling disclosure requirements and form PF reporting in the US, the regulatory environment is becoming more stringent.

In Asia, there is an ongoing dialogue regarding transparency between managers and service providers, particularly administrators, as it is they who maintain records of the fund. Indeed, it is not untypical for due diligence today, which previously may have taken the form of a simple questionnaire, to comprise extensive interviews which, in some cases, last many hours.

Neary: Yes. The demand for increased transparency is a global phenomenon, and Asia is no exception. We are seeing the increased politicisation of investor interests, particularly in countries that have developed mandatory pension savings programmes, such as the MPF in Hong Kong. Typically larger investment pools result in increased competition and pressure for lower administrative and investment fees and more direct comparability of performance outcomes from the perspective of the end investor. We see initiatives such as the MPFA's Employee Choice Arrangement as an indicator that this process has commenced in Asia. We expect this to directly impact fee structures, leading to dilution of front-end load and exit fees that has occurred in other markets such as Europe and Australia.

AST: Is there still a barrier to transparency and how is this being broken down?

Lunn: The issue here is not transparency itself but rather the need to determine how much information is necessary. Both regulators and investors are demanding more information which increases the costs of doing business. However, ultimately, it should be left to investors to determine the appropriate level of transparency and, in turn, at what cost. If left unchecked, the current model has the potential to create a regulatory framework in which it becomes too expensive to invest.

Hale: Fund managers, particularly alternative and hedge fund managers, are often very protective over providing details of their trading strategies, as this represents a key part of the intellectual property they are offering. As a result, full transparency to the underlying details of their portfolio and associated strategies can be a significant barrier to transparency.

At a regulatory and IT system level, there can be challenges over providing the required data in a timely, consistent and accurate basis in order to make the transparency meaningful.

Ultimately a balance needs to be drawn at providing sufficient transparency and risk information so an investor can make an informed decision, but without compromising the intellectual capital of the fund strategy.

Neary: Transparency is also a key issue for fund managers who have outsourced elements of their fund operations to one or more service providers, particularly those requiring oversight across multiple locations to take advantage of regional opportunities. Increasingly fund managers are looking to technology to automate validation of service provider outputs such as NAVs/prices and related SLA's as regulators demand increased operational transparency. In summary, transparency barriers are being broken down by operational efficiency supported by technology.

Braeckevelt: Depending on issues such as the nature of the fund (eg, hedge fund structures) or the underlying instruments the client has invested in (eg, structured products), there may be restrictions or limitations with regards to the level of transparency service providers can support in their reporting.

As some of the current limitations are structural in nature, removing all barriers to transparency may remain challenging in the immediate future. However, in a effort to continue to work towards a more enhanced level of transparency and more comprehensive and granular reporting, providers continue to engage in discussions with individual clients and continue to look for better and innovative ways to obtain additional and detailed vendor information to be used or incorporated in the reporting or analyses.

Wong: The main barriers are cost and system capability.

AST: With the multi-jurisdictional nature of Asia, which domiciles are creating the best environments for growth and where do you see the biggest potential?

Braeckevelt: The multi-jurisdictional nature of Asia and the varying stages of development of the constituent markets create different opportunities in the underlying markets. When looking at market opportunities, we need to distinguish between the potential for domestic fund launches, offshore fund launches and the possibility for global financial institutions to distribute their overseas funds into the domestic market.
Even though in most markets there may be an opportunity for one or several of these segments to be developed and we have noted an increasing acceptance of the Asian investors to embrace fund structures as part of an overall investment strategy, the true opportunity in a specific market remains highly dependent on varying drivers such as, but not limited to structural market and product considerations, the current and expected market regulatory environment or the countries prevailing tax regime.

Neary: In terms of fund administration, Asia has traditionally benefited from low labour cost, which has deferred the need for sophisticated technology and higher levels of automation. This is changing rapidly as competition for experienced staff drives up the cost of labour and brings focus to automation, particularly in relation to more complex investment products and high risk operational functions. The biggest potential in terms of location will not ultimately be defined by the lowest labour cost, but by the rate at which technology is embraced and incorporated into regional and global operating models to unlock efficiency.

Hale: Hong Kong has long been and remains a gateway to China, and should increasingly offer international investors a good access point to the Chinese markets. The launch of RQFII indicates an increased willingness for China to offer investment products externally, and presumably the other way around in time.

In the more immediate term, Taiwan as a growing market represents a less risky opportunity. Taiwan doesn't have the exponential potential of mainland China, but is already more open and accessible to international investors. In a recent report by Cerulli Associates, Taiwan was found to be the only Asia ex-Japan market in which the sale of offshore funds exceeded locally based funds. Around 62 per cent of total assets under management were in offshore funds at the end of June 2011 compared with 53.2 per cent in 2007.

Lunn: From a hedge fund perspective, Hong Kong remains the most popular location, followed by Australia and Singapore. However, Korea and China have also either developed or are developing hedge fund-friendly regulatory environments.

China's demographics give it unparalleled potential. Indeed, the hedge or "sunshine" fund market there already stands at US$60 billion, although the figure does not appear in most databases. As the market matures and funds move into the mainstream the potential for growth is exponential.

Wong: Asia is a large and diverse region with jurisdictions at various stages of maturity with respect to the alternatives sector. Jurisdictions such as Hong Kong and Singapore are mature and where most of the region's alternative fund managers tend to reside. That said, Australia has a well-established alternative sector that achieved impressive rates of growth in 2011. Japan had a sluggish year in 2011. Whereas Korea introduced, and passed, regulations allowing local hedge funds to launch for the first time. Likewise, it is also an area that the Chinese authorities continue to monitor very closely.

In the retail funds segment, Hong Kong and Singapore continue to be attractive markets though dominated by the offshore funds (UCITS). China does present a significant opportunity for fund administrators from an onshore perspective once the regulatory position is resolved. We are hopeful of this happening sooner rather than later. Growth in India has been stymied followed by the regulatory clamp down on distributor commissions.

The Malaysian regulator has been working on longer-term financial market reforms and we are hopeful of a positive impact on the funds market. Korea's retail fund market did not really see the desired impact of the Consolidation Act. Indonesia is a large untapped market offering huge population where less than one per cent invest in mutual funds. The regulator there is conducting an overhaul of the mutual fund regulations in an attempt to attract a greater proportion of the population to save via mutual funds. Thailand is one of Asia's largest mutual fund markets, however it remains dominated by local banks who have distribution capabilities. The proposed introduction of open-ended funds in Vietnam would open up new opportunities for managers and administrators albeit the size of the overall market might still be relatively small.

AST: Beyond traditional fund management companies, how are other client segments faring in the region and are any showing potential for growth?

Hale: 2011 has been a challenging year across segments with some interesting areas of growth. The ETF market in the region has fared well over the last year and has seen strong growth. According to a report by Deutsche Bank at the end of 2011, there were 396 ETFs and other exchange-trader products in the region, compared with 284 at the same time in 2010. It also saw cash flows in 2011 ($19.9 billion) that were twice those of 2010 ($10.8 billion). Whilst the majority of these are equity trackers, they have seen respectable growth even in light of recent poor equity markets performance, and it is a good indication of increased interest from new providers in the region.

In 2011, the revised capital market regulations permitted South Korea to promote hedge funds and grow its financial industry and as a result, this is likely to be a large growth area in 2012 with increased investment into hedge funds. Whilst it is early days, the revision should create a new alternative market in Korea and add to Asia's alternative fund growth.

Asia's insurance market will also see sustained growth in 2012, with emerging markets continuing to outpace developed markets according to global reinsurer Swiss Re. Life insurance premiums in Asia are projected to grow by 4.4 per cent in real terms.

Braeckevelt: In general, Asia is considered as the future world growth engine and is widely expected by the analysts and market participants to continue its growth in line with what we have witnessed in recent years or even accelerate its growth rates going forward.

As with the traditional fund sector, the other client segments have been subject to the same challenges and opportunities during the past financial market turmoil. Given the current and expected changes in the various market mechanics, the anticipated demographic developments and the ongoing asset and liability pressures across segments and markets, we expect that both the pension and insurance sectors will become the growth engines for the region.

As the participants in the pension and insurance sectors typically rely on external fund managers for part or all of their asset allocations, we expect that the fund sector will be positively impacted as well as a result.

Neary: We see continued growth in fund distributors as a significant client segment. Given that a large proportion of distribution is undertaken by retail and private banks in Asia, we see some differences in how administrators will need to present their offerings to address this key segment.

Wong: There are significant opportunities for asset managers in the sovereign wealth funds sector in Asia as these portfolios continue to grow and increase their allocation to overseas markets. There are also opportunities riding on the back of pension fund reform throughout Asia as jurisdictions move at different paces from loosely regulated savings schemes to mandatory provident funds, often managed by the private sector.

AST: Are we seeing a move to prime custody? Why might clients make this choice and how do you see it developing further?

Hale: Without doubt there is a convergence of traditional and mutual funds, due to institutional investors having increased appetite for hedge funds, in turn causing hedge funds to become more traditional in their liquidity, risk and transparency characteristics. Similarly retail investors looking for better returns in the form of absolute return funds are making mutual funds become more alternative in nature.

As a result the service providers such as traditional and hedge fund administrators as well as prime brokers and global custodians are converging in the services they offer to support hybrid structures. As a result, the fund administrator that covers long only and alternatives together and similarly prime custody, a mix of part global custodian and part prime broker, are very likely to be service provider models of the future.

Lunn: Prime custody has its benefits but in Asia the trend has been towards the development of a multi-prime model. Funds launching today tend to have a minimum of two prime brokers rather than a prime custodian.

While some larger funds have the potential to benefit from appointing a prime custodian, smaller funds are likely to view buying this type of insurance as prohibitively expensive.

Wong: The safe custody of hedge fund assets and the on-going management of counterparty risk is an issue that continues to be at the front of the minds of fund managers & investors alike. Investors want to understand what the funds' exposures are and how they are being managed. Fund managers want to protect their portfolios in a transparent, timely and flexible manner. They also want to deal with a counterparty that their investors are comfortable with. A prime custody solution that can effectively ring-fence assets, with a counter party that inspires confidence will become more common place. Safekeeping of assets and related depositary liabilities are also a key component (and one of most hotly debated issues) of the AIFMD regulations.

AST: How do you see 2012 developing and what can you share about your plans in this region?

Lunn: I am extremely positive about the future and expect this year to be characterised by significant growth. As the regulatory environment becomes clearer, I am confident that there will be an influx of investors and managers into Asia. The development of the asset management industry in China, in particular, will present huge opportunities.

Braeckevelt: Even though the full effects of the recent financial turmoil may not be known yet and it is probably a bit too early to look at the current situation as a business as usual environment, we do believe that, as suggested above, the region is well positioned for the anticipated future growth.

What has become increasingly apparent is that all market participants have been affected to some extent by the recent turmoil and that in Asia, given the large home bias, most segments have come through the turmoil somewhat less scathed compared to the same sectors in the global markets.

Even though we believe that the growth will continue unabated or even pick up, further diversification and liberalisation processes in the domestic markets will fuel that growth, which, however, will remain uneven between countries and segments.

Therefore, these new opportunities will also create ongoing challenges for all market participants, including the service providers, and will require everyone to continue to review and assess the countries, segments and changes very closely and remain flexible to respond to opportunities as and where they present themselves.

Wong: 2012 is expected to be characterised by a contraction in the number of managers, in particular smaller alternative managers who may have been performance-constrained or have not been able to reach and sustain a critical mass in assets under management in order to sustain a viable business model.

We will also see a number of sizeable new entrants in to the Asian alternative space.

Existing funds will continue to focus on asset raising and performance as well as deal with regulatory change and uncertainties associated with these changes. Funds will also be focused on dealing with increasing investor demands whether it be enhanced due diligence or reporting.

From an overall administrator's perspective, we do see the demands on data increasing significantly, be it as a result of regulatory change or other client/investor reporting needs. This will become an increasingly important differentiator with players having nimble, flexible platforms and efficient data delivery models being seen to be at an advantage.

Administrators will also be required to support growth plans of asset managers both in terms of new products and new markets.

Players having a strong regional footprint and global expertise in various products would stand to gain as managers aspire to grow. Besides product and servicing capabilities, there will be a continued preference for providers who have the financial strength, scale and commitment to withstand a challenging environment and meet client requirements.

HSBC continues to invest across various initiatives and markets in the region. We have significant investment programmes across both our traditional and alternative fund servicing segments.

Hale: The markets will remain volatile with some potential bright spots in Asia that is seen as a safe haven from the woes of the West, particularly the sovereign debt issues in Europe. The waves of new regulation will be further debated, analysed and adopted throughout 2012 and there will be increased convergence between traditional and alternative funds globally and in Asia.

From a Multifonds perspective, we continue to partner with and support our leading service providers including Standard Chartered, HSBC, Citi, BNP Paribas, Societe Generale and Brown Brothers Harriman across 13 of the major Asian jurisdictions providing fund accounting, transfer agency and/or portfolio accounting capabilities to our administrator clients.

Multifonds is well placed to meet the growing demands for efficient fund administration software in the region and we will focus on working closely with our existing clients as well as creating new relationships. **AST**

2012

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Location: Hong Kong
Date: 23 – 27 April 2012
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Whether you are an established member of the Asian investment management community or just setting up business in the region, FundForum Asia is an unmissable opportunity for you to showcase your expertise, learn from the industry leaders and make vital new contacts.

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www.dataexplorers.com

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Location: Budapest
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www.informaglobalevents.com

With over 350 attendees from the Network Management and Securities industry in 2011, NeMa has become THE most important event of the year for the network management community - bar none.

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Industry appointments

Tim Jones will act as AIS Fund Administration's new senior vice president and sales manager of the London offices.

Formerly director of business development at HedgeServ, Jones will be responsible for AIS' European sales effort.

"I have wanted Tim on our team for many years, and I am thrilled he has joined AIS to help steer our growth in Europe, said Paul Chain, president of AIS Fund Administration. "This comes at a very good time, as we are currently rolling out a new reporting platform."

Fund services provider Maples Fund Services hopes to expand its European operations with the appointment of **Steve Lewis** as director of European business development.

Based in London, Lewis will be responsible for expanding the fund administration and middle-office businesses across the firm's European offices.

He will work closely with Scott Somerville, CEO of MaplesFS, and Toni Pinkerton, global head of fund services, as well as the regional heads of fund services for Dublin and Luxembourg, to execute the firm's growth strategy.

Rene Keller will act as chief operating officer for Information Mosaic, a US-based post-trade solutions provider.

Keller will guide the company's IT team as they provide global support to Information Mosaic's software solutions.

"Information Mosaic is a dynamic and growing company", said Keller. "What's more, its people routinely execute solutions to problems that are very hard to solve. I am pleased to join a team of this high calibre."

Information Mosaic CEO John Byrne said: "The new regulatory and legislative environment means that post-trade functions within the capital markets industry are changing rapidly, putting new demands on systems. We look to Rene to further build on our track record of rapid execution."

Jason Cholewa will serve as the new vice president of Alps Fund Services, a fund administrator to the alternative asset management industry.

Cholewa, formerly the head of Alps' Boston operations, will now be responsible for its growing hedge fund administration business on the East Coast.

"Jason has been an integral part of our team here at ALPS over the past several years and brings a wealth of knowledge and experience to his new role at the firm" said Mike Procter, senior vice president and director of business development.

New York Portfolio Clearing (NYPC) has appointed **Alexander Broderick** as CEO.

A joint venture of The Depository Trust & Clearing Corporation (DTCC) and NYSE Euronext (NYX), NYPC was created to deliver capital and operational efficiencies to the US futures market by evaluating and cross margining a clearing member's risk on a portfolio basis across related cash fixed income and derivative positions.

HSBC Securities Services has appointed **Geoff Pullen** as head of sales and business development for UK Alternatives.

Pullen will report to Tony McDonnell, head of sales and business development of Alternatives in Europe, and will be responsible for sales to new and existing clients in the alternatives sector in the UK, and building out a business development coverage model for existing HSS hedge fund relationships in the region.

Pullen joins HSBC from BNP Paribas Securities Services where he was a senior sales manager for the UK and global hedge fund business. Previously, he worked in prime brokerage consulting roles at Bear Stearns and Lehman Brothers in London.

Tony McDonnell said: "We are pleased to welcome Geoff into this newly created strategic role. Geoff will be instrumental in continuing to build our alternatives franchise in the UK."

XSP announced the appointment of **Esmeralda Estrella** as marketing committee co-chair of ISITC (The International Securities Association for Institutional Trade Communication).

Jersey Finance has appointed **Heather Bestwick** to the new role of deputy chief executive officer.

She will maintain the role of technical director, leading the Jersey Finance technical programme, but will have additional responsibility for several operational functions including human resources, finance and IT.

Geoff Cook, Jersey Finance CEO, commented: "Heather's appointment to the new role of deputy CEO reflects the growing remit of Jersey Finance and in particular, our strategy to support the industry in expanding into high-growth emerging economies, such as China, India and the Gulf Region." **AST**

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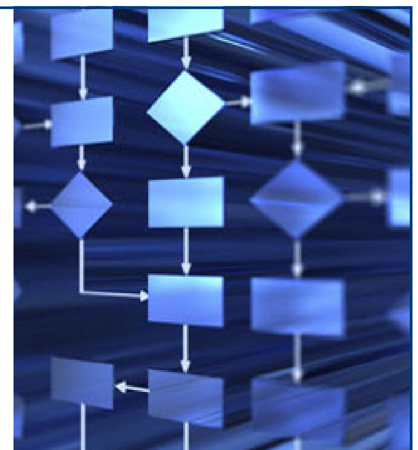

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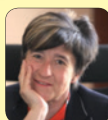

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