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ICBC opens securities services centre in Hong Kong

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The Industrial and Commercial Bank of China (ICBC) has opened its first securities service centre in Hong Kong. The centre, which opened on 13 August, is located in Hong Kong's business district of Kowloon, with a statement from the company promising access to financial terminals for real-time market updates, market and economic analysis.

"Customers can trade local and foreign securities with ease through the dedicated relationship managers," the statement went on to say. "The new centre is a step forward in ICBC Asia's continuing commitment to offering customers professional and convenient services."

ICBC Asia is the flagship Hong Kong banking business of Industrial and Commercial Bank of China, the largest commercial bank in mainland China in terms of total assets.

ICBC made its first overseas acquisition in 2000 when it paid $231.5 million for control of Union Bank of Hong Kong, now called ICBC Asia.

ICBC Asia's parent, Industrial and Commercial Bank Of China, said in August that its first-half net profit rose 13 percent from the prior year, but its financial report showed signs of increasing credit risks in the country's banking sector, and a lower profit growth than in previous years.

Net profit for the six months ending 30 June was recorded at CNY123 billion ($19.4 billion), up from CNY109 billion a year earlier. The bank had total assets of $52 billion for all of its businesses at the end of last year.

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ASTINBRIEF

LCH.Clearnet acquires IDCG

LCH.Clearnet Group has acquired the International Derivatives Clearing Group (IDCG) from the Nasdaq OMX Group.

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SWIFT realises key T2S landmarks

SWIFT has completed the proof of concept phase of development of its value-added network solution for T2S.

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ICBC opens securities services centre in Hong Kong

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However, a slowed down profit growth hasn't put a dampener on the bank's plans to expand its Hong Kong retail bank, with predictions levelled at 15 percent to 30 percent annually in the next three years as China's yuan gathers momentum in the region.

It has been reported that ICBC Asia plans to add eight branches and hire more than 100 people by the end of next year, expanding its network in Hong Kong to 60, and employees in its outlets to more than 700.

Bank of China's unit BOC Hong Kong, HSBC and Standard Chartered are the most established competitors in Hong Kong's banking market, with ICBC and China Construction Bank being viewed as relatively young.

In terms of securities services, HSBC, BNP Paribas and J.P. Morgan all have divisions in Hong Kong, with J.P. Morgan Worldwide Securities Services executing Hong Kong's first HKD triparty repo transaction between Bank of China and Barclays in late August.

LCH.Clearnet acquires IDCG

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The acquisition will improve LCH.Clearnet's range of clearing solutions, and enable it to operate a US-based central counterparty. It also reinforces LCH.Clearnet's presence in the US marketplace, where it already operates interest rate swap clearing through its SwapClear service.

IDCG will become a US subsidiary of LCH.Clearnet and be renamed LCH.Clearnet US, launching in Q4 2012. As part of the deal, Nasdaq OMX has been given a stake in LCH.Clearnet of 3.7 percent.

Eric Noll, executive vice president of transaction services for the US and UK at Nasdaq OMX, said: "The deal demonstrates our support of open and horizontal models in a global financial ecosystem, where firms are looking for clearing solutions to alleviate their capital burden."

In June, LCH.Clearnet's clearing service SwapClear surpassed the $1 trillion mark in buy-side client notional volumes.

Speaking at the time, Ray Kahn, the head of OTC derivatives clearing at Barclays, which uses SwapClear's services, said: "Every month this year we've seen an increase in the number of clients initiating their clearing process. Those buy-side participants who move to a clearing environment early are able to optimise their infrastructure and begin reaping the benefits of centralised clearing ahead of regulatory deadlines."

SWIFT realises key T2S landmarks

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"This is a critical milestone in the delivery of SWIFT's solution, which will enable T2S participants to connect to T2S with the highest resilience, at the best price and with the lowest upfront cost," said a statement from the company.

In parallel to the development of its connectivity solution, SWIFT has also created a suite of services to support its customers in the transition to T2S.

Alain Raes, chief executive for the EMEA region at SWIFT, said: "Our customers are asking themselves critical questions about the impact of T2S on their business and operations, about the strategies they should adopt to remain successful in the new T2S world, and about how to achieve the migration with the lowest cost and risk."

Sapient Global Markets launches new clearing connectivity standard

Sapient Global Markets has completed a new industry standard to help improve reporting and communication for asset managers, futures commission merchants (FCMs) and custodians.

The Clearing Connectivity Standard (CCS) is a standardised format that is used to transmit FCMs OTC clearing information on behalf of its asset manager clients to custodians.

The CCS, which represents more than 12 firms and end users on the buyside, saw Sapient Global Markets collaborate with FCMs and custodians to develop the new industry standard.

Jim Bennett, managing director at Sapient Global Markets, said: "The buy-side community will benefit greatly from this initiative, and with Sapient Global Markets at the heart of industry innovation, we recognise the CCS as something that will help many participants for years to come."

The CCS "will simplify integration with data systems and automate reconciliation in order to make clearing and communications more concise and efficient," said Sapient Global Markets in a statement.

"The standard has been discussed and well received by the International Swaps and Derivatives Association and Securities Industry and Financial Markets Association, as well as some of its working group members."

Sapient Global Markets is planning to expand the standard to include additional products, participants and geographies over the next year.

Capgemini and Pegasystems partner up for FATCA

Capgemini, along with Pegasystems and law firm DLA Piper, have jointly released a compliance offering for financial institutions that are subject to the US Foreign Account Tax Compliance Act (FATCA).

"Many firms have re-evaluated their existing KYC programmes due to FATCA, given the high costs anticipated at around $100 million to $200 million to become compliant," said Reetu Khosla, director of risk, fraud and compliance at Pegasystems.

Through this joint offering, Capgemini Financial Services and Pegasystems will work with financial institutions to coordinate their systems' interface with Pegasystems technology and install customised legal advice that is developed by DLA Piper.

Capgemini and DLA Piper will review financial institution data, advise clients on enhanced FATCA due diligence, reporting and withholding requirements, and ensure compliance with FATCA regulations.

"Organisations are looking for comprehensive solutions that can not only provide efficiency in the on-boarding process, but ensure compliance with complex global regulatory requirements," said Erick Christensen, vice president and head of the North American compliance practice at Capgemini.

"Our marketplace review shows that no other offering currently offers this end-to-end scope which not only ramps up the FATCA-required implementation quickly but does it more thoroughly with cost benefits."

ISDA and Markit introduce Dodd-Frank solution

The International Swaps Derivatives Association (ISDA) and Markit have jointly released ISDA Amend, a technology solution that helps swap market participants to use ISDA's Dodd-Frank (DF) Protocol to comply with regulatory requirements.

The DF Protocol, which launched on 13 August, is part of ISDA'S Dodd-Frank documentation initiative to assist with the implementation of and compliance with the regulatory requirements of the US Dodd-Frank Act. ISDA plans to launch other protocols to help simplify documentation changes.

Markit-built ISDA Amend provides a single online tool that enables swap market participants to amend multiple ISDA Master Agreements and exchange information that is needed to comply with DF Protocol rules that are applicable to OTC derivatives transactions.

Robert Pickel, ISDA's CEO, said: "ISDA is proud to lead an industry-wide initiative with Markit that will facilitate compliance with Dodd-Frank regulatory requirements."

"We believe ISDA Amend is an effective solution to automate the information-gathering process and provide sharing of submitted data and documents to permissioned counter parties."

Swap dealers that have committed to using ISDA Amend include Barclays, Goldman Sachs, HSBC, Morgan Stanley, State Street and J.P. Morgan.

Director and co-head of Markit Document Exchange (MDE) Lansing Gatrell said: "The MDE platform is uniquely suited to managing the volume of changes to documentation required by Dodd-Frank and with deadlines rapidly approaching, our solution helps the industry efficiently meet its commitments."

ISDA recently launched a second protocol that allows market participants to efficiently amend ISDA Master Agreement tax provisions to address the effects of the Foreign Account Tax Compliance Act (FATCA).

The ISDA 2012 FATCA Protocol puts the FATCA withholding tax burden on the recipient of a payment and eliminates the tax from the definition of "Indemnifiable Tax" in the ISDA Master Agreement.

The protocol launched on 15 August.

SS&C GlobeOp sees investors wary of hedge funds

The SS&C GlobeOp Forward Redemption Indicator for August 2012 measured 3.34 percent, up from 2.18 percent in July and reflecting increased investor demands to exit hedge funds.

"Forward redemptions increased in August which is typical as we approach quarter end but redemption notices remained at moderate levels indicating continued investor satisfaction with alternatives," said Bill Stone, chairman and CEO at SS&C Technologies.

The SS&C GlobeOp Forward Redemption Indicator represents the sum of forward redemption notices received from investors in hedge funds that are administered by SS&C GlobeOp on the GlobeOp platform, divided by the AuA at the beginning of the month for SS&C GlobeOp fund administration clients on the GlobeOp platform.

Forward redemptions as a percentage of SS&C GlobeOp's AuA on the GlobeOp platform have trended significantly lower since reaching a high of 19.27 percent in November 2008.

SS&C GlobeOp's total AuA on the GlobeOp platform, at $187 billion, represent approximately 10 percent of the estimated assets that are currently invested in the hedge fund sector.

The investment strategies of the funds in the indices span a representative industry sample. Data for middle- and back-office clients that are not fund administration clients are not included in the Index, but are included in the SS&C Technologies company's results announcement figures.

Investment Administration Services renews relationship with SS&C

Australian accounts provider Investment Administration Services (IAS) has renewed its affiliation with SS&C through the company's Global Wealth Platform to support its managed account business.

IAS has been a client of SS&C's Global Wealth Platform since 2004.

The platform is a web-based portfolio management solution that is designed to streamline the management of multiple client portfolios across markets, currencies and financial instruments.

Phillip Thomas, IAS's CEO, said: "SS&C's superior technology, proven track record, and service excellence are the primary reasons we chose to continue partnering with SS&C and its Global Wealth Platform."

"At IAS we have been adding clients to our administration business at a rapid rate, and we rely heavily on technology to do so efficiently and profitably. Global Wealth Platform gives us an edge in terms of instrument coverage, scalability and the level of automation we require to support us in expanding our managed accounts client base. SS&C has been, and will continue to be, a strong strategic partner for IAS."

Pension fund separates securities lending from custody

Deutsche Bank has replaced State Street as Texas Municipal Retirement System's securities lending agent.

The pension fund, which reportedly has assets of $19.5 billion, oversaw 141,532 accounts for US State of Texas employees from 847 cities in 2011.

State Street acted as the global custodian and securities lending agent for Texas Municipal Retirement System, and reportedly rebid for the roles when the pension fund put them up for tender. But it was only rehired as the Texas Municipal Retirement System's global custodian, losing out to Deutsche Bank for the securities lending agent mandate.

Bravura Solutions get decade with BNY Mellon

Financial software solutions company Bravura Solutions has signed a 10-year deal with BNY Mellon. The contract sees BNY Mellon continue the consolidation of its transfer agency technology onto Bravura's platform.

The new agreement sees BNY Mellon deploy Bravura's STP messaging platform, Babel, as well as its taWeb real-time portal, which provides third-party administrators, fund managers and their distribution networks with online access to consolidated investor transactional data across multiple back-office systems.

The agreement also includes an extension of BNY Mellon's existing contract with Bravura for its cross-border transfer agency platform, Rufus.

Andy Chesterton, global COO of transfer agency at Bravura, said: "This contract is a demonstration of our company-wide ability to provide a range of integrated services and products. With a shift in the relationship between transfer agency, wrap platforms and distribution, well-delivered investment administration services can improve client service and increase assets under management. Innovative technology solutions that add value have a key part to play."

OpenLink acquires CubeLogic

Technology solutions company, OpenLink, has completed its acquisition of CubeLogic. OpenLink plans to showcase the new CubeLogic range of business solutions later this year at its user conference in Montreal.

CubeLogic specialises in trading and risk management for the energy and investment banking sectors, with clients that include Mercuria, Centrica and EoN. Customers at the Montreal user conference will get to see how CubeLogic's set of off-the-shelf adaptors will link to OpenLink's family of solutions for the energy, capital markets, and commercial and industrial sectors.

Cantor Fitzgerald to launch new clearing service

Global financial services firm Cantor Fitzgerald plans to expand its clearing services in Q4 2012 with the launch of Cantor Clearing.

The new clearing operation is set to provide clearing, settlement and technology solutions for financial service firms, targeting clients including institutional and online broker dealers, registered investment advisors and other asset managers.

Cantor clearing will use SunGard's integrated suite of clearing and settlement solutions to help streamline front-to-back securities processing for clients.

SunGard's integrated features "will help drive efficiencies in transaction clearing and settlement, providing a cost-effective and competitive framework compared to alternative clearing solutions," said the firm in a statement.

Noel Kimmel, CEO of Cantor Clearing and head of Cantor Prime Services, said: "The formation of Cantor Clearing will complement our comprehensive suite of products and services."

NAB Asset Servicing launches TaxEdge

National Australia Bank (NAB) Asset Servicing has launched a new tax solution called TaxEdge.

The new product has been set up to help clients manage their after-tax investment outcomes and meet their regulatory requirements. TaxEdge also provides clients with an in-depth understanding of the tax issues affecting their companies along with solutions to address them.

TaxEdge encompasses various client offerings including accounting and tax compliance, unit pricing control, and analytics, as well as the newly formed partnership with GBST Holdings for the pre-trade tax analysis tool.

NAB Asset Servicing partnered with GBST earlier this year to strengthen its tax and accounting offering to custody clients through GBST's Pre-Trade Tax Analyser tool.

Peter Hele, managing director of product and strategic alliances at NAB Asset Servicing, said: "Taxation is the single largest expense and the most complex regulatory requirement for Australian funds. TaxEdge solution can help clients' finance, investment and operations teams to better understand the taxation issues within their organisation and equip their management teams with the information and tools they need to manage taxation and alert stakeholders to areas of risk."

Looking beyond the top line

Paul Taylor and Arun Aggarwal of SWIFT discuss the cost and regulatory issues of industrialising post-trade processing

Back-office processing, once only the domain of diligent operational personnel, is today a significant institution-wide concern. The smallest 'oversight' is now capable of generating at best negative media coverage, and at worst significant regulatory fines and sanctions.

In an industry still navigating crisis, the requirement to improve risk management, achieve regulatory compliance and reduce costs on an on-going basis has elevated post-trade processing—from allocation and confirmation matching through to clearing and settlement and asset servicing—to a more strategic focus. There is an understanding that those players that are most successful in streamlining, or industrialising, their post-trade environments will be the ones that continue to win significant mandates for new business, while also avoiding damaging media debate, internal fire-fighting and costly penalties.

It is now time for securities firms to consider investing in their post-trade infrastructures, instead of activities that add solely to their top line, because realising the benefit of these changes in terms of costs and risks at a time when earnings continue to diminish could actually have a bigger impact on profitability. On average around 40 to 50 percent of large institutions' OTC flow is unautomated from a confirmation (allocation/block) perspective, with email/file-based transfer and manual practices in place instead. The potential savings to be made by increasing automation in this area are clearly significant.

At the same time, regulatory requirements are increasingly focused on strengthening post-trade processes and risk management, as set out in the US Dodd-Frank Act, the EU Markets in Financial Instruments Directive II (MiFID II) and other forthcoming directives such as the European Market Infrastructure Regulation (EMIR) and the EU Central Securities Depository Regulation (CSDR). Essentially, these aim to move OTC trading activity (securities and treasury instruments) to an exchange-type environment with very high STP, central clearing and shorter settlement cycles, together with transparent and real-time transaction reporting.

Whether the motivation is to comply, become more competitive, or both, now is the time to act.

No oasis in the desert

In light of the continuing stormy weather in financial services, it is commonly believed that a drought is coming—a drought in revenue, but a continuing flood in terms of cost base. True, in Q1 2012 most investment banks, for example, saw a mirage, or at least something resembling a small recovery. But tougher months after this have left us staring into the face of an even more protracted period of recovery, with double dip recessions and continued debate regarding eurozone debt.

Typically in the past, a bad year in equities has been offset by a good year in fixed income and vice versa. But with fewer corporate and hedge fund clients inclined to invest in equities (in favour of cash, with some asset managers even moving into direct corporate lending with their cash piles) and regulation affecting fixed income, there are few safe harbours anymore.

As a result, the familiar cyclical approach is already in full swing, with most of the key players reporting further job cuts, and others considering radical decisions with regard to underperforming franchises as profits fell by around a third for most banks in Q2 2012, and the critical litmus test of return on equity yielded only an average of 8 percent.

CEOs are often quoted as saying that the expectation is for flat revenues for the coming years. As a consequence, the focus is moving to cutting costs and winning market share from those firms that are not able to navigate through the crisis as well as others.

This brings the debate back to post-trade, an area of significant cost, and an area in which it is not necessarily easy to reduce costs without strategic agreement and investment. Senior operations managers are looking at tactical approaches in order to save money in the short term, and the most forward thinking are considering strategies to industrialise their operations as far into the medium term as they dare to look.

Back-office processing has clearly evolved during the past 20 years, and good rates of STP have been in achieved in some areas. However, many back-office infrastructures, particularly across global organisations, have evolved at different paces. It is not uncommon for system infrastructures to be similar in name only (and not in processing), which means that true STP across global platforms is still a challenge. Also, most firms' post-trade back office systems were developed when cash equities and fixed income were predominant, before the frequent use of multiple asset class OTC instruments and prime finance.

It is clear that regulation and the need to save money should drive financial institutions to seek a more integrated, and in some cases alternative, flexible post-trade solution. A solution that not only offers ease of connection, limiting costly internal builds, but one that is also asset-class agnostic, enabling firms to effectively manage their risk profiles, ease regulatory compliance and reduce cost-per-trade. In addition, they should look to extend the benefits of flexible automation throughout the trade lifecycle, encompassing clearing, settlement, reconciliation and asset servicing as well.

Investing in the foundations of infrastructure

A bank's chief IT architect was recently quoted as saying that the gradual evolution of financial services system infrastructure is comparable to extending a two-bedroom house into a 12-bedroom mansion without altering the foundations—with the process of bolting new additions on to old structures causing instability and inefficiency.

Of course, it is the case that limited discretionary technology budgets—to spend on anything other than mandatory change for market initiatives or to meet regulatory demands—mean players in the post-trade landscape have restrictions around the investments that they can make to improve in these areas. It is also true that fledgling emerging countries and indeed smaller and/or newer institutions are building better, more scalable infrastructures than their larger, more established cousins.

The reasons for this are multiple: under-investment in back office infrastructures, a lack of interest from end clients to automate flows (due to barriers, cost or otherwise, in place of doing so), a lack of alternative solutions for those for whom the existing incumbents are cost-prohibitive or interface-heavy, or indeed competing budget priorities. However, to automate what is seen today as difficult to automate is possible, but it will require leading players to force the issue and to stand behind their aims, both within and outside their lists of top (and most automated) clients.

It is commonly believed that from a clearance and settlement perspective, 80 percent of an institution's clearing and settlement effort is expended on perhaps 20 percent of their business. It is true to say that the off-exchange flows within institutions are among the least automated processes that they have. On-exchange flows are typically netted and centrally cleared, making the settlement process more reconciliation-like in nature. Where trades are cleared on an individual basis, there is simply a lack of scalability for off-exchange flows.

In order to successfully navigate the market demand for T+2 (or less) settlement, firms need technology that will overcome the challenges of under-invested-in platforms, minimise manual effort, and enable automated STP with reduced cost.

New vendors are beginning to compete in this space, not necessarily targeting the existing established incumbents, but offering a value proposition that has, until recently, not existed. This includes easier connection with translation services, or straight messaging-based flow, building off existing connections, making previous technology spends even more relevant.

Firms have other options of course. It is not uncommon for vast numbers of operational resources to be based in lower cost locations. But it is now time to resolve the root cause of these post-trade issues, rather than simply exploiting labour arbitrage to save the notional costs of the manual tasks that still exist.

Let us remember that failed trades have a direct impact on firms' bottom line profits and other indirect negative effects. Directly there will be overnight interest claims and, while these may be cleared quickly for the larger, prioritised trades, the lingering de-prioritised trades create a considerable administration burden and affect other operational processes, including corporate actions, dividends and funding.

Full trade lifecycle management solutions are required in this space, particularly fixing operational issues as close to trade-date as possible. This will streamline many of these processes beyond recognition.

The challenges do not only exist in securities. The treasury business is also under intense scrutiny. Regulatory changes in the shape of MiFID, UCITS, Dodd-Frank and more abound, and are forcing firms to grapple with their impact and the changes they impose on processes internally.

Concrete steps are required to better automate these processes, and emphasis needs to be put on taking action relating to the earlier elements of the trade lifecycle, while also finding ways to encourage unwilling counterparties to do the same. To achieve this, it is time for the debate to be brought to more senior management levels, to agree on strategy and direction for operational issues, including putting competitive elements to one side to save all players significant costs.

Either institutions bring their own post-trade infrastructures up to scratch on their own initiative now, or they will be forced to do so by regulation at some point in the near future. Doing it now means retaining choice and control, and potentially gaining significant competitive advantage.

It may seem like a brave move for securities firms to invest in technology at a time when discretionary spend is under threat. But for targeted investments, in areas in which business cases stack up, the time is right.

Targeted areas could be the following;

- Confirmation/trade matching—to increase trade capture and determine and resolve potential trade fail issues earlier in the lifecycle across all asset types
- Adapt workflows for bilateral and/or central netting—for easier brokerage flow, to reduce the number of trades that are settled in the market to mitigate risk, mimicking on-exchange transactions already cleared centrally, and for client-oriented transactions (recognising this also needs custodial support and decisions)
- Asset servicing—to increase standardisation and automation of critical information flows in order to minimise mistakes in corporate actions processing, reducing a key source of risk and cutting unnecessary spend on compensation.

Additionally, institutions must enlist the support of market infrastructures, encouraging clearing houses, central securities depositories and trade repositories to enable use of open, standards based communications mechanisms, so that market participants can reuse their existing infrastructures and reduce the cost and complexity of their interactions with multiple MIs.

Automation of many of these activities is already starting to be mandated by regulators, and it cannot be long before the same applies across the board. Now is the time to invest, to resolve post-trade processing issues in advance of a regulatory mandate to do so, retaining control over the solutions used and capitalising on the opportunity to save significant costs at a time when revenues remain under significant pressure. **AST**

Paul Taylor
Director, post-trade product and markets
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Skies are clearing

AST talks to Bernard Tardy and Patrick Ciaravino of SLIB, who see a challenging European post-trade landscape

GEORGINA LAVERS REPORTS

Could you give a general overview of SLIB and your roles within the company?

Bernard Tardy: SLIB was created nearly 25 years ago. We are originally a French company, and since our inception we were always dedicated to the area of financial solutions and more precisely, software solutions for securities management, and the processing of securities post trade. We have approximately 50 customers in Europe, the majority of which are in Paris and London, but we also have customers in Portugal, the Netherlands and are about to have our first customers in Asia.

We have just over 100 members of staff, and we design our software solutions ourselves. We have two main locations in Paris and Lyon, and we also have a third office in Brussels, and a small office that is currently being opened in London.

I'm in charge of the sales and marketing department, and Patrick Ciaravino is responsible for our presales/business consultant team. His role involves liaising with the customers that we have, and helping our customers figure out what they need, alongside what they already have.

I've been working for SLIB for five years, and prior to that I held several positions in software sales in the financial services area.

Patrick Ciaravino: I've been working for SLIB for 20 years, and before that I was head of the back office for a broker in France.

How do you see the European post-trade landscape developing in the future?

Tardy: SLIB has always been very focused on certain activities in the securities processing business, and clearing and settlement is at our very core; it's where we have gained the most expertise and experience. As you can imagine, everything is linked to post-trade.

We are watching upcoming changes such as T2S very closely and we are preparing our offerings to help our customers. We are about to publish a whitepaper, which is a result of a survey that we conducted with 15 large banking and financial institutions in Europe, looking at their readiness for T2S and also how they see the new challenges that are linked to T2S. One of the things that we learned is that the people see a real need for intraday liquidity management.

Ciaravino: From our perspective, regarding the history of the back office in Europe, back office activity was incredibly local 10 years ago. The revolution in the last 10 years occurred around more and more cross-border activity.

Our view is that T2S is a logical evolution of global clearing and settlement activity. Due to this, we are ready to implement and make changes to our own settlement solutions.

In terms of liquidity, we must separate stocks and cash. In cash, the big change in the last ten years was the euro changeover.

Regarding stocks, the same stock could be settled against payment in the local central securities depository (CSD), or in international depositories such as Euroclear Bank and Clearstream Banking Luxembourg. Tomorrow, with T2S, the same security will take different routes with different CSDs thanks to T2S. The liquidity will normally increase, and as more stock is brought, more money will come in.

Tardy: Our survey showed that all financial institutions are going to take advantage of the new opportunities that will come out of T2S, and they will face the new challenge of managing intraday liquidity that they currently measure at the end of the day.

On our side, we have been offering a multi-market settlement engine for years, so we are very strong in the multi-market area.

We have also created a forecast of managing cash generated by securities in our modules, so our intention is to come to the market with tools that our customers can use to optimise liquidity.

Are those who complain about changes in the landscape more concerned about private gain at the expense of stability?

Tardy: From what we have learned, nobody complains, because they are aware that T2S forces the rules to evolve, and that the value chain is going to change. They are all thinking about ways to increase their own value. We don't meet people complaining about challenges—we meet people who think that they must anticipate and adapt.

Who are some of your competitors in the clearing market, and how are your services unique to theirs'?

Ciaravino: In relation to central counterparties (CCPs), we see two main activities. Firstly, there is risk management, which is about a CCP monitoring and recalculating margin calls.

One of our solutions is able to calculate the margin call of clients by replicating the algorithm of CCPs, or using the algorithm of the bank. The second activity is market settlement management, which is an area where we are also very strong.

Regarding competitors, I think our main strength is our ability to make the link between clearing and settlement. After receiving information from a CCP, we are able to monitor all settlement information, from the beginning to the bagging of the settlement.

Tardy: As you can imagine, all of the big players are linked to CCPs through clearing, but our added value is that we do not just link with a CCP from a technical viewpoint and process the basics, as most CCPs do that already. What we bring to the table is added valued around the messages that they receive. We enable them to link settlement on one side and use information that they receive to calculate risk exposure and compute margin calls on the other.

We do more of an addition to what banks have already implemented. That's the reason why our customers in the clearing area include five of the biggest global clearing members.

What is your relationship with LCH. Clearnet when it comes to clearing?

Ciaravino: We've been working with LCH. Clearnet for a long time. We are following LCH. Clearnet in Belgium, the Netherlands and Portugal to offer our services to clear in each country.

Tardy: We happen to be the market pilot for the LCH.Clearnet offering. Even two years ago, when they changed their connectivity infrastructure, they asked if we could be the pilot so that we could help on behalf of customers. We are used to being the pilot for any new announcements that they propose.

Who are some of your typical custodial clients, and what services are they demanding at the moment?

Tardy: From our side, we can see two different areas in custody. One is the needs of broker dealers and for players that are acting on markets (intermediation), which are using our solutions for clearing and settlements a lot. We usually also offer them position keeping and accounts keeping to manage their relationships with CSDs. In addition to this, we have developed a special set of solutions for French custodians. We can offer them comprehensive coverage of retail custody in addition to what we previously provided, encompassing post trade plus account keeping with all the tax aspects of France.

How would you describe the custody climate in France?

Ciaravino: We are told that there are two main choices for financial institutions in this area; to subscribe to a global provider service and then have global facilities, or continue to be independent as some local custodians are in France, which will ask for tailor-made services. Those tend to be broader than just custody activity, but they cover the whole value chain.

If we are talking about clients that are based outside of France, we cover managing their positions from an accounting perspective and performing reconciliation with the positions that they have with a particular CSD. The same setup will exist in France, when considering the top five or top 10 broker dealers.

The market seems to be divided into two parts: private banks that are dedicated to wealth management, and on the other hand, retail custody, with a dominant portion of their clients using their services via the internet. The first remains traditional, and the latter is increasingly automated.

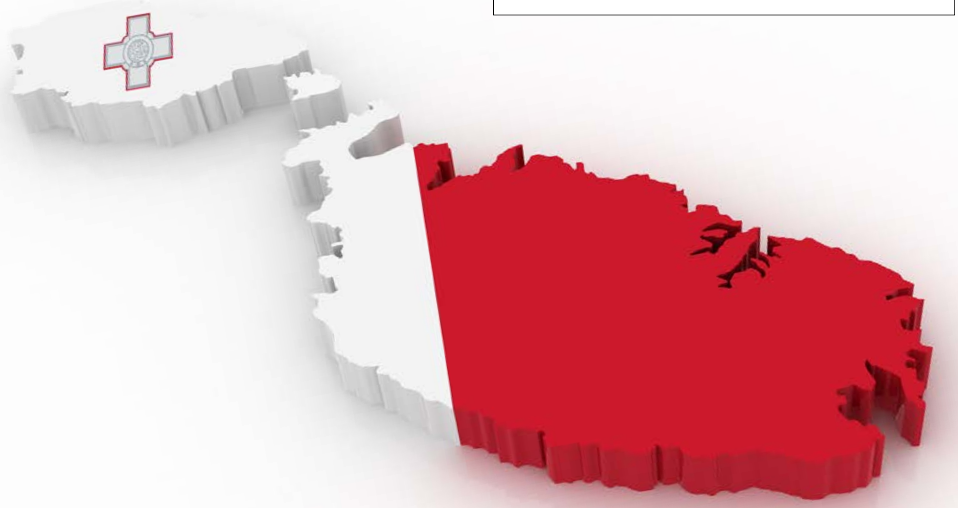
We serve large online brokers, with one running more than 100,000 customers. For them, we handle the totality of their retail activity, managing the full value chain from the order trail down to the portfolio reporting and taxation.

What's the biggest concern for SLIB's broker/dealer clients?

Tardy: Automating middle-office processes (allocation, confirmation, preparation of settlement instructions) and post-trade more globally as this is where productivity gains remain to be accomplished, together with risk mitigation. The trend, from what we can see, is with pressure that is being applied to reduce of T+3 down to T+2 (this is especially true with T2S).

There needs to be more efficiency to optimise post-trade activity. This is why we have invested in providing a new state of the art middle-office broker solution, especially designed to gain in reactivity. **AST**

Bernard Tardy
Sales and marketing director
SLIB



Malta: the next finance centre?

Andrew Frankish of IDS Fund Services makes the case for the island being ample competition against its more experienced counterparts

The IDS Group setup the subsidiary IDS Fund Services Malta on the small Mediterranean island of Malta at the end of Q1 2010. When the initial decision was made by the IDS Group to look at branching out into the European market, all of the usual suspects were considered in terms of target jurisdictions. What we found was that Malta had all that it needed to compete against the better known jurisdiction, as well as a lot of nice-to-haves that put it firmly at the top of the list for us.

When IDS initially set up in Malta, a significant part of the decision was made due to the usual reasons that one always hears when talking about Malta. It has an approachable, robust regulator in the Malta Financial Services Authority (MFSA), but it must be noted that it most definitely does not have a soft touch approach. There is a highly skilled workforce for employment, as well as knowledgeable service providers, and professionals to support the establishment and ongoing needs of any company.

English is an official language, with the majority of the population being able to understand and converse in English. There is an agreeable climate, and a close proximity and easy access to all of the major centres in Europe. The infrastructure is world-class and stable, allowing for a high level of confidence in systems and telecommunication access. Finally, a prime factor in doing business on the island is the relatively low set-up and operational costs. These lower operating costs, when coupled with the level of professionalism, service and infrastructure, put Malta at the top of the pile.

The MFSA continues to be as approachable and efficient as ever, taking regulatory changes in its stride and consulting with the industry on implementing new policies. One may have expected that with the increased success that Malta has been having in attracting new business, that the MFSA would begin to struggle with processing of applications, but this has not been the case. If anything they are more open, as this increase can only be seen as a big plus for Malta, and the MFSA is keen to meet and assist new entrants into the market where possible. They are managing the flows well, and maintaining the necessary levels of recruitment to meet perceived demand.

From the service provider perspective, IDS has watched as the industry in Malta has swelled, partly due to tireless marketing from the MFSA, FinanceMalta, and service providers. This achievement is noticeable not only in the number of new entrants to the island, but also in the way that Malta is perceived in the marketplace.

When IDS initially touched base in Malta, we found that Malta was often on the list of top 10 prospective jurisdictions for client set-ups, but often didn't go any further than that. In the two short years since IDS Malta was established, this view has quickly changed to one where Malta is actively competing for final choice when considering a set-up, and consistently challenging the top two or three jurisdictions on the list. This has come from not only the work in marketing the jurisdiction, but also the way in which the industry has re-routed potential obstacles.

The service providers that one has to choose from on the island, covering all aspects of business, are first rate. From technology development and support companies, through to legal and audit providers, the range of services is impressive, and the knowledge and enthusiasm from and for the industry is limitless. There are a number of international financial services firms set up on the island across all service areas, giving Malta the large names and comfort that one often looks for when comparing a jurisdiction.

Regional and local providers are also equally capable and skilled, eager to assist entrants and established entities in the Maltese marketplace. Having offices and exposure in a number of other jurisdictions, IDS is able to compare the service provision in Malta actively with what is provided elsewhere, and the island consistently compares favourably.

Business growth in Malta has been good, with the industry still at a stage where it is growing at a rate that allows all service providers to prosper along with it. Working in the industry, one finds that it is more about what each provider can do to grow the industry as a whole, rather than growing their particular business portfolio. The reputation of Malta as a competitive financial services centre has become the common aim, rather than an individual's need for personal success.

For IDS the choice of Malta, although not a simple one, has proven to be the correct one time and time again. We has no doubt that Malta will continue to prosper as it has done, putting itself forward in conversations about leading European financial services centres, actively competing for business around the same table as the likes of Luxembourg and Dublin. For IDS we look forward to being here, in Malta, through the growing and ever changing landscape, being able to assist service providers with whom we share a common goal of Malta as a world class, hugely successful financial services centre. **AST**

Andrew Frankish
Director
IDS Fund Services Malta

A common asset services platform

Gerard Bermingham of Information Mosaic makes the case for an integrated business model

In a bid to increase their clients' operating leverage, offer them enhanced value and make the best use of their technology investments, financial institutions are striving to move toward an integrated common business model. For many banks, the shift is opportunistic, aiming to increase revenues and improve return on assets. For others, the aim is to improve controls, increase transparency, and better understand the bank's market and counterparty exposure.

In either case, the integrated bank model necessitates change across the firm, from the ways in which the bank packages and sells its products, to the service groups that execute and support the business, to the technology on which it runs. In the past, each business line of a bank would have its own unique operations and technology model, and even within a single business line there might be different solutions market-by-market. The downside, from a bank's perspective, was redundant investments in staff and technology.

With recent advancements in electronic messaging standards, such as XBRL and ISO 20022, and commonly agreed market practices, the move toward the common asset service platform is a reality, with banks identifying common functions across their organisations and creating a central hub to gather, cleanse and announce data across business lines.

This article examines asset services operations and technology as applied to several business lines common to the universal bank: private banking/wealth management, asset management, investment banking and custody. It outlines the drivers and challenges to a common asset services platform, and identifies those functions eligible for a common processing platform.

The findings are clear: convergence onto a common platform benefits the bank and its clients alike. It enables banks to deliver enhanced client value through improved services across all its business lines, it promotes the best use of operations resources and it gives the flexibility to source those resources both centrally and locally as required. The common asset services platform also removes technology as a barrier to business convergence by leveraging it as a service differentiator.

Drivers to the common asset services platform

Corporate actions processing models have changed significantly over the last 10 years, and the rate of change is accelerating exponentially. The SWIFT ISO 15022 standards introduced specific corporate action messages using agreed market standards. Although overall agreement has been slow across multiple markets, the messaging standard is now well adopted and has led to significantly increased levels of automation and STP. The messaging standards will need on-going enhancement in response to market changes, but the industry today has managed to define complex messaging standards to address most eventualities. Banks now have the capability to remodel their corporate actions operations around exception processing while maximising the use of resources.

The use of ISO 20022 messaging formats, although still relatively low in volume, will take the market to the next step in data standardisation and announcement automation. Already adopted by DTCC in the US, this message format allows for additional flexibility through the use of XML protocols and message extensions in addition to the standard data elements. If XBRL Issuer messaging is included at the start of the announcement process, the level of ambiguity and interpretational risk is significantly reduced and markets are set for a common structured corporate action announcement that is usable throughout the financial services sector.

The problem, however, is that historically the solutions that were created to support these market initiatives were by individual business lines and were very specific to their respective business models. Lack of understanding across business lines proclaimed the use of the 'we operate differently' mentality.

Each business line felt that it could not use a common platform with downstream counterparts. In addition, even within the same business line, technology and corporate action processing solutions can vary by branch and region. These institutions have business-specific solutions and variations across branches and regions. At the back of these multiple system sets hang a myriad interfaces transferring data through a variety of messaging protocols.

In summary, the inhibitors to a common asset services platform have been:

- Insufficient and inadequate messaging standards, which necessitated considerable intervention by operations experts
- Perceived risk of losing client relationships by outsourcing to a 'utility' service
- Investments in product development, operations and technology that were lost by individual business lines in ceding control to a 'utility' service
- Back offices that were traditionally slow to adopt new technology platforms, as effort and risk were perceived as too high.

However, in the past few years, some of these constraints have given way to new enablers that are driving change in the operations and technology landscape:

- Messaging standards have improved to cover more market breadth, for both traditional and complex emerging markets
- Messaging standards have provided for corporate actions to be processed in a highly automated manner
- Multi-entity technology structures can support multiple business lines, legal entities and domiciles on a single processing platform, while still addressing the needs and requirements of local markets and individual businesses
- New business mapping and integration tools can help businesses to link and normalise data among disparate applications
- The focus on cost containment is motivating organisations to review bases of fixed costs and application portfolios, as well as business units that share common processes
- Bank clients now tend to require services spanning business silos, and they are looking to banks to offer integrated solutions at consistent service levels.

The emerging trend, therefore, is to share technology and operations resources to achieve maximum leverage, client value and operations control.

The common asset services platform

One of the most powerful outcomes of the common technology platform solution is that processing steps can be normalised within and across businesses. This creates opportunities for greater synergies and flexibility in processing models.

A frequent first step toward this goal is evaluating processes within a single business line. Figure 1 shows a single business line (custody services) operating within multiple regions, and 100 percent duplication of processing operations and technology in each market served. The logical step is to move all regions/branches within a single business line to a common processing platform, but that action is dependent upon the platform supporting local market practices from taxation to interfaces. Achieving such a shared resource model requires a technology platform with the following key attributes:

- Operation of multiple geographic and legal entities but maintaining segregated access to and control over accounts
- Management of static data centrally, allowing for market specific attributes
- Catering of market-specific processing
- Ability to support multiple Service Level Agreements (SLAs) by market and client
- Monitoring processes, performance and exposure at client, legal entity, geography and enterprise-wide levels.

Today's asset services solutions support such variables, fully recognising which business it is processing, in which markets the business is operating and the requirements that the business must support. Integration of back-office and market functions is no longer an obstacle. In the past, the cost of building proprietary interfaces to trading applications or internal master files could be prohibitively expensive. While still complex, improvements in message standards, along with the development of sophisticated message-transformation software, have significantly lowered the barrier.

While migration to a common platform can take place independently by each business line, operations re-engineering can be evaluated across business lines. The goal of such analysis is to identify common processes across the businesses, understand the complexity and risks associated with each function and determine whether synergies can be realised by creating 'utility' shared services and/or centres of excellence.

In order to determine if synergies exist, it is necessary to break down each operation into pure functional processes. Figure 2 is an example of an institution with four business lines: custodian services, asset management, private banking/wealth management and prime brokerage/investment banking.

Figure 2 makes clear that there are common functions across all product groups and business lines. Although the business lines and products may differ, the underlying processing functions do share a commonality.

In determining which functions are best suited for a utility service, banks need to consider a number of factors, including:

- Is the process sufficiently uniform across business lines?
- Can business- and market-knowledgeable resources be provided?
- Is there a need for centralised control/oversight of the process?
- Do clients expect a local presence?
- Is a local presence mandated by law?
- Is the market in question sufficiently standardised and automated, and have business best practices sufficiently matured?
- In evaluating the total operating environment, several functions do stand out:
- Announcement capture/data cleansing
- Entitlement processing
- Reconciliation
- Payments

Figure 3 illustrates a universal bank that has migrated all business lines' processing onto a common processing platform, creating a centralised 'utility services' for announcement capture/data cleansing, entitlement processing, reconciliation and payments. The individual business lines maintain control of the stock lending processing, instructions management and funding.

The bank in Figure 3 determined that certain functions (eg, data cleansing) did meet the criteria that a utility service could fulfil without sacrificing the client-service-delivery metrics and standard of care its business demanded.

The decision to merge disparate operations onto a common platform and, in some cases, develop a shared operations centre, requires examination. However, as outlined in the next section, the benefits can be significant and are being realised by some banks today.

Benefits of the common asset services platform

There are a number of benefits to be realised when moving to a common asset services platform.

Enhanced client value

The platform caters directly to the needs of the integrated bank client as it enables the bank to deliver services across business lines more effectively, including:

- Timely, efficient and more accurate corporate action announcements
- Analytical data that can be reviewed and compared allowing for a decision that best meets the needs of beneficiaries
- Accurate corporate action data that is correctly interpreted and applied to NAV calculations
- Client transaction, benefits and exposure monitoring
- Capturing client product and service enhancement needs
- Coordinated and consistent delivery of product enhancements.

The common platform enables the bank to holistically view its client's business and relationships and provide the client with value both within a single business line and across all of them.

Operational benefits

Banks can departmentalise processing functions and, in turn, develop a unified operating model across businesses and geographies. The benefits to this approach are:

- Operations are more scalable and unit costs are reduced
- Non-complex operational functions are 'de-skilled', allowing cross-training of resources that provides essential peak processing capacity
- High-risk processes can be stripped out to be managed by highly-skilled staff while more simple processes, which account for the highest volumes, can be handled by others, reducing operations overheads
- The control of the process still resides within each different business line, by providing an enhanced layer of controls, benchmarks, and management oversight of the 'end-to-end' process
- Operational hours can be extended and processing teams can adopt a 'follow the sun' 24-hour processing model
- Client and operational reporting would also be enhanced, enabling risk, exposure and reporting views across branches, regions or business lines.

Product delivery benefits

- Reduced cost per transaction enables the business to increase margins and become more competitive
- Any enhancements to the platform would be shared by all businesses, allowing all clients to benefits and ensuring that the client delivery is kept uniform
- Having a single platform across regions, branches and business lines allows for a more seamless transfer of information, which ultimately enables the business to enhance its offering to clients (eg, increased instruction cut-offs)
- Increases ability to cross-sell products.

Technology benefits

The most obvious benefit is the rationalisation of the technology infrastructure supporting the businesses. Figure 4 shows a number of key elements that rationalisation affects.

The cost technology architecture is significantly reduced and the ability to customise and enhance the product offering is increased.

Other technology benefits include:

- Enhancements to the system would immediately be available to all clients, eliminating duplication of significant effort to design, build and test in multiple applications
- Market-mandated changes, such as the SWIFT annual release, can be done once

Figure 1

		Custody Services				Process Rating	
Corporate Actions Functions		**Europe**	**Asia Pacific**	**US**	**Latin America**	**Complexity**	**Risk Profile**
Data Cleansing	Event Data Capture	Y	Y	Y	Y	Medium	High
	Event Data Cleansing	Y	Y	Y	Y	Medium	High
	Notifications	Y	Y	Y	Y	Medium	High
Entitlement Processing	Projected Entitlements	Y	Y	Y	Y	Low	Low
	Entitlement Processing	Y	Y	Y	Y	Low	Low
Stock Lending Processing	Manufactured Overseas Dividends/Substitute Payments	Y	Y	Y	Y	High	Low
Reconciliation	Street Position Reconciliation	Y	Y	Y	Y	Low	Low
	Street Entitlement Reconciliation	Y	Y	Y	Y	Low	Low
Instructions	Instructions Management	Y	Y	Y	Y	Low	High
	Broker Protects	Y	Y	Y	Y	Low	High
Funding	Treasury Funding	Y	Y	Y	Y	Low	High
Payments	Contractual Payment	Y	Y	Y	Y	Low	Low
	Market Payments	Y	Y	Y	Y	Low	Low
	Claims / Substitute Payments	Y	Y	Y	Y	Low	Low
	Payment Reconciliation	Y	Y	Y	Y	Low	Low

and not replicated across many systems

- Having a common processor across regions, branches and business lines eliminates duplication of interfaces and data
- Synergies can be realised in implementation, technology hardware, and project management, establishing a skilled resource base
- Duplication of vendor feeds can be eliminated and costs reduced.

Advances in business-processing standards, processing software and messaging/transformation tools enable banks to support asset services for all their businesses on a single, common platform. With such capability in hand, banks can fully examine the benefits and impacts of shared operations across their businesses.

The common asset services platform enables banks to deliver enhanced client value through improved services across all their business lines. It enables the best use of operations resources and provides flexibility to deploy resources both centrally and locally as required. The common asset services platform removes technology as a barrier to business convergence while leveraging that technology as a service differentiator.

The integration exercise is no trivial matter, but it is no longer unobtainable, either. Sophisticated tools coupled with disciplined project management are the keys to its success. The implementation can be taken in phases as benefits are realised with each major project milestone.

While careful analysis of the requisite investment and corresponding benefits is the foundation of any good project, the consensus is forming that the common asset services platform delivers real and sustainable value to the bank and clients alike. **AST**

Gerard Bermingham
Senior vice president of business strategy
Information Mosaic

Figure 2

		Common Processes			
Corporate Actions Functions		Custodian Services	Asset Management	Investment Banking	Wealth Management
Data Cleansing	Event Data Capture	Y	Y	Y	Y
	Event Data Cleansing	Y	Y	Y	Y
	Notifications	Y	Y	Y	Y
Entitlement Processing	Projected Entitlements	Y	Y	Y	Y
	Entitlement Processing	Y	Y	Y	Y
Stock Lending Processing	Manufactured Overseas Dividends	Y	N/A	Y	Y
Reconciliation	Street/Custodian Position Reconciliation	Y	Y	Y	Y
	Street/Custodian Entitlement Reconciliation	Y	Y	Y	Y
	Internal Reconciliation	N/A	N/A	Y	Y
Instructions	Instructions Management	Y	Y	Y	Y
	Broker Protects	Y	N/A	Y	Y
Funding	Treasury Funding	Y	Y	Y	Y
Payments	Contractual Payment	Y	Y	Y	Y
	Market Payments	Y	Y	Y	Y
	Claims / Substitute Payments	Y	N/A	Y	Y
	Payment Reconciliation	Y	Y	Y	Y

Figure 3

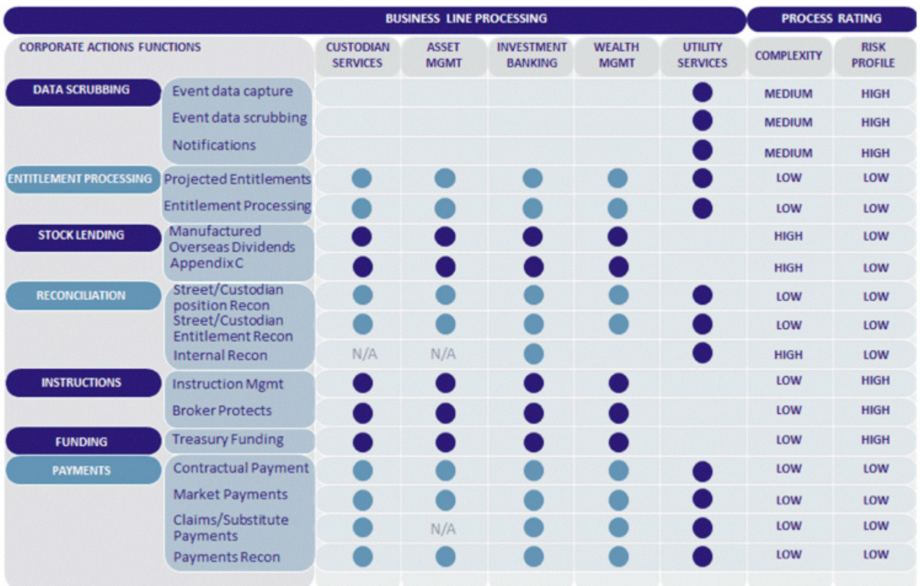
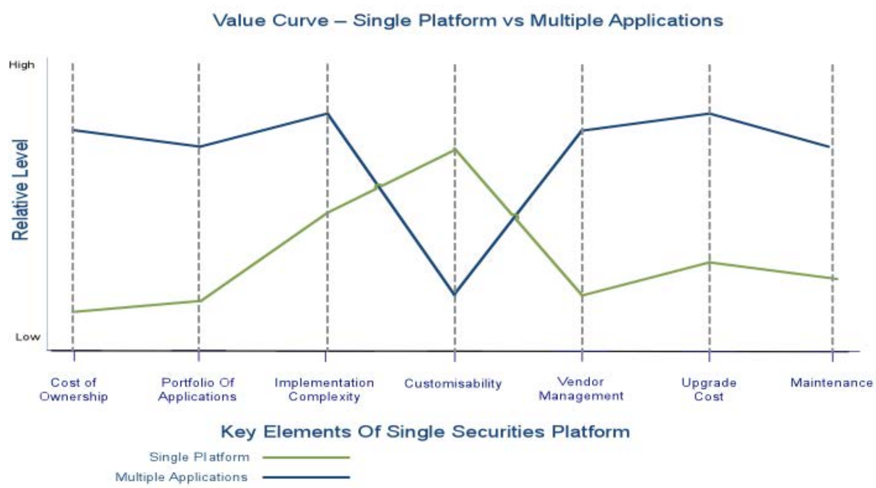


Figure 4



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Change is the constant

AST's panel of Dublin experts discuss domicile competition and whether AIFMD can match the UCITS brand

Rachel Turner
Head of fund servicing team
BNY Mellon

Philip Dempsey
Head of operations, Dublin
Koger

Edward Glyn
Director of funds
SWIFT

Don McClean
Head of fund services, Ireland & Jersey
UBS

Angela Madden
Spokesperson
Irish Funds Industry Association

Michael Brady
Commercial manager, AST

We look forward to seeing you at Trade Tech Post Trade in London, the IFIA Annual Global Funds Conference in Dublin and the ALFI Global Distribution Conference in Luxembourg

What is the state of the fund administration industry in Dublin?

Don McClean: Irish service providers are renowned for their professionalism and responsiveness. The regulatory environment is stable and trusted, the regulator is robust, pragmatic and accessible. Approximately 40 percent of the world's alternative funds are administered in Ireland with total assets under administration breaking the €2 trillion barrier this year—and it is growing. The industry has matured over the past 20 years. During this time, service providers, including lawyers, accountants, custodians and consultants, have developed the comprehensive expertise that is required to meet the demands of fund industry participants. The fund administration industry in Ireland is well positioned to meet the ever changing and increasingly complex needs of the asset management industry.

Rachel Turner: I am delighted to say the prognosis is healthy and growing. Global managers continue to recognise the depth of knowledge, experience and innovation within the fund administration sector in Ireland. Ireland is still attracting greater asset inflows than other domicile demonstrating confidence in our fund proposition. Of course, the industry is not immune to the challenges that are posed by the volume of regulatory change, but I believe that Ireland will once again adapt successfully to the new environment. Innovation has been key to our success with Ireland demonstrating core capabilities across a range of fund types, including hedge, money markets, exchange traded funds (ETFs) and private equity.

Edward Glyn: With funds administered in Dublin in a plethora of products across mutual funds, alternatives, money markets and ETFs, Dublin continues to be viewed by all as one of the key global venues for fund administration. As in other fund administration locales though, Dublin fund administrators face pressures from falling margins, an increasing regulatory burden, and the need to find ways to innovate and differentiate themselves in a competitive market. Dublin provides the necessary infrastructure elements to allow the large global fund administrators to scale their businesses successfully, which is important due to the considerable amount of money that needs to be continually re-invested in maintaining first class fund administration operations and technology platforms. Dublin also manages to retain its attractiveness to numerous successful boutique operations, the focus of which is often less on scale and price and more on bespoke serving for niche products and clients.

Distribution servicing has now emerged as a key vertical business in its own right, where sophisticated front-end distributor-focused value propositions can command much higher monetary rewards for the provider, in terms of fees and margins, than traditional record-keeping. We see many fund administrators in Dublin investing heavily to ensure that they are not viewed as commodity back office process providers but as key partners in helping fund companies gather assets efficiently and delight the end clients.

Philip Dempsey: The past number of years have been extremely challenging for the Dublin fund administration industry. However, given the maturity and positioning of the industry, Dublin has continually evolved and grown. Regulatory and market changes have also had a significant impact. Owing to the strength of the robust regulatory environment, the foundations for transparency, efficiency and accessibility are all in place. Dublin also has a significant readily available talent pool, which has gown-up with the industry over the past decade and more. Dublin is also seen internationally as a centre for innovation and thought leadership.

Angela Madden: Ireland's funds industry is at an all time high and passed a number of significant milestones in 2012.

What is perhaps more revealing is the fact that Ireland attracted twice as much in new UCITS monies as the rest of Europe put together in 2011. Ireland stood out from the crowd. Ireland attracted €62 billion, which is nearly €50 billion more than the next most successful domicile and nearly all others faced significant outflows.

Ireland is the fastest growing UCITS domicile in the world, having experienced growth of more than 500 percent in 11 years, and it is fast outpacing all the rest, experiencing 8 percent growth in 2011 and increasing its market share from 11 percent to more than 14 percent.

Also, it is worth pointing out that Ireland's fund administration business now extends well beyond Dublin with companies in locations all around the country.

How is Dublin handling competition from other established domiciles?

Madden: Ireland is the manager's choice. In 2011, Ireland attracted twice as many assets in new UCITS monies as the rest of Europe put together—and five times more in the last quarter. Most established domiciles in Europe suffered significant outflows.

Ireland is the fastest growing UCITS domicile in the world—and rapidly outpacing the rest—up 500 percent in 11 years. And, it is recognised that Ireland is the number one alternative funds centre in the world, servicing more than 40 percent of the world's total assets.

It is also worth pointing out that Ireland is the only English speaking domicile in the eurozone and is in the optimum timezone for doing business with the East and the West. Dublin ranked best in the world in terms of human capital with Ireland first for people's flexibility and adaptability and is first in the world for availability of skilled labour with more than 50 percent of the country under 35 years of age.

Ireland is continuing to provide solutions to managers in a cost efficient and timely way, bringing all its expertise and innovation to bear.

Dempsey: Dublin continues to rapidly adapt to the changing face of the funds industry. Technology, investor confidence and regulatory framework all play a part. The Qualifying Investor fund (QIF) structure is a significant offering in Ireland. This structure allows Dublin to attract funds through its versatility and tax efficiencies. In addition, QIF regulation is closely aligned to the Alternative Investment Fund Management Directive (AIFMD). This harmonised framework will allow for the passporting of Irish QIFs throughout Europe from next year, allowing funds to domicile in Dublin and access investors throughout the entire European market.

McClean: Change is 'the constant' within the asset management industry and Irish service providers, in conjunction with the regulator, have adapted to and indeed lead much of this change. For example, many of the requirements of AIFMD are built into the Irish QIF governance structure. There has been competition from other established domiciles for many years and there will always be competition to be the market leader through embracing change and providing comprehensive automated solutions for the asset management industry. Ireland has focused on enhancing regulatory requirements while at the same time providing industry participants with the solutions that are required to meet these demands. In particular, the demands and complexities of the alternative fund industry continue to increase and Ireland, with its product range, robust but flexible service approach and ever increasing service offerings, is well positioned to maintain its dominant market position.

Turner: Irish-domiciled UCITS funds remain an important part of the industry, representing $850 billion of the total $2 trillion AuM. But a quick calculation makes it clear that non-UCITS funds represent a larger proportion, and of this, non-Ireland domiciled products represent a significant portion. Since the early years, Dublin has developed a reputation for quality. Irish fund administrators have consistently provided a superior standard of service across a range of product types from the simple to the highly complex, recognising the link between service quality and retention/attraction of assets. Fund promoters have chosen Irish administrators regardless of the fund domicile to benefit from excellent standards of service delivery. While we remain keen to see more Ireland-domiciled funds launch, we have also been very successful in adapting to all markets. BNY Mellon is no different with the Irish team servicing funds from at least eight jurisdictions, including Sweden, Luxembourg, Jersey and the Cayman Islands.

Glyn: Dublin benefits tremendously from the commitment given by the Irish government to the funds industry and is effective at continually reinforcing its core selling points to fund promoters and administrators. There is a culture of continuous improvement across the various disciplines that constitute the Dublin funds business—tax optimisation, regulatory harmonisation, technology provision, talent management, product innovation, support services integration and infrastructure investment.

The greatest contributor to alpha is often cost control and it is here, in the constant drive to optimise the fund transaction lifecycle, that fund administrators in Dublin must continue to focus in order to remain competitive.

In a 2011 annual report from the European Fund and Asset Management Association (EFAMA) and SWIFT on trends in standardisation and automation rates of fund orders received by transfer agents (TAs) in Luxembourg and Ireland, it was shown that in terms of number of new automated links that were set up by TAs with new order givers, ISO adoption is clearly the first choice, as opposed to proprietary file transfer (FTP) links. This is in line with the EFAMA recommendation in favour of a single ISO standard. In fact, 251 new ISO automated links were implemented during 2011, compared to 28 over FTP.

Although the above shows progress, the 11 Ireland-based TAs that were surveyed manually processed 1.5 million orders during 2011, compared to 1.1 million in 2010, and so there is clearly more to be done to tackle manual processing, which for many years has destroyed margins, created errors, forced up costs, drained profitability, and kept the cost of investing high.

What about up-and-coming domiciles?

Turner: In Europe, Malta springs to mind, and no doubt other countries across the globe will look to emulate Ireland's success. There is, of course, room for everyone at the table with each funds' centre looking to target its friendly allies. However, in an environment where investors and regulators are looking for reassurance and security on the quality of the service providers and the funds that they service, the experience of established jurisdictions will generally win out.

Dempsey: There are many jurisdictions that are up and coming. One success story that springs to mind is that of Malta. With a growing presence within the fund industry, jurisdictions such as Malta will look to build the same momentum as established jurisdictions and emulate their successes through regulation, innovation, available talent, technology and investor reassurance.

McClean: The rapidly changing environment provides opportunities as well as difficulties for up-and-coming domiciles. Growing regulatory requirements have led to a demand for more complex and enhanced servicing requirements within the industry; this will create significant challenges for up-and-coming domiciles to compete directly with the resources, capability, expertise and infrastructure of established jurisdictions that some may argue have become 'barriers to entry'. The opportunity for domiciles considering entering the fund services industry is to focus on niche capability, client offering or performing part of a process for established financial centres. Established fund domiciles, including Luxembourg and Ireland, initially accessed the

fund servicing industry by identifying a specific regulatory or client requirement and developing capability in that defined niche—it is no different for jurisdictions entering the industry today.

Glyn: Although the Dublin funds industry continues to face challenges due to the macro-economic environment, many of the newer domiciles face severe immediate and perhaps even more prolonged pressures. Some newer domiciles may have low levels of debt and are less vulnerable in terms of their ability to deal with financial volatility, but in many developed financial markets there are changing political views with respect to offshore centres. Some administrations are seeking to clamp down on offshore locations that are used by individuals or corporations for tax avoidance. Many of the newer domiciles may have issues over true independence and their ability to reign autonomous over their tax environment. The possibility of subsequent reduced tax advantages during times of squeezed margins could erode competitive advantage, as providers look to continue to keep their cost bases down.

There can also be both human capital and space challenges for these newer domiciles, and with an increased global focus on compliance and fighting crime, can the smaller, niche domiciles retain a credible framework for the investigation of financial irregularities? On the plus side, some of the more niche domiciles may benefit from potential trends in re-domiciliation of funds from non-EU territories into the EU.

As the implementation of AIFMD approaches, what are fund administrators in Dublin working on?

Madden: They are busy servicing new funds as Ireland's AIFMD ready product, the QIF. It is at record highs of 1420 in number and assets reaching a new peak of €182 billion.

Turner: Under AIFMD, administrators will be required to support depositaries to a much greater degree but also to support the alternative investment fund manager also. In both cases, the requirements for data to be delivered comprehensively are critical and flexibility is key. Where the depository and administrator are part of the same group company, the established links and processes will be of assistance, but there is no doubt that there will be additional burdens for all parties to bear. How much of this will be passed on to the end investor remains a matter for consideration. In some cases investors will be paying for services of a depository for the first time and the ability of an administrator to support the depository data requirements in the most cost effective way will be important.

As the primary record keeper the administrator is the obvious choice for other aspects of the AIFMD requirements, such as the alternative investment fund manager's regulatory reporting, liquidity profiling and external valuation. Of the three, external valuation remains the area of greatest risk focus. Under the directive, there is no obligation on the administrator to perform the service, however, some parties may believe that it is a natural extension of the role. On the other hand, the level of sophisticated analysis and expertise that would be required for some instruments would not naturally be resident within an administrator. Given the critical importance of this role, it would be important for an alternative investment fund manager to appoint a valuer that has demonstrated strong capability as opposed to going for an easy option.

Glyn: AIFMD aims to bring a common EU regulatory approach to hedge funds, private equity and other types of funds, which do not have a UCITS passport. Given that the target to have AIFMD transposed into national laws is 22 July 2013, with compliance set to follow soon afterwards, fund administrators are focused on how they can assist alternative investment fund managers to comply with the new regime of regulatory supervision, particularly in the context of bringing the desired level of transparency, with associated reporting, to the way these funds operate.

SWIFT is also continuing to work with funds to assess the implications of US Foreign Account Tax Compliance Act (FATCA) at the operational level, with the priority being to understand any need for changes that are required to our messages. This is an evolving landscape, however, with a number of countries now entering into agreements with the US tax authorities whereby FATCA reporting on the tax status of clients in those markets will be done locally by financial institutions, and then supplied by the local tax authorities to the US IRS. This will affect the operational impact of FATCA in these markets and more countries may adopt this approach.

Dempsey: One of the core areas of focus, as a result of the AIFMD for administrators, will be on the depository. While its core obligations will not change as a result of AIFMD, the directive goes further in terms of duties and liabilities associated with the depository. Areas such as cash flows, especially investor subscriptions, will need to be monitored very closely.

The depository will also have significant responsibilities in terms of the safekeeping and identification of ownership of assets under custody. Valuation and 'valuation independence' is core to AIFMD, with the alternative investment fund manager ultimately responsible for the valuation of the alternative investment fund. Therefore, administrators will need to work even more closely with the alternative investment fund managers in relation to these processes. Further regulation through AIFMD on capital requirements, leverage, liquidity, reporting, investor and regulatory disclosures will all add significantly to administrator responsibilities.

McClean: Ireland is keen to maintain its dominant position in the alternative funds industry. Service providers are preparing all encompassing service models to maintain existing clients and to attract new clients. Proposed models include vertically integrated-administration, custody and middle-office solutions. Not withstanding regulatory segregation requirements, AIFMD introduces a new level liability for custodians as well as regulation that will ultimately result in increased cost.

In order to remain competitive, service providers will need to re-engineer product offerings in an integrated and scalable fashion to help the alternative asset management industry meet the increasing regulatory requirements and control increasing costs. Ultimately, service providers in Ireland are determined to support investment managers and make the transition to a post-AIFMD world as seamless a transition as possible.

How likely is that AIFMD will engender similar brand belief to UCITS and attract more non-European funds to Dublin?

Dempsey: AIFMD is a very significant attempt by the EU to reform the financial regulatory environment in Europe. It aims to engender a harmonised framework for monitoring and supervising the potential risks that alternative investment fund managers pose, and will also allow, subject to certain restrictions, them to provide services and market their funds across the EU's internal market.

The UCITS brand is recognised globally for its robust regulation, investor protection and transparency. AIFMD aims to create similar recognition. Regulation and transparency are the cornerstones to this directive. AIFMD should potentially draw more non-EU funds to Ireland as a result of the ability to market these funds by means of EU passporting. Ireland's AIFMD-ready QIF structure is attractive in terms of providing immediate access to a very large investor market, zero tax on profit and gains, numerous double tax treaties that Ireland has in place, and investor reassurance.

Turner: The UCITS brand has indeed been very successful being accepted in non-European markets such as Asia and South America. Can AIFMD match this success, I am not so sure, however, I do believe there will be a demand

for AIFMD-compliant products. The framework that increases focus on risk, valuation and increased transparency will be attractive to some investors. As the ability to raise capital is always highly competitive, due to higher costs, fund promoters may not wish to be excluded because they do not meet AIFMD standards.

However, this will need to be balanced with the negative impact on returns that AIFMD may cause, making it again difficult to attract capital. Many managers are focused on the private placement rules hoping that they can still access the significant European market, but this may be a temporary option as they wait to see the possible benefits of registration.

Madden: While it is difficult to say whether AIFMD will engender similar brand belief to UCITS, we are already seeing more non-European funds choosing Dublin, which has helped to drive assets under administration to all time highs.

Investment managers are increasingly looking to Ireland for product and service solutions ahead of publication of the Level 2 implementing measures of AIFMD. Ireland is the pre-eminent centre in the world for the servicing of hedge funds, administering more than 40 percent of global assets and close to 70 percent of EU alternative funds. As the leading global servicing centre for hedge funds and other alternative investment vehicles, the Irish funds industry is AIFMD ready, with many of the key AIFMD provisions already a standard part of the requirements for the Qualifying Investor Fund (QIF).

This existing regulatory regime, combined with the local expertise in servicing the most complex international investment funds, makes Ireland the obvious choice for alternative investment managers seeking to get ahead of AIFMD. Figures show that asset managers are increasingly turning to Ireland and to the QIF, as service and product solutions, with the number of QIFs reaching an all time high.

Being the leading service centre for alternative investment managers both within the EU and globally, Ireland has good experience in administering alternative investment funds.

Our partnership and client-focused approach, which has built up over a quarter of a century, means that we anticipate industry needs and adapt accordingly. We help mitigate fund manager AIFMD issues and create servicing solutions irrespective of what kind of fund our clients have or where they may be located.

Ireland, with its common law legal system and a broad range of legal structures, its tried and tested redomiciliation framework, and advantageous tax solutions for Irish funds and investors, is a jurisdiction that is increasingly attractive to alternative fund managers and the domicile of choice for AIFMD.

McClean: It is likely that AIFMD will strengthen recognition of the Irish QIF brand. Brand success is about investor and investment manager confidence in the product. It also depends on the capability of service providers to deliver high quality custody, administration and middle-office services in a cost effective way. Some managers will operate regulated and unregulated products in parallel. The QIF is a regulated product and a trusted brand—it has enjoyed considerable growth and more recently increasing interest from managers and investors. AIFMD will provide a pan-European distribution passport that can be accessed through the QIF regime. It will also attract increased costs due to enhanced reporting and service requirements, particularly in relation to the liability of the depositary function. In order for regulated funds to continue to thrive, service providers will be forced to introduce cost efficient integrated services offerings to maintain competitiveness.

Glyn: While AIFMD undoubtedly brings compliance challenges for the fund managers that are affected, there is indeed an opportunity over time to build a brand based around AIFMD-compliance in a similar way to that associated with UCITS. Of particular importance here is the possible entry into force two years after AIFMD implementation of a passport for the marketing and/or management of non-EU funds, including by non-EU fund managers, into the AIFMD scheme.

How can fund administrators help funds to manage the growing concern of counterparty risk?

McClean: The administrator's role, and service offering, continues to grow in reaction to changing regulatory, investor and investment manager requirements. Transparency, certainty and performance remain the key criteria for investors. They want to understand where their underlying assets are held, the liquidity and risk profile of their portfolio as well as an independent assessment of the valuation of this portfolio. Counterparty risk is a major competent of the risk profile of a portfolio and the administrator is the appropriate independent agent to support the management of this risk. Administrators have developed middle-office capabilities to provide enhanced daily client reporting coupled with the necessary transparency and risk reporting requirements for investment managers and investors alike. Reporting demands will continue to grow and administrators will continue to adapt to these ever increasing industry requirements.

Turner: Again, it is all focused on transparency and flexibility of data that the fund administrator can provide to the depository and the alternative investment fund manager. Where large financial service providers such as BNY Mellon have many products housed under the one roof there is a distinct advantage. The sharing of common data across risk solutions and administration systems gives the alternative investment fund manager and the depository the most comprehensive data set without the need for costly and lengthy technology developments. Complimentary technology architecture to allow the free flow of information will be critical. However, this is not unique to alternative investment fund managers as many fund promoters and managers are already demanding this of their service providers and with UCITS V on the horizon the demand will only continue.

Dempsey: As fund managers institutionalise their models to appeal to a broader investor market, they look to fund administrators to add significant value to the entire process. By this, they invest heavily in their IT infrastructure by bringing in robust, market-leading systems to minimise risk. In an effort to minimise risk, they look to enhance and streamline their reconciliation processes, take advantage of STP capabilities through technological developments thus reducing manual intervention, store and track AML and due diligence documentation, and provide reconciliation capabilities between prime brokers, internal systems and the administrators.

Glyn: Reputation is possibly the most important capital for any financial institution. Enhanced liquidity monitoring and better due diligence in relation to counterparty exposure is key. Many firms are capitalising on the growing demands of the institutional investor for a more professional and transparent industry. Increased costs and regulatory requirements mean that fund managers are re-evaluating their ideal operating model. Many fund managers that for years have been happy to outsource back-office functions are now also moving towards the outsourcing of middle-office activities such as collateral management, trade support, compliance, risk reporting and valuations, as they refocus on their core business of asset gathering, market expertise and portfolio management.

The opportunities for innovative and quick-to-market fund administrators are high as they look to refine their competitive offerings towards the growing number of fund managers who are being forced to adapt to new multi-prime brokerage models in order to combat counterparty risk. Successful collaboration between the fund and its fund administrator is crucial to ensure that increased operational and technical complexities are met, whilst risk controls are maintained in a way that does not stifle the fund managers' ability to outperform.

Madden: As an association, we work with our members to build on Ireland's reputation for being robustly regulated and able to provide the additional solutions that are required from managers as the world moves to a more transparent, regulated model. **AST**

To EU or non-EU?

Kenneth Farrugia of FinanceMalta lists 10 issues to consider when choosing a fund domicile

With 75 countries positioned, or positioning themselves as international financial centres across the world, deciding on the most appropriate domicile to establish a fund is one of the biggest challenges facing fund managers today.

To compound matters, in November of last year the European Parliament approved the EU's directive on Alternative Investment Fund Managers (AIFM) with the majority of the directive's rules scheduled to become effective by 2013. This new directive has changed the playing field and brought with it new rules that are applicable to all fund management companies, which will also have an impact on non-EU funds and fund managers.

Consequently, choosing a fund domicile has become a highly challenging task as the ultimate decision needs to be taken following an in-depth evaluation of a number of considerations, the key ones of which are listed below:

1. **Jurisdiction location and time zone**—The geographic location of the domicile has multiple ramifications on various other business and operational considerations such as: the location of the end investors; the ease of access to the jurisdiction in terms of flight connections; and the time zone of the domicile and its implications on the valuation of the investments that are held by the fund and its service providers.

2. **Economical and political status of the jurisdiction**—The development of the jurisdiction's fund industry is among other things highly dependent on the presence of a robust and resilient banking sector, which I consider to be the backbone of any developed or developing financial services jurisdiction.

3. **Language barriers**—These are often cited as concerns, and validly so as the day-to-day operational workflows linked to the services of a fund are to a significant extent dependant on the presence of a workforce where English (or any other language as for that) needs to be widely spoken and written.

4. **Legal and regulatory framework**—These must be both comprehensive and efficient. The recent interest in UCITS structures will, in my view, be beneficial for the European funds industry for this reason. Equally important, the introduction of the AIFM directive will possibly contribute to strengthening the growth of those fund managers that will fall within its remit. Likewise, it is clearly evident that both asset managers and end investors are seeking to ensure that their choice of jurisdiction operates within a legal framework that affords them all of the necessary legal protection and mechanism.

5. **Operational and service framework**—The presence of a highly developed operational and service infrastructure is also a critical decision-making factor. The quality of the service providers is of key importance to investors and fund managers, as is the availability of experienced/competent support services such as legal and accounting firms, fund administrators and the availability of skilled directors. The presence of a well developed IT communications infrastructure should equally be given due importance.

6. **Workforce**—A skilled and multi-lingual workforce is equally important, particularly as this will reflect on the quality of all the aforementioned services that will be delivered to the fund.

7. **Type of targeted investors and their domicile**—The type of investors being targeted and their domicile is of equal importance. A jurisdiction close to the investor target market may psychologically have an impact on the ultimate decision as to whether to invest in the fund or otherwise.

8. **Time to market**—The speed of set-up as translated into the amount of time a fund takes from conception to launch is also significant. An understanding of the way the local authority processes investment applications for investment services licences is necessary, as this will have an impact on the planned execution in a timely manner of the business plan for the fund and the fund management company.

9. **Set-up and ongoing costs**—These critical factors will ultimately have a bearing on the expense ratio of a fund that will in turn impinge on its performance. This is particularly applicable to new fund setups, particularly those that are launched with relatively low seed capital, say below €30 million.

10. **Tax status**—The importance of structuring a fund in a tax-efficient way will always be paramount as this will bring with it the possibility to benefit from the domicile's double-tax treaty network. Likewise, the jurisdiction will need to provide the most advantageous taxation scheme for the investors.

The case for Malta

Within the context of the above, Malta's positioning as an international EU-based fund and fund management domicile presents a compelling proposition for fund managers either planning to set-up or re-domicile their funds and fund management operations into Europe. The growth of Malta as a fund domicile has so far been spearheaded by the registration of various professional investor funds (PIFs) falling under the PIF regulatory framework that was introduced by the Malta Financial Services Authority (MFSA), Malta's single regulatory body, in 2000. Currently there are more than 400 investment funds registered, primarily consisting of PIFs but also including UCITS III Schemes, as well as retail non-UCITS schemes. The regulatory framework is supported with an equally comprehensive legal framework allowing such funds to be set up as SICAVs, limited partnerships, trusts and contractual funds.

On the point of economical and political stability, Allianz SE, a Brussels-based consultancy firm that singled out Malta and Germany as the only two EU member states that have boosted their competitiveness and fiscal stability in the last five years according to a scoreboard based on national debt, labour, productivity and trade indicators. Malta's banking sector was also ranked as the 10th soundest out of 139 countries by the World Economic Forum in its 2010/11 report.

There are 15 fund administrators operating out of Malta and its operational and service framework continues to grow. In fact, the fast growing developments of the industry have brought with them the formation of an industry cluster consisting of not only alternative investment funds, but also the presence of global custody services providers such as those provided by Bank of Valletta through J.P. Morgan, HSBC and Deutsche Bank. Notable is the strong presence of all the top four audit firms. Equally, Malta's legal firms are multi-disciplinary providing advice across a broad range of financial services areas. These are firms that are very well-connected with the major international networks such as Lex Mundi, Lexis Nexis, Chambers and Martindale amongst others.

Lastly, Malta's regulatory processing efficiency is becoming increasingly notable as are the highly competitive set-up and on-going costs to operate a fund in Malta. Malta has in place more than 55 double taxation treaties with both EU and non-EU countries that lend themselves to the possibility of setting up tax efficient structures. **AST**

Dispelling the myth

AST talks to DTCC to find out what the company is doing when it comes to offshore funds

GEORGINA LAVERS REPORTS

Offshore funds, which are collective investment schemes that are sold to foreign investors in tax-advantaged domiciles such as the British Virgin Islands, have been seeing a resurgence as of late.

For those in the know, offshore funds offer eligible investors significant tax benefits, with many jurisdictions offering a zero-tax regime for investment funds that are domiciled there. A consciously light hand when it comes to a regulatory regime is also a major advantage, though a number of jurisdictions have tightened the regulation of offshore funds.

Despite this, offshore funds on DTCC's processing platform have grown significantly over the past five years and DTCC expects this trend to continue to gain momentum.

DTCC clients that are offering offshore funds on DTCC's processing platform continue to increase exponentially, year-on-year, and in 2012, DTCC saw a marked increase in the percentage of offshore funds being added to DTCC's processing platform.

A significant part of this growth can be attributed to market demand. To help address this market trend, DTCC appointed Gail Weiss as vice president and head of global business development for wealth management services at DTCC in July 2011. She is responsible for leading the business strategy that is aimed at securing DTCC's position in the global mutual funds processing arena, among other key initiatives.

The strategy calls for DTCC to expand its mutual fund services into evolving offshore markets. These services, which are provided by DTCC's National Securities Clearing Corporation (NSCC) subsidiary, offer critical automated processing and information-exchange services to the mutual fund industry and link business partners through a centralised infrastructure.

Prior to DTCC, Weiss was based in London and held the position of managing director of SunGard's wealth management business for the EMEA region. In addition, she founded Gail Weiss & Associates, a provider of financial services software applications and consulting specialising in mutual funds and those of the International Clearing Trust Company.

Weiss typically spends two weeks a month in Europe to help spearhead growth in the continent. "Offshore funds on DTCC's processing platform have expanded significantly in the last five years," she comments. "Dublin and Luxembourg hold great value to us as offshore centres, and I see that continuing for the foreseeable future."

Putting the pieces together

In 2011, DTCC created a global funds working group to solicit input from non-US firms and funds regarding DTCC processes and systems. This initiative was spearheaded by Weiss and continues to meet regularly. "We have found this forum to be extremely insightful as members help DTCC to define new initiatives and improve existing fund processing services," says Richard Marulanda, director of marketing and communications at DTCC. "This group is an excellent illustration of how DTCC partners with the industry to bring a centralised, automated and efficient processing platform to the marketplace while reducing overall risk and costs for market participants."

"The working group came about in recognition of the increasing percentage of offshore funds on DTCC's processing platform and the tremendous increase from non-US applicants wanting to get on board," says Weiss. "Currently we have 47 members, and we meet every month. The ultimate aim is to draft best practices and processing guidelines. Eventually we'd like to extend the group beyond trading to our ancillary services."

In 2010, the company announced plans to introduce multi-currency settlement for European investment fund transactions through its Fund/SERV suite of services, which is pending US regulatory approval.

Using its Fund/SERV platform, DTCC sought to streamline offshore fund transactions, giving both US and non-US funds and distributors the ability to expand their distribution and significantly reduce processing challenges.

Cross-border funds that are mainly domiciled in Dublin and Luxembourg, are processed on Fund/SERV, a service that is offered through NSCC. Until then, settlement was only in USD; but the ability to settle fund trades in EUR and GBP was the natural stepping stone in the extension of mutual fund services to the global funds market.

Weiss states that this update filled a long-standing void in global funds processing.

"Regarding settlement, we started only with USD, and will be moving onto GBP and EUR. We are receiving a significant amount of feedback from members requesting additional currencies, so we're working toward accommodating those client requests. We're always looking for ways in which we can add services that are truly valuable, and that means continuously modifying our systems, so they are as efficient as they possibly can be." **AST**

A different kind of animal

AST talks to Robin Kneale and Robert Harris of Broadridge about their attitude to the post-trade space, and the silver lining to regulation

GEORGINA LAVERS REPORTS

Can you describe your career up till now, and current role as head of strategy?

Robin Kneale: I've been in financial service supply for about 30 years. I joined a consultancy, long since gone, in London when I finished at Oxford, came up through the development path—business management, project management—that route. Before Broadridge, I was working for what is now a part of SunGard. I've been at Broadridge for 15 years as head of strategy and product management for the international processing business outside of North America.

We work with other strategy groups and report to Tom Carey, seeing what we should be doing in the future, and places we'd like to be involved in. I'm based in London, and there's a reasonable amount of travel involved. It is important to be face-to-face when you're talking about things that can be quite conceptual.

Could you provide a rundown of Broadridge's approach to the post-trade space?

Kneale: We have a two-pronged approach. To start from the top, the intention is to provide a global capability for all the major asset classes. The capability is global; a broker should be able to come to do their deals in their trading system and pass them to Broadridge for matching and settlement; and it shouldn't matter which market those trades were executed on or whether they need to be settled domestically or internationally, we would have the capability to process them.

In terms of assets, we have a very long history of processing in the equities and fixed income space, and we've recently extended our platforms to cover foreign exchange, money market, exchange-traded derivatives and some of the most frequently encountered OTC derivatives. The intention here is that you should be able—in the back office at least—to have a consolidated processing platform. We have to understand the nuances of different markets in able to offer this consolidation to the client, along with the operational controls that they need.

What do you need to consider in post-trade processing that can be overlooked in pre-trade and trade? Which cycle is most complex?

Kneale: It's a little bit of a generalisation, but the important thing in the back office is that you need complete accuracy; all the details of the trade. You need much greater richness in your reference data, a lot more information, an ability to get at that information, and connections with the outside world that allow you to receive data and to reconcile. Accuracy ensures matching and settlement. Front- and back-office processing are very different kinds of animals and I wouldn't claim one is more difficult than the other, just different.

With the advent of central counterparty interoperability in Europe, would you agree that competition in the European post-trading environment is finally starting to kick off?

Kneale: I think it's early days to say that, and it is very difficult to know. We've had a number of initiatives driven by the European Commission in the past that aim to stimulate competition, but in practice, because the costs of doing business have increased, they have tended to consolidate the players in the market, and that has perhaps resulted in less competition.

How are you extending multi-asset capabilities of Broadridge's solutions?

Kneale: Within the international business, we're focusing most specifically on exchange-traded derivatives. What we have now is a capability that we believe is competitive with other exchange-traded derivatives systems in the post-trade space, but with the added benefit of being a strong, single solution across multi-asset operations. We've also strengthened our capabilities around FX and money markets. The acquisition of City Networks two years ago brought with it matching and reconciliation capabilities, and advanced messaging in this space, and we have interfaced and integrated these capabilities.

The other main thing for Broadridge on the global front is our acquisition of Paladyne on the buy side, offering a multi-asset buy-side platform. Through a combination of acquisitions, we're increasing the number of people who are experts in treasury and derivatives, and also increasing the capabilities of our solution range.

How have you expanded your BPaaS (Business Processing as a Service) solutions beyond traditional securities processing?

Kneale: The focus is still on securities processing as that's our absolute core competence. We are extending beyond that to obvious functions such as reconciliations. However, as soon as they are live, clients often want a single competence centre for reconciliation more generally, so that very quickly broadens out into other asset classes. Clients are saying that if we take their back-office duties for securities, they are still left with these functions on platforms that are not the Broadridge platform, so we are being asked to provide BPaaS based on those platforms too, the combination of what we term platform and non-platform BPaaS services, which provides a compelling offering.

What are the biggest market challenges you're seeing this year?

Kneale: The state of many areas of the economy today gives our clients difficulties; both in terms of profitability and predictability. This climate means that a lot of tier 1 players are reviewing their operating models, which make for long conversations before they come to a conclusion. That is of course potentially very good for us, but they're long conversations, and it is big effort to be involved in them, which we are.

What is your career history and current role at Broadridge?

Robert Harris: I've been with Broadridge since the acquisition of City Networks. City Networks had a very strong profile and client base within treasury, and I had more of a securities background, so I joined that particular company to expand their presence in the securities market. Currently, I'm in charge of both managing the reconciliation and matching products, and developing the strategy of where we think the solution should be going. Prior to Broadridge, I was at SunGard for a couple of years, where I focused on global custody, and before that I had a sales role in a different industry vertical.

Which one regulation is giving your clients the most concern?

Harris: Generally, we've always looked quite hard at ways that regulation would help our solution. Regulation, even going back to Basel II, has contained certain elements that we thought our solution could potentially solve, so there's always been a link. Currently, one of the main concerns is the US Dodd-Frank Act, where we are getting involved more directly, and Europe of course has the European Market Infrastructure Regulation, with the requirement there being to provide transparency to the central depository about all trades taking place. I think it's an honourable thing, because there's too much going on without people being able to see the risk and exposure of any one particular organisation.

In comparison to previous regulations, Dodd-Frank is reasonably well understood. Large organisations typically already have a team that is dedicated to its comprehension, although I suspect that some may be challenged by the short deadline. But I still think there will be a number of smaller organisations that will be caught out and I assume they're going to have to find some more manual, time consuming workaround in order to meet regulatory deadlines.

In the past, we were quite surprised at just how unprepared some firms were in terms of regulatory change, but maybe in light of what we were talking about, the regulation had a less direct relevance to our solution. This time we're finding the people we're talking to about our solutions are in the know, and you could argue that this is because these regulations coming in are at the level of our products and where we pitch them. Similarly in an earlier period, I think that some institutions may have done the minimum possible in order to comply. That, we think, may be changing. Due to the well-known cases in the press, we're noticing a transition in that shareholders and trading partners actually probe a lot deeper in how an organisation controls its business. It's now become much more of a marketing or self promotion activity where actually, just doing the minimum doesn't make you stand out.

Do you create solutions off of the back of regulation?

Harris: Until recently, we haven't built reconciliation and matching solutions specifically in light of legislation, but our solutions are very well positioned to help firms meet some of their Dodd-Frank obligations. I think that the controls around regulation are now at a much more granular level; understanding every transaction that goes through—whereas in the past they were much more high-level, capital adequacy controls. Now, we're seeing a demand that every trade is conducted in a standardised way. It probably goes along with the advances in technology. With the volumes in trades, 10 years ago it would be far less achievable to have this very detailed data warehouse in place.

In 2010, Tom Carey said that Broadridge "continued to witness unprecedented demand in Asia". Are you still seeing expansion in the region?

Harris: We're still growing. Europe and America have been more mature markets when it comes to our reconciliation and matching solutions. We have been present in Asia for many years and there are still many new opportunities opening up. We have a very good name there, from our City Networks days and now from Broadridge, and we have a good local presence in many of the markets. I've spent quite a bit of time in Indonesia, and in Australia we've gained our first client in Asia for solutions that are entering the market and coming to Australia first. It can be harder to break into some markets where we're up against established local providers that have been in the market for a very long time, although we have had some strategically important sales in Japan recently.

Two years ago, our reconciliation and matching solutions were only in English and Latin languages, and now the content and all the screens can be translated into double-byte characters. We've broken down the local presence, the cultural barrier, and now the growth is starting to increase.

Do you think there is over-regulation, or is it a necessary reaction to the crises in the last five years?

Harris: I'd be very brave to say that there was! I think that was the thinking two years ago, but the evidence is that it could have been more effective. I would say no, there hasn't been over-regulation. The self regulation that people were talking of clearly didn't comprehensively work, and with the central depositories, central counterparties around derivatives, we're not seeing the reactionary responses that we might have seen a while back. In my opinion, the granular type of control, where we have a very transparent view of all activities going on, where they can be monitored—if necessary—by the right kinds of organisations—is the way to go, rather than trying to put in some high level controls.

Are you looking at developing any new services in response to regulation, and what current services are you expanding on?

Harris: One area we are looking at is again around Dodd-Frank—how we can help financial institutions to easily connect to all of these reporting houses where they may wish to do business. They won't want to restrict how they do business based on the overhead of the multiple connections. So connectivity is a barrier that we can help with, by not imposing restrictions. If they want to deal with a certain market in a certain way, which by implication means that they have to satisfy local markets and reporting requirements, then we have solutions for that. **AST**

2012

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TradeTech Post Trade

Location: London
Date: 11-13 September 2012
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Location: Amsterdam
Date: 29 October-1 November 2012
www.sibos.com

At Sibos 2011, it was clear that regulation, global shifts in economic power and fast-evolving technology were driving change rapidly in the financial industry. Sibos is prepapared to confront these issues again for its 2012 conference.

ITAS Asia 2012

Location: Hong Kong
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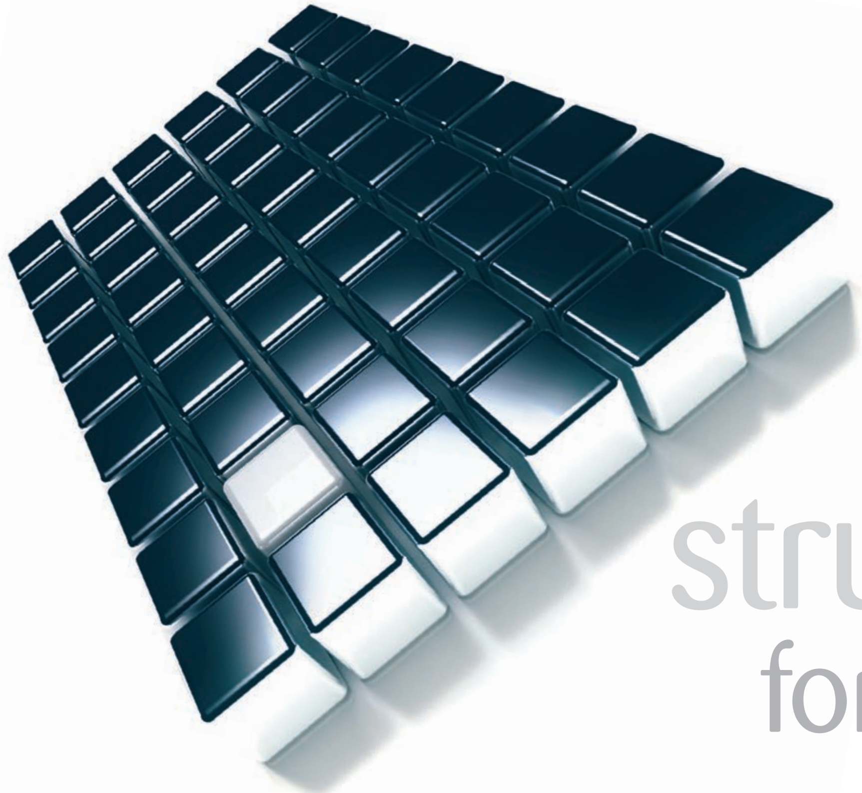

Industry appointments

RBC Investor Services revealed that its new director of client operations in Australia is former Macquarie employee **Kevin Hogan**.

Based in Sydney, Hogan will join the local management committee and report to Duncan White, head of client operations for Asia Pacific and David Travers, managing director, Australia.

He will be responsible for managing client operations in Australia, including custody, fund administration and shareholder services.

Prior to the appointment, Hogan worked at Macquarie Investment Management as head of fund accounting.

Broadridge Financial Solutions has appointed **Jose Contin** as general manager of Broadridge City Networks for the EMEA region. Based in London, the new role will see Contin focus on growing the business in Europe, Africa and the Middle East.

Before joining Broadridge in 2008, Contin spent 15 years in senior trading, client service and operations management roles at Morgan Stanley in both San Francisco and New York.

Sanjiv Sawhney will be Citi's new head of securities and fund services for the EMEA region.

In this new role, Sawhney will lead the growth of Citi's regional securities and fund services platform and product offering for investor, issuer and intermediary clients across EMEA.

Most recently Sawhney was global head of fund services at Citi. He previously worked at J.P. Morgan, where he headed fund services operations in Europe.

Donna Milrod will join The Depository Trust & Clearing Corporation (DTCC) as chief administrative officer, effective mid-October.

She will report to president and CEO Michael Bodson, and serve as a member of the company's management committee. Milrod will have responsibility for the company's finance, operations and security functions. Milrod joins DTCC from Deutsche Bank AG.

KPMG is seeking to strengthen its investment in its alternative investment funds practice by bringing on board several new partners and managing directors.

The new hires and transferees include **Ted Carreiro** as partner, who joined KPMG in June of 2012 as a federal tax partner in Boston.

Laura Thompson will joins as managing director, based in Boston. Thompson joined KPMG from Bain Capital, where she was vice president of the General Partner group.

Angela Yun and **Michael Richards** have also both been appointed as partners. Yun joined KPMG as a partner for its US real estate tax practice in the New York office.

BNY Mellon has made a number of key senior management appointments in its German office.

Thomas Brand has been appointed head of investment services for BNY Mellon in Germany. In this new role, Brand will be responsible for relationship management and business development across Germany, Switzerland and Central and South East Europe.

Jürgen Frank has become chairman of the supervisory board of the KAG business.

Joining BNY Mellon in October of this year will be **Laura Ahto** as head of asset servicing operations and service delivery in Frankfurt. In addition to this, Ahto will be appointed as branch manager in the Bank of New York Mellon's branch management business. Ahto joins BNY Mellon from London-based company Baring Asset Management.

Christian Altmeyer has also been appointed as a branch manager in the Bank of New York Mellon's branch management business. He will be responsible for legal, regulatory affairs, internal audit and risk and compliance.

The managing director of BNY Mellon asset servicing, Michelle Grundmann, is also the bank to pursue a new role in the industry.

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Marco Attilio has been appointed as the new director for global funds markets at SWIFT.

In this newly created position, Attilio will be based in Singapore and have responsibility for growing SWIFT's funds business across Asia Pacific.

LCH.Clearnet has appointed **Oliver Corbett** as its new CFO, a position that will be made effective on 1 December.

Prior to this appointment, Corbett was the CFO of Novae Group, which he joined in 2003. Before that, he was managing director of emerging companies at Dresdner Kleinwort Wasserstein. AST

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A COFFEE WITH...

James Beadle

AST talks to James Beadle, senior investment advisor at Societe Generale, Monaco

How have you got to where you are now in your career?

I entered finance later than many do, but quickly fell in love with the intellectual aspects of the business; the potential for finance as a force for good; and the way that it really ties together an understanding of everything that is happening in the world.

After the financial crisis I relocated from Moscow to Bath in the UK, where I started working on a PhD in economics; then I was invited to help develop the investment business with Russian clients at SocGen Private Bank in Monaco.

How did you get into your industry?

In 1999, I started to take my career more seriously, and accepted a journalism role in Moscow. Then I was offered a role in a research department of a Russian brokerage.

After two years, I went back to Europe to complete an MBA and an MSc in financial engineering, then I moved back to Moscow equipped to dive deeper into the wonderland that is the 21st century financial industry.

Having started a bit late, I kick myself for missing some of the best parts of the 2000s bull market. But on the other hand, it's a great honour to be involved in the industry as it goes through such exciting reforms.

To what extent did it meet your expectations?

Finance has both exceeded my greatest expectations and, significantly disappointed me. The failing of modern financial theory has been a great let down, wrong-footing both dedicated professionals and amateurs alike; yet the complexity of the market, the depth of the intellectual challenge and the increasing need for reforms are daily sources of stimulus and fascination.

I once thought that the necessary shrinkage of the industry would act as a rapid quality filter, leaving only those passionate about the subject. But as I look around the global stage and read the newspapers, I increasingly realise that among the survivors there are many who entered finance in the boom years, purely for economic betterment, as well as those that entered out of intellectual curiosity.

What would you change about your industry?

Finance once enjoyed a respected role in society as the force for good that it is. But, the Big Bang, whilst in many ways necessary and positive, also facilitated the emergence of a certain culture. Creative destruction is one thing, but Gordon Gekko's claim that "greed is good" was another thing altogether.

That famous line became accepted in the doubtful idea that individuals pursuing their narrow personal interest automatically contributed to the greater good. This culture, which was an unforeseen consequence of regulatory and organisational development, needs to be reformed, it's a process that has begun, but still has a long way to go.

Do you have any role models in the industry who have helped or inspired you?

My first boss in finance was a great role model for understanding how human management, investment planning and corporate interests function and align.

Professor Dino Sola, who taught on both my master's programmes has been a constant source of strength, teaching me to never rest and to always question conventional beliefs.

I also remain attracted by the contributions of thought leaders and contrarians, including George Soros and Hugh Hendry, anyone willing to challenge the status quo and especially to contribute to breaking through the next economic frontier.

What are your ambitions?

My primary objective has always been to achieve my potential, which is a great goal because I am (hopefully) always growing, so the boundary keeps moving.

By virtue of my nature, my professional goals also include a desire to contribute to the renaissance of our industry's reputation. Finance remains a massively positive contributor to the planet's ongoing socio-economic development. It deserves to be better understood. And more specifically, since it is the market I am most directly connected to, I aspire to contribute positively to Russia's continuing integration into the global socio-economic system.

What about your regrets? If you could go back in time, what would change or do differently in your career?

For anyone in finance, this is arguably an impossible question. Our industry has the unusual characteristic of providing black and white judgement on our decisions everyday. So yes, I regret every wrong investment call I've made, and every call I made right, but without sufficient conviction to see it implemented fully.

But in the end, all those steps led me to where I am; it's healthier to live with a philosophy of constant learning than one of regretting or denying mistakes.

If you weren't in your current industry, what would you be doing?

That's a really tough question. I'd like to be more actively involved in political spheres, but probably more from a non-elected perspective. Democracy is supremely superior as a system of governance, but it is very fragile and requires the support of solid ethical public institutions, civil servants and philanthropists.

What are your interests and hobbies?

Swimming, ideally in cold clean seas, with a wetsuit on; and sailing, ideally on holiday with my wonderful sailing friends who have the same level of experience as me. We can learn much from experienced sailors, but we have and will continue to learn more from pitting ourselves against the elements, making our own decisions and adapting to the changing environment we face. **AST**

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