AST
ASSETSERVICINGTIMES

ISSUE105
WEDNESDAY
14.01.2015
assetservicingtimes.com

HKEx reveals Stock Connect solutions

The Hong Kong Stock Exchange (HKEx) is working on solutions to help investors to use the Shanghai-Hong Kong Stock Connect programme, with the aim of implementing new services early this year.

Since the launch of the Stock Connect programme, HKEx has been assessing the understanding of its functionality through the briefing overseas regulators and associations, answering questions from various industry players, and publising frequently asked questions online, with conclusive answers.

In December, the first UCITS fund was approved to join the scheme by the Luxembourg regulator, and the exchange is working on a new, fast-tracked system for updating prospectuses for Ashare investment.

The exchange found that some investors were concerned about their proprietary right in the A shares held through the Hong Kong Securities Clearing Company Limited (HKSCC), as a wholly owned subsidiary of HKEx as a nominee.

It has now stated that investors will not need to have beneficial ownership under both Hong Kong and mainland China law, meaning that proprietary rights will be protected, even if HKSCC fell into insolvency.

The new rules will also allow investors to vote and receive dividends through HKSCC as nominee holders. It also intends to reduce the compliance burden on fund managers, which will not be required to obtain licences in mainland China.

Fresh investigation for PwC client asset rules

The Financial Reporting Council (FRC) has launched a second investigation under its Accountancy Scheme into PricewaterhouseCoopers's (PwC) conduct in its capacity as auditor to Barclays.

The decision to investigate follows the Financial Conduct Authority (FCA) final notice on Barclays, published on 23 September 2014, imposing a record £37.7 million fine.

A previous Financial Services Authority (FSA) investigation had found failings in the bank's investment banking division, which provided safe custody services to its affiliates, eligible counterparties and professional clients in connection with its product offerings within the division. Some £16.5 billion worth of clients' custody assets were held at risk.

readmore p2

Guernsey's vision for 2015

Newly appointed chief executive of Guernsey Finance, Dominic Wheatley, has outlined a number of the jurisdiction's plans for growth in 2015.

Wheatley stated that Guernsey Finance is looking once again to promote its Alternative Investment Fund Managers Directive (AIFMD) offering in the EU in an attempt to show that National Private Placement is still an effective strategy.

"People get a little bit sidetracked by AIFMD and forget that the National Private Placement route is still valid and still very effective, arguably more effective in some circumstances, [than] AIFMD. That is obviously quite a key part," said Wheatley.

Guernsey Finance has also identified the pending decisions that need to be made regarding passporting for third countries as a key area.

readmore p2

Fresh investigation for PwC client asset rules
Continued from page 1

The investigation identified 95 external accounts that were not adequately protected in accordance with the FSA's rules.

In December 2013, the FRC closed a separate investigation into PwC's role as auditor over the period 1 December 2001 to 29 December 2009, in relation to the preparation of reports about Barclays Capital Securities's compliance with client asset rules, which govern the protection of client money.

Another investigation has also been launched into the roles of PwC and various members of the accountancy profession involved in the preparation, approval and audit of Tesco's accounts.

Guernsey's vision for 2015
Continued from page 1

Wheatley commented: "We are working to contribute to the debate in Europe and lobby hard to make sure that we're still able to trade with Europe and we will be looking to cooperate with other interested jurisdictions on that as well."

"At this time I think the expectation is that passporting will go ahead for third countries, that is definitely what we are working towards and we're optimistic of getting a good result."

Guernsey Finance also plans to continue the educational side of its offing into 2015.

It is running an AIFMD masterclass at the end of January, as well as the annual funds forum later in the year.

In addition to this, Wheatley confirmed that Guernsey Finance will be attending what he called "the usual range third party events" to educate the market generally about what the Guernsey fund industry has to offer.

Derivatives users not ready for margin regulations

End users are concerned about their ability to meet new margin requirements for non-cleared derivatives, according to a survey by the International Swaps and Derivatives Association (ISDA).

Of 400 respondents, one third were unsure if they have to comply with the new requirements. While 36 percent knew they had to comply, of these, 65 percent expressed concern about meeting the margin requirements.

Under the new requirements, most derivatives users will be obliged to post initial and variation margins on their non-cleared derivatives transactions. Rules will be phased in from December 2015 to December 2019, starting with the largest derivatives.

Despite confusion over the new requirements, the survey showed that derivatives are still a valued risk management tool for end user firms, with 81 percent of respondents calling them important, or very important, to their risk management strategies. This echoes the results of similar surveys conducted in April and September of 2014.

During Q1 2015, 78 percent expect their use of derivatives to either increase or stay the same. The most popular usage is for risk management purposes, with 65 percent using derivatives for managing exposure to currencies, interest rates, exposure and credit.

CEO of ISDA, Scott O'Malia, said: "The survey results indicate that many market participants may struggle to meet the December 2015 effective date, especially given that a large number of end-user firms still appear unsure whether the rules apply to them."

He added: "Once the margin rules are finalised, it is vital that market participants have sufficient time to allow for the legal, operational and technological enhancements necessary to effectively and safely implement these new requirements."

"That's why ISDA has recommended a longer phased implementation schedule to accommodate the adoption of a transparent standard industry model and the necessary documentation to exchange collateral on a global basis. It is also important that there is consistency between the various sets of rules, particularly regarding which market participants must post and collect margin."

AIFMs not ready for Annex IV reporting

Only half of alternative investment fund managers are 'fully aware' of the Annex IV reporting requirements applicable to them under the Alternative Investment Fund Managers Directive (AIFMD).

In a survey by the Moore Stephens financial services team, half of the respondents said they were completely aware of the requirements and of the timetable for submission, even though the first submission deadline is 30 January.

Of the respondents, 42 percent said they are somewhat aware of the requirements, but still unsure of the exact information required, while 35 percent said they are not prepared for the process.

Under AIFMD, fund managers must submit a set of financial and activity reports in order to improve transparency in the industry.

The Moore Stephens report suggested that the lack of preparation could be attributed to a shortage of guidance from the UK Financial Conduct Authority (FCA) in the months leading up to the deadline.

It did, however, acknowledge that the FCA has now issued detailed information on the technical aspects of reporting, and allowed mock reports to be submitted in a test environment.

ASTINBRIEF

Despite the trouble with awareness, 88 percent of respondents were confident in the ability of their systems to cope with reporting.

Although 4 percent said they may engage a third party provider to issue the reports, Moore Stephens suggested that many more will make use of existing partnerships and outsourcing arrangements, and therefore feel confident in their access to appropriate reporting systems.

It warned managers to be vigilant in their outsourcing, suggesting they should undertake due diligence reviews and risk assessments thereby taking responsibility for their own Annex IV reporting.

Broadridge acquires foreign exchange ally

Broadridge has acquired foreign exchange technology company TwoFour Systems in a bid to meet rising demand for foreign exchange and cash management technology in financial institutions.

The TwoFour technology provides front-to-back office integration and straight-through processing, and works with foreign exchange, exchange traded funds, options, interest rate derivatives and money market instruments.

In addition, a cash management solution aims to provide fast intra-day aggregation and reporting of balances and cash flows, allowing companies to view detailed data on their position in the global market.

Richard Daly, president and CEO of Broadridge, said: “This acquisition advances our strategy to deliver powerful multi-asset class solutions to our clients globally.”

He added: “It is one of the latest developments in our ongoing tuck-in acquisition strategy, which continues to bring innovative technologies to our clients and strong internal rates of return to Broadridge.”

TwoFour will be rebranded as Broadridge FX and Liquidity Solutions and will operate within Broadridge’s Global Technology and Operations division.

Broadridge will integrate the TwoFour technology in to its reconciliations processes, aiming to create a solution that supports various cash and liquidity processes.

Tom Carey, Broadridge president of global technology and operations, said: “TwoFour’s technology will enhance Broadridge’s ability to provide solutions to its clients within a critical asset class, enabling banks, payment companies and broker-dealers to expand their offerings and revenue streams.”

“We are delighted to have these solutions, experienced management, and highly skilled people enhancing our overall solution capabilities.”

IMA challenges ESMA over market data costs

The Investment Management Association (IMA) has challenged the European Securities and Markets Authority (ESMA) on its guidelines for market data costs under the Markets in Financial Instruments Directive (MiFID) II.

In a response to ESMA’s recent advice, the association agreed that market data costs are too high, but suggested that a transparency-only approach to pricing is unlikely to bring about the desired effect.

Instead, it urged the European Commission to consider a combination of transparency and the use of Long Run Incremental Plus. This method is already used for mobile data roaming, ensuring that an exchange can cover costs while making an ‘appropriate’ mark-up.

The association generally supported the rest of the advice. It supports ESMA’s proposal to deliver accessible disclosure of costs and charges throughout the manufacturing and distribution chain, while also leaving room for national regulators to determine the specifics.

In capital markets, IMA also backed efforts to introduce more transparency in buying and selling interests in capital markets, and committed to working towards rules that don’t hold back market liquidity.

The response suggested that the best thing for investors could be a regulatory framework that ensures free and fair trading between European venues, thereby dismantling current national champions.

SGX and Nasdaq stick together to upgrade

Singapore Exchange (SGX) has further strengthened its relationship with Nasdaq, employing new technologies to upgrade SGX's derivatives trading and clearing platform in line with the growth of the derivatives market.

The new SGX TITAN system is designed to continue the innovation of new products and services, while increasing efficiency and reducing trading and clearing costs.

It will also bring access protocols in line with market standards, offer increased self-help functionalities and improve straight-through processing. With strengthened risk controls and additional safeguards, the system will also allow customers to manage trading positions 24 hours a day.

CEO of SGX, Magnus Böcker, said: "We see strong and continued demand for SGX's Asian derivatives, and aim to provide ever better solutions to fulfil these unique and evolving needs. Innovation continues to drive growth, and our partnership with Nasdaq Technology will be an important pillar of our success."

The system is based on Nasdaq Genium INET solution, and is scheduled to be rolled out towards the end of 2016. SGX has extended its management contract with Nasdaq for an additional six years in the securities and derivatives markets.

BNP Paribas launches UCITS Stock Connect solution

BNP Paribas has launched a solution to support UCITS funds that plan to invest in Chinese A shares via the Hong Kong Shanghai Stock Connect programme.

On 1 December, the first UCITS fund was approved for trading on the programme. The solution provided by BNP Paribas includes execution, clearing and custody services, helping clients to make investments more smoothly and overcoming some of the risks associated with transferring stock from custodian to broker.

Under the current stock connect rules, traders and brokers trading north-bound are subject to pre-trade checks before selling orders, while investors are required to transfer stocks from custodians to brokers before execution, creating risk.

The solution means that assets will stay in custody with BNP Paribas Securities Services, meaning that no additional securities will be delivered before selling.

Lawrence Au, head of BNP Paribas Securities Services in the Asia Pacific region, said: "We welcome the recent announcement of a fast-track procedure for approving UCITS funds' applications to trade via Stock Connect."

"The Association of the Luxembourg Fund Industry stated that UCITS funds should give due consideration to a number of factors before participating in the Stock Connect. Our integrated solution addresses precisely these concerns."

State Street expands Swiss & Global services

Swiss & Global Asset Management has chosen State Street to provide investment servicing solutions for $70 billion in assets, expanding existing relations between the institutions.

State Street will service Swiss & Global's investment funds domiciled in Switzerland and Luxembourg.

It will also provide custody, fund accounting and administration, securities lending, foreign exchange and share class hedging services.

Peter O'Neill, head of State Street in Europe, the Middle East and Africa, said: "Asset managers today face an increasingly complex environment. Our goal is to provide them with the integrated solutions they need to navigate these complexities and focus on their core business."

"The ability to understand what's driving investment performance, and report on it more comprehensively than ever before, is also critical at a time when investors and regulators are highlighting risk and transparency."

"Partnering with companies like State Street to manage functions like custody, accounting, asset pooling and analytics helps asset managers to focus their resources on growing their business."

Martin Jufer, COO for Swiss & Global added: "Over the past two years Swiss & Global has built a partnership with State Street as they provided servicing solutions for a component of our investment funds."

"The appointment of State Street to service the majority of our investment funds is a testament to their capabilities and high service quality for complex investment funds domiciled in several jurisdictions."

DGCX to trade in UAE dirhams

Dubai Commodities Clearing Corporation (DCCC) now allows members of the Dubai Gold and Commodities Exchange (DGCX) to settle transactions in UAE dirhams as well as US dollars.

The change comes after the second upgrade to DTCC's new clearing platform, EOS-Clear, and allows members to utilise funds in UAE dirhams (AED) for settlement purposes.

Members can also provide fixed deposits and bank guarantees as collateral in AED, and the EOS-Clear platform can now support multi-currency clearing and settlement facilities.

This is part of the DCCC's efforts to increase trading efficiencies for DGCX members. It recently announced that access to its Emirates NBD SmartBusiness service will be extended to include a Friday service, in order to help members increase trading flexibility and reduce costs.

Gaurang Desai, interim CEO of DGCX, said: "We are delighted to introduce the new settlement facilities in UAE dirhams. These new facilities, launched on the occasion of the 43rd UAE National Day, will generate significant additional trading and settlement efficiencies for our members."

"The new AED banking facility provides significant value for members who maintain AED accounts while the new AED collateral facility will provide them an avenue to generate better returns. These new services have been designed to provide greater capital efficiency and boost liquidity in the DGCX marketplace."

The DCCC acts as clearinghouse for DGCX and as central counterparty for all trades carried out on the exchange. In this way, it aims to safeguard participants against counterparty risk by acting as both buyer and seller for all futures contracts bought and sold.

BNP Paribas secures another Australian mandate

BNP Paribas Security Services had been appointed custodian and investments administrator for Australian pension fund TWUSuper.

With more that AUD $3.9 billion in funds under management and 100,000 members, TWUSuper is the largest pension fund for the transport and logistics industry in Australia.

Paul Sayer, CEO of TWUSuper, said: "After an extensive due diligence process with the assistance of Drew Vaughan of Dymond, Foulds & Vaughan, we determined that the BNP Paribas team understood and could satisfy our current and future needs in an ever changing regulatory landscape – in particular around the areas of investment performance reporting, risk analytics and online solutions."

"We look forward to working with the strong leadership team at BNP Paribas and to developing a close working relationship in order to provide first class services to our members."

This marked the end of a successful year for BNP Paribas in Australia. It also won mandates from Australian Unity, Certitude Global Investments and Crescent Wealth.

Ian Perkins, head of BNP Paribas Securities Services in Australasia, said: "We look forward to working with [TWUSuper] to optimise their operational processes—including investment performance reporting—minimising risks through world-class analytics, enhancing performance returns for their members and providing online solutions, all through a single platform."

Pirum achieves RQV automation milestone

Pirum Systems Tri-party RQV Automation service, live with both J.P. Morgan and BNY Mellon, has reached a significant milestone with processed RQVs (required values) reaching over $130 billion daily.

"With such a focus on exposure management today, organisations are looking for any and every efficiency in this space. Pirum's real-time Tri-party RQV Automation service continues to deliver significant benefits to our clients and is being embraced by the industry resulting in us reaching this milestone," said Raj Sheth, managing director at Pirum Systems.

"The calculation, agreement and submission of RQV figures bring their own complexities which this service addresses. We are excited to see that the market agrees."

Paul Lynch, COO at eSecLending, commented: "Pirum's RQV service gives us timely visibility to the tri-party collateralisation process and delivers levels of automation and efficiencies that have surpassed our expectations."

"The service has also provided a standardised process for all of our counterparties and triparty agents further streamlining our collateral management function."

According to Pirum, additional releases are planned for 2015, which will further extend automation of RQV processing including direct interfaces with additional tri-party agents.

Clearstream reports record assets under custody

Clearstream has seen a record peak in its assets under custody, increasing 4 percent year-to-date from 2013 to reach €12.4 trillion.

In its November figures, Clearstream also announced that securities held under custody for its International Business, in the International Central Securities Depository (ICSD) increased by 6 percent to €6.6 trillion, compared to €6.3 trillion in November 2013.

Securities held under custody in the German central securities depository (CSD) increased by 3 percent to €5.8 trillion, compared to €5.7 trillion in November 2013.

The combined value of assets under custody year-to-date increased by 5 percent compared to the same period in 2013, rising from €11.6 trillion to €12.2 trillion.

In its settlement business, ICSD transactions decreased by 4 percent from 3.5 million in November 2013 to 3.3 million in 2014. Of these, 83 percent were over-the-counter (OTC) transactions, and 17 percent were registered on the stock exchange.

On the domestic market, CSD settlement transactions decreased by 1 percent compared to November 2013, reaching 6.7 million. Of these, 63 percent were registered on the stock exchange and 37 percent were OTC transactions.

On a year-to-date basis, however, combined transactions increased by 3 percent, reaching 115.3 million compared to 111.6 million in the same period in 2013.

This is partly attributed to the investment fund services (IFS) business, which processed 690,000 transactions in November, a 3 percent increase on its November 2013 total of 670 thousand.

Year-to-date, IFS transactions increased by 11 percent from 7.2 percent in 2013 to 8 million in 2014.

On 3 October 2014, Clearstream acquired Cork-based CGSS, and can now provide hedge fund execution and fund custody processing services.

Clearstream has also acquired Citco Bank's financial institution customers, but until they are fully migrated to the Clearstream systems, asset volumes and transactions will not be included in its figures. Migration is planned for Q1 2015.

Berthold Kracke, Clearstream head of business management and member of the executive board, said: "The new record peak in our assets under custody is a much appreciated mark of confidence from our customers and proves that Clearstream offers financial institutions and corporates the right portfolio of services they need to succeed."

"We will continue to improve our offering and be a reliable partner for our customers in all areas, from contributing to the internationalisation of the renminbi—for example, we started to offer settlement and custody for China A shares in November—to our roadmap towards TARGET2-Securities."

Eaton Vance selects SimCorp for communications

Eaton Vance Management has chosen SimCorp Coric to provide a client reporting and communications platform for global operations.

The agreement, signed in December, covers Eaton Vance Management and its majority-owned affiliates, including Parametric and Atlanta Capital Investment Managers.

SimCorp will automate client communications, including quarterly reporting, statements and fund fact sheets, leading to shorter reporting cycles, reduced manual processes and greater efficiency.

It is also hoped that the mandate will free up the Eaton Vance client relationship team to focus on client engagement, thereby improving client relationships.

John Shea, chief information officer at Eaton Vance, said: "SimCorp's infrastructure, financial stability, global reach, and business-user focus provided an ideal fit with our business growth and risk mitigation goals. This initiative was driven not only by the operational efficiencies that SimCorp Coric will bring, but also by our passion to enrich the quality and timeliness of the service we provide to our clients."

"Throughout the selection process, we received positive recommendations from existing SimCorp Coric clients, who spoke often of the operational efficiency the solution provides. This enables client relationship managers to spend more time engaging with clients to satisfy their individual investment goals."

Chapman's Eye on the market

It's a marathon, not a sprint

As a famous Scouse warbler once said: "So this is Christmas, and what have you done? Another year over, and a new one just begun." Fine words indeed my friend, and very appropriate. I trust you all had a great break and are back with batteries fully recharged for the challenges of the year ahead? Did you over-indulge and are now fully embracing the concept of the 5:2 diet along with your other half? Did you laugh louder than your children at movies such as Puss in Boots or Scrooged? How many resolutions did you make and then break? Most of them you say? Join the club.

One resolution that I'm determined to keep, though, is to be much more positive this year. That includes ignoring the increasing threats of disease, terrorism, asset bubbles, deflation, and so on and so forth (add your own issues here, if you like). Instead, I intend to focus on the many positives: London continuing to be the major global financial marketplace, Asia continuing to grow in importance, firms looking to upgrade and upskill their workforce, and the general air of optimism that is on the increase, albeit cautiously.

We're all looking for a great start out of the blocks and initial market sentiment is broadly optimistic, too. However, some firms are looking at Q1 freezes as a result of parental direction to cut costs, so the traditional merry-go-round of redundancies and subsequent backfills might well be a little delayed or staccato this year. There have been some senior management changes within the asset servicing sector and more are expected throughout the year. Some firms embarked on headcount reductions—or 'right-sizing'—prior to Christmas on a global basis, and other firms are tipped to reduce their numbers by double-figure percentages, some of which appear, on the surface at least, to be more knee-jerk reactions to appease analysts than strategically-planned and well-thought out courses of action.

Determined as I am to broaden the minds of AST's readership (another resolution!), and continuing the great quotes theme, noted French novelist Jean-Baptiste Alphonse Karr also said, "plus ca change, plus c'est la meme chose", which I'm sure I don't have to translate given the amount of linguists, cunning or otherwise, who read AST, but over the Christmas and New Year break it was proven true yet again.

The old adage of 'never try to travel any distance on public transport at the turn of the year' was correct as the train system in the UK seized up despite huge investment in the infrastructure. This joins other very true sentiments such as never eating yellow snow, always looking both ways down a one-way street and always being cautious of marrying a Glaswegian.

As someone not very famous at all said on X Factor, "this is a journey", and 2015 is likely going to be a marathon and not a sprint. I look forward to being on the journey together with you and wish you safe travels, good business wins and successful job moves.

Paul Chapman, managing director, HornbyChapman Ltd

Moving mountains

It may get worse before it gets better, but a shake up in the Nordics will ultimately bring about positive changes

STEPHANIE PALMER REPORTS

With forests, fjords and skyscraping peaks casting out their landscape over the millennia and a sisterly bond spanning geography and culture alike, the Nordic countries are also home to a securities industry that's facing considerably more turbulence than its unchanging surrounds.

In the jurisdictions of the four Nordic giants, banks are dealing with more and more risks, while holding huge sections of the market. SEB claims to hold 70 percent of the sub-custody market in Sweden, and almost 50 percent in the Nordics as a whole. In the global custody fund industry, it claims a 70 percent share of the market in Sweden, and 40 percent in the Nordics, but such success in the region inevitably comes with risks attached.

Gustaf Unger, head of asset servicing at SEB, says: "The operational risks in the asset servicing industry are painfully significant. Given the risks, the massive investment and the regulations, the industry doesn't really charge that much for the service."

"The risks and the pressure are just increasing. I think it will change, but whether it will take one year or seven, I don't know."

One of many growing risks comes with the implementation of Target2-Securities (T2S). The Nordics are all jumping in at different times, causing a lack of harmony in the region, and rifts between jurisdictions.

Kristian Stangberg, head of securities services at Handelsbanken, explains that Denmark is looking to implement T2S euro settlement in 2016, following with the Danish krona in 2018. Finland will be joining with the fourth wave in 2017. In Norway, plans are not finalised, but estimates say around 2018 or 19, while Sweden has no official timline. With such variation comes even more risk, including that of lost connectivity.

Stangberg says: “It is challenging that the CSDs in our regions all have rather large ongoing changes. Because the markets in the region are quite homogenous, we would have preferred a CSD solution across the region.”

On the settlement side, however, this perceived fragmentation is necessary, if not ideal. Yannic Weber, CEO of Euroclear in Sweden and Finland, says: “It is very important for different jurisdictions to work well together. However, markets moving to T2S at different time-frames is part of the overall T2S master plan to avoid big-bang project risk.”

He adds: “One would assume that there will be more flexibility to adapt to future market conditions.”

Weber cites the parallel implementation of yet more related regulation, this time for CSDs, which must be approached with care: “CSD requirements will be a huge challenge and may represent substantial systemic risks if the timing of the latter is too aggressive and rigid.”

While this fragmentation could exacerbate any negative effects that T2S might bring, it’s just one of many worries among the banks, big and small. Harmonised trading throughout the EU is expected to lead to more trades, while the Alternative Investment Fund Managers Directive (AIFMD) could lead to an increase in accounts created. By providing the additional collateral required for these trades, banks could struggle to provide enough collateral to comply with the rules surrounding those trades. Even the biggest market players could find themselves prioritising certain dealings, and others may even consider it not worth the hassle.

Unger says: “SEB is the largest custody player in the region, and significantly larger than the second largest, but even we are finding the additional investment costs painful. The smaller players will struggle a lot, and they might even find it easier to get out of the custody business altogether.”

That said, requirements around collateral are not necessarily aimed at these small market players. They’re designed to protect the whole market in the event of a default and if a small player goes out of business, although regrettable, the European market is unlikely to come crashing down around it.

Stangberg, however, rejects the idea of a collateral shortfall altogether: “Collateral may get expensive,” he says, “but there’s not going to be a shortfall. If you are willing to pay enough, there is going to be collateral around.”

“Handelsbanken is in the process of upgrading its collateral system, we are updating the IT system, and we now have quite a good strategy in place.”

Both banks are, in fact, more concerned over the costs passed on to them, simply due to other market participants complying with the rules applicable to them. Nordic banks are amending their platforms in order to cope with the extra burden that T2S will bring, and so trading parties have to alter their own systems in order to integrate with them.

Weber says: “It will require them to make major IT investments and may well lead to further business concentration.”

“We have managed AIFMD reasonably well, but those volumes are a fraction of what we will face with UCITS V. The additional risk we take as a depository has resulted in difficult decisions that we have to make with clients”

As well as the changes in internal infrastructure, Stangberg is concerned about indirect costs incurred before they have even made any changes. He says: “Some of the CSDs use tiered pricing at an account level. With the introduction of AIFMD, many clients want to segregate their assets, and suddenly we face a tiered pricing structure that is much higher than before. In general, the cost of regulation is increasing and it is hard to push those extra costs towards the client, so we find ourselves squeezed in the middle.”

To cope with this, some of the big regional players have partnered up with the US banks in a bid to break in to the global custody service. In return, they’re provided with a way into the Nordics. SEB has enlisted Brown Brothers Harriman (BBH) in an aim to create virtual scale and bring more consolidation to the market.

“We are not big enough to offer a top end global custody service over time, and in the next 10 years the industry will consolidate even more,” says Unger.

“On the other hand, we are a financial institution-focused bank, so we have to have a strong global custody product. It was crucial to find a high-end partner, but one who doesn’t compete on our home turf. The agreement works both ways; if you, as a large global custodian, want a footprint in the Nordics, it’s good to have one of the big Nordic banks on your side.”

Having used BBH as a sub-custodian for 100 years, Unger is confident in SEB taking the next step in their partnership: “We know them and they know us; the difficulties of any marriage are reduced when it’s with someone you know.”

Handelsbanken is also considering a partnership with a US institution, and believes it has just as much to offer.

“On the global custody side, we are quite certain that we need to work together with someone. It has been Northern Trust in the past, and we hope it will be again,” said Stangberg.

“In sub-custody, we have a clear Nordic and Baltic focus. We have one agreement and one relationship manager across all four countries and one centralised operation. We have a very strong position in global custody in Norway; with some good mandates from well-known names, and our clients like us.”

Having dealt with AIFMD in 2014, and tackled T2S in anticipation, the Nordics face one more challenge, and Unger believes this could be the biggest upheaval yet.

“We have managed AIFMD reasonably well, but those volumes are a fraction of what we will face with UCITS V. The additional risk we take as a depository has resulted in difficult decisions that we have to make with our clients,” he said.

“At the moment, even though it affects the whole market, there is no market standard of how to deal with the liability issue of AIFMD and UCITS V, and that is frustrating. We can live with not having everything settled for AIFMD, but I feel that for UCITS V the industry should have a market standard in place. That worries me a bit.”

Expected to come in to full effect in March 2016, the UCITS deadline is perhaps closer than it seems, and while it promises to modify and simplify UCITS depository functions, a cynic could predict more chaos before the benefits make themselves known.

But, the future for the Nordics is not all bleak. By integrating with the rest of the EU and the global financial market, this oft-segregated region reaches new opportunities, and can do nothing but grow from here.

SEB is now serving many real estate managers and other alternative managers with depository services that, before AIFMD, didn’t need a depository.

Unger argues that the regulations will also have positive effects on banks that are correctly positioned.

He said: “There are opportunities with market players that we have had no relationship with in the past. It’s additional income and it brings an interesting client segment even closer to the bank. Really, it’s not all bad.” **AST**

Summit to think about

Hugh Daly of Message Automation explains how regulatory changes from the Pittsburg G20 summit could lead to multi-purpose strategies and a more organised OTC derivatives market

Many organisations are still in the midst of wide-ranging projects to fulfil regulatory requirements in the arena of derivatives trade reporting, typically driven by either the Dodd-Frank Act in the US or the European Market Infrastructure Regulation (EMIR) in the EU, but now also being complicated by additional requirements from other jurisdictions such as Canada and Australia.

Forthcoming requirements in 2015 from Switzerland and as part of Markets in Financial Instruments Directive (MiFID) II will bring additional demands, particularly on buy-side organisations that may have delegated EMIR reporting. The question now is whether the necessary effort being deployed to address mandatory trade reporting can be used to strategic advantage elsewhere.

Reporting challenges

This is not another article on the implications of the Department of Foreign Affairs (DFA) and EMIR. If you need full details now, you are probably too late. But for those a little bit fuzzy on the subject, some reminder of context is appropriate.

These new regulatory demands stem from the Pittsburgh G20 summit in September 2009. The over-the-counter (OTC) derivatives market was identified as a major contributor to the confusion and fear in the market in 2008. The relevant core principles in this context were to increase transparency and to reduce counterparty risk. These goals have been translated into global initiatives such as mandatory clearing of OTC derivatives, increased use of collateral and intra-day trade reporting.

The concept of near time reporting of all derivatives trades is new, and poses huge challenges to almost all market participants of any size. The T+1 reporting mandated under the European regime poses additional challenges as it applies to all participants, not just major players. For those not immersed in these projects already, it is worthwhile questioning why not. However low your volume, or even if it is relatively common FX trading, you may be ensnared.

From our conversations with market participants facing EMIR, we have found many were fixated on the infamous ‘85 fields’. Those who thought that didn’t sound too bad were missing the catch. Some of these will be populated from a variety of sources, and fields may be populated within different data elements for different products types.

Buy-side organisations that delegated the responsibility to brokers are now realising that they still have to have their own records and that they are accountable for what has been reported. As not all brokers are accepting delegation, they may still have to do some reporting themselves, and this will almost certainly be the case under MiFID II.

The immediate challenge is obvious; sourcing the data from your trading systems and ensuring the accuracy and completeness of the data submitted to the trade repositories, whether that’s via a broker or not. It is highly likely that not all of the data required is freely available from a single source system. Enrichment of the data will be required as a result.

There are other pitfalls to look out for, too:

- The reporting obligations are framed to cover the full range of OTC asset classes, that is, interest rates; credit; equity; commodity; and foreign exchange derivatives. Although exempt from Dodd-Frank obligations, exchange-traded derivatives are included within the scope of EMIR.
- In the typical siloed model, different asset classes are booked in different primary systems, or different versions of the same system, and often there are trades that do not conform to the high level model. Examples might be an associated foreign deal exchange booked in a commodities system or a rates application.
- Your internal product taxonomy or hierarchy may not map easily onto the regulatory unique product identifiers. Some products may end up being shoe-horned into your legacy systems, as it is the only way to book them at all.
- There is the issue of operational preparedness. Although EMIR does not require intra-day or near-time reporting, there are still complexities, for example, over unique trade identifiers. With such a lack of clarity even at this late stage, we believe that breaks are inevitable. Actual people will be required to manage these exceptions.
- For reconciliations, fundamentally, the move to central clearing and trade reporting creates at least two new representations of your trade population. Remember that the external copy is the truth. When disagreeing with a clearinghouse, either directly or via a broker, you are simply wrong. Therefore, performing a population reconciliation between your books and records, and each of the central counterparties (CCPs) is essential. Otherwise, you may be powerless when margin calls are made.
- Regulatory reporting on behalf of clients is another opportunity for something to go badly wrong. What are your service level commitments and your liability?

“Fundamentally, to design a solution with an eye on reaping some future benefits may be just as easy, or rather, no more difficult, than cobbling something together to meet the deadlines”

Strategic opportunities

So, all bad news so far. We’re left with poorly defined requirements, project risks, pressurised deadlines, regulatory imperatives, and plenty of scarce resources required with little or no choice. But there is a silver lining to the G20 cloud. There are various areas to consider:

- It could be possible to create a data warehouse by stealth. Many organisations have spotted that describing all trades in an externally recognised fashion, across asset classes, is something that is difficult, but this has knock-on benefits elsewhere.
- Product taxonomy is important. For perhaps the first time, all trades across siloes will have been classified according to a single product hierarchy. The taxonomy may not be exactly to your liking, but it is consistent and clearly understood by external parties, as well as new joiners. There are clear opportunities to use this for better risk management, management reporting and front- and back-office reconciliation. It also should make future migrations and system replacements easier.
- Trade reporting forces the organisation to have a consistent view of counterparty data, creating a client master database. Work probably needs to be done for domicile classification, and almost certainly for reporting classification, plus, of course, the mandatory legal entity identifiers.
- Organisations must be prepared for the new collateral challenges. The subject of collateral changes is broad, but the same opportunities arise. To achieve the holy grail of cross asset class margining and efficient collateral optimisation, a pre-requisite is the simple ability to provide a single view.
- When viewing these potential benefits as a whole, one can see that together they can become the building blocks of an internal control framework. The trade lifecycle is changing for OTCs, with significant new external events including reporting, clearing, and continuation reporting, and valuations are supplied from clearing houses.

Is there time?

If some of this resonates, it may be you are now thinking: “That’s all very well, but with these ridiculously tight regulatory deadlines, how can I possibly take the time to think strategically, or long term?”

Being glib, you could answer that question with another: can you afford not to? However, the fact remains that for the same cost, effort and time, a tactical solution can be the foundation of a far more strategic solution.

Fundamentally, to design a solution with an eye on reaping some future benefits may be just as easy, or rather, no more difficult, than cobbling something together to meet the deadlines.

This is a great chance to deliver a single solution for all current and future reporting requirements, while vastly improving data quality which will lead to improved straight-through processing and management information. It will also mean lower risk for implementations, migrations and system replacements in the future.

A non-siloed, trading-system-agnostic exception management and human workflow process can be built out for other business purposes, while a single control framework can aggregate knowledge of trade breaks at multiple internal and external touch points. **AST**

ITAS 2015: International Transfer Agency Summit

Date: 24-27 February 2015
Location: Germany

The 14th annual International Transfer Agency Summit (ITAS) 2015 conference is taking place in Luxembourg from 24-27 February 2015.

Middle East Securities Forum 2015

Date: 11-12 March 2015
Location: Abu Dhabi

This is the definitive Middle East event for the capital markets with an unrivalled programme featuring leading regulators, custodians, asset managers, influential investment consultants and a superb line-up of industry experts.

Private Wealth Brazil Forum

Date: 14 May 2015
Location: Brazil

The Private Wealth Brazil Forum is a Brazil focused international meeting for private bankers, UHNWIs, wealth managers, family businesses and family offices.

Private Wealth Mexico Forum

Date: 16 June 2015
Location: Mexico

The Private Wealth Mexico Forum, organized by Latin Markets, is a Mexico focused international meeting for private bankers, wealth managers, family businesses and family offices.

Industry appointments

First Names Group has appointed **Alasdair McLaren** as client services director in Guernsey.

The trust and fund administration services provider hired McLaren based on 25 years of experience in the offshore trust industry. He will be responsible for a portfolio of international clients, as well as developing new business.

Societe Generale Securities Services has appointed Christophe Baurand as global head of commercial, marketing and liquidity management.

Baurand's new role will be based in Paris and he will report to Bruno Prigent, head of SGSS. He replaces Massimo Cotella and his appointment took effect on 1 January.

He is responsible for the commercial development and marketing strategy of SGSS, as well as for implementing the different commercial initiatives in the SGSS development and competitiveness plan that was launched in 2014.

International Financial Data Services (IFDS) has appointed two senior executives, **Jean-Benoit Naudin** and **Dale Quarry**, to its Luxembourg leadership team.

Naudin was named as managing director. He joins from AXA Investment Managers in Paris where he was global head of shared operational functions responsible for technology, data management, procurement, and facilities.

Quarry, who has experience in fund administration, was named head of registration. She joins from J.P. Morgan Bank Luxembourg, where she held various senior compliance roles including money laundering reporting officer.

Goal Group has named **William Salva** as global business development manager in its Philadelphia. Salva will help to build the Goal client list across the globe. He brings 40 years of experience in the securities industry to Goal, plus more than 25 years in global withholding tax relief.

He has held senior management positions in The Depository Trust & Clearing Corporation, J.P. Morgan Chase and BNP Paribas.

BNP Paribas Securities Services has recruited two senior sales executives for its client development team in Zurich.

Corinne Vitte joins as head of sales for institutional investors. She will report to Garrick Smith, head of BNP Paribas Securities Services in Switzerland.

Vitte was previously a relationship manager at RBC Investor & Treasury Services and prior to this held various senior positions at Citi looking after institutional clients.

Dario Rigert joins as sales manager for institutional investors, reporting to Vitte. He arrives from J.P. Morgan Investor Services.

Carne has made two new additions to its Alternative Investment Fund Managers Directive (AIFMD) team, who will support its management companies in Ireland, Luxembourg and the Channel Islands in reaction to greater demand for their services.

Neil Clifford was previously head of alternatives at Irish Life Investment Managers. He oversaw an external hedge funds portfolio and supervised illiquid investments in private infrastructure, acting as an independent director.

Martin Anderson joins Carne from RBC Investor Services where he held various senior management roles, including responsibility for the sub-custody network and change programme. Anderson has more than 20 years in the funds industry, including ten at Northern Trust in Dublin.

CEO of Carne Group, John Donohoe, said: "As more asset managers from around the world choose Carne to help them with their AIFMD management company requirements, we are pleased to be joined by individuals of Clifford and Anderson's calibre and experience in the funds industry." **AST**

AST ASSETSERVICINGTIMES

Editor: Mark Dugdale
markdugdale@assetservicingtimes.com
Tel: +44 (0)20 8663 9620

Reporter: Stephanie Palmer
stephaniepalmer@blackknightmedialtd.com
Tel: +44 (0)20 8663 9629

Reporter: Stephen Durham
stephendurham@assetservicingtimes.com
Tel: +44 (0)20 8663 9622

Editorial assistant: Becky Butcher
beckybutcher@blackknightmedialtd.com
Tel: +44 (0)20 8663 9621

Account manager: Serena Franklin
serenafranklin@assetservicingtimes.com
Tel: +44 (0)20 8663 9626

Publisher: Justin Lawson
justinlawson@assetservicingtimes.com
Tel: +44 (0)20 8663 9628

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK