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ESMA in a pickle over buy-ins

The mandatory buy-in regime present in the Central Securities Depository Regulation (CSDR) is “an interesting conundrum” for the European Securities and Markets Authority (ESMA), according to chair Steven Maijoor.

Speaking to members of a European parliamentary committee on economic and monetary affairs on 24 March, Maijoor described the buy-in regime as one of the most difficult aspects of implementing the CSDR.

Buy-ins, which are currently discretionary, would become mandatory under the CSDR, meaning that an appointed agent would have to step in and buy securities at market value for guaranteed delivery if they are not delivered within a specified time frame.

The authority proposed applying the buy-in framework to central securities depositories (CSDs) and participants, but many want to see it executed at the trading level, “by the clients, or the clients of the clients, of the participant”, explained Maijoor.

Banks and CSDs claim “that if they face the risk of the cost of the buy-in, they will demand guarantees and collateral to their clients to cover that risk, rendering the system more expensive”.

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Deutsche Börse and CCB in ‘preferred partnership’

Deutsche Börse Group and China Construction Bank (CCB) have entered into a strategic partnership to cooperate across the entire value chain in each of their markets.

Financial market infrastructure services provider Deutsche Börse and the Chinese commercial bank signed a ‘preferred partnership’ agreement, and will begin with a joint analysis of the potential for working together around the world.

The agreement is expected to contribute significantly to furthering the internationalisation of the renminbi as a major global currency, and it will also broaden the presence of Deutsche Börse in Asia.

Outcomes could include expansion of CCB’s activities within the EU, including trading and clearing membership in Xetra, Eurex and Eurex Clearing, and the two firms could also collaborate in the post-trade and custody space.

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Citibank ‘must obey Argentine laws’

President of Argentina Cristina Fernandez has said that Citibank “must obey Argentine laws” and pay its bond holders, despite a ruling in a US federal court forbidding the payments.

The New York decision stops the bank from passing on interest payments to Argentinian bondholders.

The issue stems from Argentina’s $100 billion debt default in 2001. While the majority of creditors agreed to accept exchange bonds at a write-down, two US hedge funds sued Argentina for full repayments, and won.

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ESMA in a pickle over buy-ins

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But EMSA worries that if buy-ins are left to the discretion of ultimate clients, which may sit outside of the EU and the authority's control, "obvious enforceability problems" will render the regime "inapplicable".

"ESMA is, therefore, facing an interesting conundrum, which is our current priority," said Maijoor.

An International Capital Market Association report recently claimed that the mandatory buy-in regime could cause liquidity across secondary European bond and financing markets to reduce, as bid offer spreads widen dramatically.

The report argued that more stable, fixed-term markets may see a dramatic widening of spreads for more liquid securities including some sovereign and public bonds, and most corporate bonds.

It estimated that the cost of mandatory buy-in regime for bond markets would amount to about €1.4 billion per €1 trillion of annual volume.

For the repo market, the estimated annual cost to the market is about €3.14 billion.

Deutsche Börse and CCB in 'preferred partnership'

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There is likely to be a joint focus on developing the offshore renminbi market in Germany, and in Europe as a whole.

Reto Francioni, CEO of Deutsche Börse, said: "We regard this new strategic partnership agreed today with China Construction Bank as an important extension of our Asian strategy."

"We are delighted to bring in our Group-wide expertise and capacity to offer top-quality China-related products and services in increasingly globalised markets."

Citibank 'must obey Argentine laws'

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A US district court judge recently ruled that Citibank should not issue interest repayments to Argentine bond holders, based on a previous ruling that prohibits institutions from assisting Argentina in servicing debt, without also paying the US hedge funds in question.

Fernandez has challenged the decision, saying that banks operating in Argentina must adhere to the country's laws. Since the ruling, Citibank has revealed plans to leave the custody space in Argentina as soon as possible.

Changes to derivatives margin requirements delayed

Changes for margin requirements for non-centrally cleared derivatives will be delayed by nine months, the Basel Committee and the International Organization of Securities Commissions (IOSCO) have agreed.

Revisions to the margin requirements framework were originally published in September 2013, after two public consultations. Because of the complexities around the changes, implementation for both initial and variation margin will be extended.

The committee and IOSCO also agreed that they would adopt a phase-in arrangement for exchange variations margins.

The beginning of the phase-in period for collecting and posting initial margin on non-centrally cleared trades will be moved from 1 December 2015 to 1 September 2016, with the full phase-in schedule being adjusted to reflect the delay.

Progress of implementation will still be monitored to ensure consistent implementation across products, jurisdictions and market participants. This includes monitoring domestic rule-making as well as guidance on validation and back testing.

IOSCO and the committee will also liaise with the industry as participants develop initial margin models required for compliance. This engagement is intended to ensure that emerging quantitative margin models comply with the framework, but will not review of approve any particular initial margin model.

Clarus calls for EMIR debate

Clarus Financial Technology is pushing for greater debate around the format and extent of data made public on reporting under European Market Infrastructure Regulation (EMIR).

Responding to the recent European Securities and Markets Authority (ESMA) consultation paper on Article 9, Clarus highlighted the significant variation between the data available in the US and Europe, and the negative impact this is having on market participants.

"One of the key objectives of EMIR was to create a transparent environment in which companies can access trade information vital to their trading and hedging requirements," said Clarus CEO Amir Khwaja.

"But the scope and frequency of data available publicly in Europe means it has little value in terms of analysis. Trade repositories in Europe publish only high-level aggregated totals that are not broken down into actionable data."

"In contrast, the US data is more frequent and more granular, meaning that we can provide detailed analysis informing both pre- and post-trade processes."

Khwaja also stated that the regulations emerging as a result of the Dodd-Frank Act in the US and EMIR in Europe were largely developed in parallel, meaning that it was "very difficult" to work on the principles of best practice as both jurisdictions had to meet tight deadlines.

He said: "This consultation provides the opportunity to review that and work towards greater consistency of approach along best practice lines. We are encouraging ESMA to reconsider the current position whereby publicly available data in Europe is very

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limited, published only weekly and on an aggregated basis."

LCH.Clearnet outlines CCP stress-testing framework

LCH.Clearnet has outlined its suggestions for a stress-testing framework for central counterparties (CCPs), with transparency, simplicity and comparability identified as key principles.

In a whitepaper, LCH.Clearnet recommended a standardised stress testing methodology in order to improve transparency in risk management and allow clearing members and regulators to easily compare CCPs.

A standardised method could also help to create a more level playing field, making evaluation easier across different regulatory requirements and jurisdictions. A simple and consistent measure will help to create a single, understandable network, where the only variable in the results will be the robustness of the resources at the clearinghouse.

According to the paper, clients should be as aware as possible of the risk drivers, while complex risks should be communicated as clearly as possible. It is also important that the methodology not only allows but also encourages comparison across CCPs, regardless of the value of pre-funded resources.

LCH.Clearnet advised using historical and hypothetical stress scenarios, as well as de-correlation stress scenarios, particularly those that break with historic correlations, with the effect of potentially revealing unexpected risks. It also suggested combining scenarios for the most comprehensive test environment.

The paper comes as the use of CCPs is set to become mandatory in G20 nations for over-the-counter derivatives trading, and after an announcement from the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) that they will be reviewing stress testing in CCPs.

LCH.Clearnet encouraged debate within clearing as the CPMI-IOSCO stress testing review gets underway, suggesting that this will be a major step towards crafting a transparent clearing landscape around the world.

BNP Paribas European depository tops €1 trillion

BNP Paribas Securities Services has reached more than €1 trillion in assets held in its depository bank in Europe, in its network covering 12 fund domiciles on the continent.

The bank expanded its depository banking network in recent years in response to the Alternative Investment Fund Managers Directive (AIFMD) and impending Undertakings for Collective Investment in Transferable Securities (UCITS) V regulation, launching depositary offerings in the UK, Netherlands and Switzerland in 2013 and 2014.

It also acquired the depository bank businesses of Commerzbank in Germany and Banco Popular in Spain.

Arnaud Claudon, head of depository banking at BNP Paribas Securities Services, commented: "The shape of European regulation has changed incredibly in recent years, and we are being called upon by our clients more than ever to support them as they adapt to the new landscape. The expansion of our depositary bank is a great example of this."

Under AIFMD, alternative investment fund managers in Europe have to appoint a depositary bank to provide safekeeping, oversight and cash monitoring for their funds.

The UCITS V regulation is expected to go live in early 2016 and will impose similar standards of asset and investor protection to all depository banks in Europe.

HSBC chosen for first RQFII money market ETF

HSBC has become the custodian bank and asset services provider for the first ever renminbi qualified foreign institutional investor (RQFII) money market exchange-traded fund (ETF). The ETF will be domiciled and listed in the UK.

CCB International Asset Management, the fund's investment manager, said it selected HSBC for its track record in helping clients achieve first-mover advantage in opportunities presented by the internationalisation of the renminbi currency.

Tony Hung, executive director of portfolio management at CCB International Asset Management Limited, said: "HSBC's teams have supported us from the outset with product design and regulatory liaison through to the launch of this renminbi money market ETF."

"We have enjoyed a strong relationship with HSBC for a number of years and today's launch marks an important milestone in our business partnership."

HSBC is providing an extensive range of securities services to the ETF, including global custody, China sub-custody and clearing, UK depository, fund administration and transfer agency.

The ETF will operate under the Undertakings for Collective Investments in Transferable Securities structure—enabling the fund to be marketed across the EU.

Cian Burke, global head of securities services at HSBC, said: "This pioneering move will help to develop the renminbi asset management industry in the UK and build investment links with China."

"HSBC is honoured to be the service provider to CCB International for this innovative ETF, drawing on our ability to connect our leadership

in China's securities services market with our UCITS expertise in Europe."

As of February 2015, HSBC was the custodian bank for 41 percent of the total allocated investment quota for RQFII around the world, approved by the State Administration of Foreign Exchange in China.

Operations affecting collateral markets, says CGFS

The effect of central bank operations on collateral markets is becoming increasingly more important, as the regulatory landscape evolves and market practices change, according to a study conducted by the Committee on the Global Financial System and the Markets Committee.

The Central Bank Operating Frameworks and Collateral Markets report suggested that many banks have left a footprint in markets for assets that also serve as collateral, following large-scale asset purchases, and other unconventional policy tools over recent years. This has coincided with increasing demand for collateral assets.

The report argued that operations could have a significant effect on the assets market. Whether the effects are material or not depends on the size of the operations in relation to the market for collateral assets, and on whether financial market participants are constrained by the collateral available.

Effects can also depend on the various design choices at a central bank's disposal, such as the supply or pledgeability of assets, as well as policies, haircuts and counterparty access policies.

These options can be used to support collateral markets, and the report pointed out that they have been used in this way during the euro sovereign debt crisis and by the US Federal Reserve throughout the financial crisis.

A number of tools and metrics are available for assessing how markets for collateral assets are affected by operational choices, said the report.

It added that there are two main channels of impact, scarcity effects and structural effects, and suggested that there should be a broad and conceptual framework in place for analysing the differences.

The report also distinguished between effects during 'normal' times and times of stress. In normal times, the report found the effects of operations choices to be minimal.

Times of crisis, however, are generally associated with greater scarcity of collateral in the financial system, when declined confidence in the market leads to a shift from unsecured to secured financing. In these cases, central banks could operate on a larger scale, which will, in turn, have negative, unintended side effects on collateral markets.

In times of crisis, banks will also be more likely to try to directly influence functioning of collateral markets, for example, by introducing facilities that allow banks to post illiquid collateral assets in place of liquid securities.

Finally, the report suggested that some aspects of operational frameworks should be examined to assess their preparedness for a crisis response. Any effects on collateral markets should be carefully monitored, especially in connection with unconventional monetary policies and exit from policies.

The study draws on case studies, surveys and interviews with market participants, and aims to facilitate discussion among central banks about their operational frameworks and potential effects of them.

Sapient Global Markets assesses trade reporting

Sapient Global Markets has published a new report examining the implementation and ongoing operational costs associated with over-the-counter derivatives trade reporting.

The report scrutinises firms' expenditure to the meet the Dodd-Frank Act and European Market Infrastructure Regulation (EMIR) compliance deadlines and the ongoing costs associated with supporting and amending reporting systems.

It also claims to demonstrate how the piecemeal and siloed nature of many implementations has resulted in a "lack of flexibility and extensibility" to meet future requirements.

The report examines the total cost of ownership of trade reporting, based on implementation cost, IT and infrastructure expenditure, operations and support staff, and repository fees.

It also highlights ongoing issues related to the current state of supporting trade reporting, noting why many firms are re-examining their strategies and internal infrastructures.

This includes difficulties achieving cross-jurisdiction compliance, poor data quality and siloed systems creating risk and cost.

"With many challenges surrounding trade reporting, the question we often hear is whether participants can afford to continue with their current approach," said Randall Orbon, senior vice president at Sapient Global Markets.

Building, re-building and re-engineering current systems is not a viable option for what is a highly commoditised function."

"Now that several major deadlines have passed, many organisations are looking for alternative ways to lower their total cost of ownership without compromising reporting quality or compliance," he added.

Orbon has also claimed that there is likely to be a shift among market participants toward alternatives, such as managed or cloud-based services, that are designed to reduce the cost and complexity of trade reporting.

Fundtech: Australian NPP could create opportunities

Transaction solutions provider Fundtech has released a whitepaper that examines Australia's New Payments Platform (NPP), advising institutions to prepare now for future technological developments.

According to the whitepaper, the NPP's focus on speed, availability and convenience is similar to that in other countries with comparable structures, but it also boasts some unique characteristics and capabilities that could create specific opportunities for Australian institutions.

The NPP is scheduled to launch in mid-2017, and is expected to significantly change the Australian payments landscape.

While the core objective of the platform is to enable immediate payments, it could also support evolution for future capabilities such as new data, flows and customer service solutions.

The whitepaper advised that institutions could use the platform to lay the groundwork for taking advantage of new advancements in the future.

Immediate and fast payments solutions form a module of Fundtech's global payments solutions, accommodating individual and bulk domestic payments schemes.

David Brown, Fundtech's senior vice president of global payments, and co-author of the whitepaper, said: "The NPP is shaping up to be an opportunity for financial institutions to provide new, innovative, and responsive services to business and retail customers across banking segments and channels."

He added: "Banks that recognise the opportunity and act early will be well-positioned to excel in the industry's new immediate payments landscape."

Asset managers feeling confident, says PwC

The asset management sector is on its way back up according to the latest Confederation of British Industry and PricewaterhouseCoopers (PwC) Financial Services Survey.

After seeing a dip at the end of 2014, the industry is returning to optimism with business volumes reaching higher figures than predicted and participants expecting solid growth in the next few months.

While income from fees and commissions has risen, it is only expected to rise slightly in the coming months, due to increased scrutiny of fees.

There was also a fall in total operating costs, and growth in profitability stayed positive, even though the pace of growth slowed.

Mark Pugh, asset management leader at PwC in the UK, said: "While our survey shows that optimism has returned for asset managers, they are keeping a careful watch on the impact of developing trends in the industry. The challenge over the next year will be encouraging growth while carefully managing margins."

"The key trends that will impact margins include responding to the competitive pressure to develop direct customer channels, including a move towards the digitisation of fund distribution, the continuing focus on transparency and regulation and the growth of passive products."

SWIFT: RMB on the up around the world

Use of the renminbi for payments transactions is becoming more popular around the world, although the vast majority of trades are still conducted in Hong Kong, according to SWIFT's RMB tracker.

In February 2013, 83 percent of RMB transactions were processed in China and Hong Kong, and 17 percent in the rest of the world. In February 2015, 75 percent of payments were conducted in Hong Kong and China, and 25 percent elsewhere.

After Hong Kong, Singapore and London process the largest percentage of RMB payments, representing 6.17 percent and 5.71 percent of payments, respectively.

Payments transactions in China represent only 3 percent of the total worldwide.

The number of offshore RMB clearing centres has also increased, with new centres appearing in Bangkok, Seoul, Frankfurt and Sydney.

In February 2015, RMB fell to number 7 of the world's payments currencies, with 1.18 percent of all global transactions conducted in RMB, about a 20 percent decrease from January 2015.

This dip has been attributed to seasonal factors, including the effect of the Chinese New Year and the fact that February is a short month. Across all global currencies, payments decreased by 9.3 percent.

Michael Moon, SWIFT's head of payments for the Asia-Pacific region, said: "The use of RMB by more countries, beyond Hong Kong, is a good testimony of the internationalisation of the Chinese currency."

He added: "The global volume of payments in RMB will fluctuate, and is actually down by value compared to last month, but the broader support by more countries beyond Hong Kong, underlining its international use, suggests the potential for future clearing centres and further development of the currency."

Chapman's Eye on the market

Once more unto the breach

Winston Churchill once famously called Russia a "riddle, wrapped in a mystery, inside an enigma", and I'd say that is an excellent way of describing the upcoming General Election in the UK. While current Prime Minister David Cameron's recent declamation that it is "the most important election for a generation" can be discounted as common-or-garden pre-election rhetoric, there is no doubting that is of great importance to all of our lives, and especially the area this column focuses on, the financial services sector.

Over the next few editions leading up to the election, I'd like to share some thoughts and would also welcome reader feedback as to what should, will and possibly won't happen. For those of you looking in from outside of the UK, or in need of a refresher on what we can expect to see, listen carefully and pay attention at the back. For much of all of the second half of the last century, Britain had a fairly simple two-party system with the right wing being represented by the Conservative party and the left wing being the Labour party. Towards the end of the century, the Labour party, suffering from a tired image and flagging support, reinvented itself, took a lurch to the right and rebranded as New Labour—"my greatest achievement", as Margaret Thatcher was once said to have commented.

The Conservative party rested on its laurels and as a result was left out in the political wilderness for 10 years or so before staging a resurgence in the middle of the first decade of the new century. Under Labour's watch, the global economy suffered a major shock with a significant recession, which we are just coming out of, and while blame cannot be laid at Labour's door (the actual causes are too many in number to review in a column of this length), it has to be said that the party's 'light touch regulation' did nothing to reign in the excesses of some elements of the banking sector. In the upcoming election, we also have the rise in importance of the smaller parties, with both the SNP (Scottish Nationalists) and UKIP (UK Independence) having the ability to wield significant and disproportionate power over the two major parties.

A combination of dissatisfaction with the two major parties and the rise of the SNP (under new leader Nicola Sturgeon), with its clarion call of Scottish independence, and UKIP (led by ex-City banker Nigel Farage), with its right-wing rhetoric finding attraction with a certain section of the electorate, has resulted in the likelihood of a 'hung' parliament, ie, one where no single party has an outright majority. If there's one thing the financial markets do not like it is uncertainty, as this affects confidence, which holds back investment, and so the markets over the coming month will be in a state of 'suspended animation', with poll results being followed closely to see if one party or an other is in the ascendancy.

The economy, with financial services at its heart, will be a key battleground and each side will vie for the coveted title of 'the party of business'. At the time of writing, Labour appears to be on the back foot in this respect, but it should be borne in mind that the stock market historically rises under a Labour government. I wonder what Winston would have said about it all.

Paul Chapman, managing director, HornbyChapman Ltd

Funds, fears and futures

The ALFI Spring Conference was full of positive messages about the Luxembourg funds industry. But the real question was: what next?

STEPHANIE PALMER REPORTS

The future of the funds industry was the hot topic of the Association of Luxembourg Funds Industry (ALFI) Spring Conference last month, although many speakers were also revelling in the positivity of the present.

ALFI and KPMG unveiled their Responsible Investing Fund Survey for 2015, boldly predicting that responsible investing could be the mainstream way to do business in the future. The report pointed out that assets under management of responsible investment funds have increased every two years. From €200 billion in 2010, assets increased with a 9 percent compound annual growth rate (CAGR) to €238 billion in 2012. This increased with a 25 percent CAGR to €372 billion in 2014.

Luxembourg itself was identified as being ahead of the game, holding 35 percent of assets in responsible investment funds. The domicile with the second-highest number of assets was France, with 16 percent, followed by Norway, Sweden and the UK, with 10 percent, 7 percent and 6 percent, respectively.

Jane Wilkinson, a partner and head of sustainability at KPMG in Luxembourg, suggested that responsible investment could create huge opportunities for fund managers, as long as they take advantage of it quickly.

She explained that the number of responsible investment firms in Europe is growing, with 60 percent of funds now being managed responsibly. She also accepted, however, that it is difficult to define exactly what a responsible strategy is, reminding the audience: “We are talking about money here.”

Wilkinson predicted that the number of funds investing responsibly will continue to grow, particularly as investors take more control over how their money is used. Funds are increasingly held accountable to their members, usually pension holders or insurance companies, and these members are becoming more socially aware, and specifying where their money will be invested.

The investors of the future, Wilkinson said, will be even more so inclined: "They're going to looking for simplicity and transparency and flexibility."

"The question is," she said, "will the responsible investment market seize those opportunities?"

Keynote speaker Mark Stevenson, author of An Optimists' Tour of the Future, was also making predictions about what the industry had to come, with a focus on the world of technology, which he said will create "a very different world".

He compared the industry to the car insurance sector, which will have to alter its business model to cater for driver-less cars, and to competitive athletics, which will also have to rethink its structures because prosthetic limbs have become so advanced that they could give competitors an advantage.

Stevenson pointed out that, although technology exists now and is incredibly expensive, advancement leads to increased production and therefore lower costs. For example, in the US, solar power will prove cheaper than using fossil fuels in 47 states by 2016, and funds infrastructure technology may well follow the same path, in time.

He also predicted that the balance of power will shift, saying that, as more investors take control over the use of their investments, they will "change the very definition of wealth". If investment firms are not perceived to be up to the job, then clients are likely to take matters in to their own hands—and they may well have the technical facilities to do so.

Stevenson argued that the firms that will survive this 'new normal' will be those that innovate now. The problem, he said, is that while many claim to want to innovate, what many would actually prefer is "the appearance of innovating without changing anything".

He pointed out that none of the large technology-revolution companies, such as Google, eBay and Paypal, were founded by people already in the industry, asking: "Why is it that [investment] firms know this but can't change?"

On a more positive note, Thomas Seale, CEO of European Fund Administration and an ALFI board member, used his presentation to try to dispel some of the myths surrounding Luxembourg as a funds domicile, saying that it is "misunderstood at best, maligned at worst".

He rejected the idea that funds domicile in Luxembourg for tax purposes only, and praised its innovative fund structures and "world-class know-how", adding: "Funds come to Luxembourg even when they don't need to."

"While competitive, Luxembourg is far from being a tax paradise for the funds industry," he said, stressing that it is no easier to avoid taxation in the jurisdiction than anywhere else, and that it is governed by the same rules as Paris, London, Dublin and many other markets.

Seale's final myth was that Luxembourg funds only benefit multinational corporations and the rich. He stressed that "funds are good for you", and that they are an essential part of the global economy, not only in the finance industry, saying: "Without investment funds the world economy would grind to a halt."

Similarly, Olivier Portenseigne, COO of Fundsquare, teamed up with Benjamin Collette, a partner at Deloitte, to compare the costs of running investment funds in various jurisdictions compared to funds with cross-border distribution.

Examining the components of the value and supply chain, they assessed whether the Luxembourg cross-border platform was less effective, as Portenseigne asked: "How can we improve if we can't measure?"

Although, at first glance, cross-border platforms appeared more expensive than domestic, the main differences are in the additional fees that ultimately create more transparency.

Citing the research, Portenseigne said that one of the main time-consuming factors was the discontinuity between different jurisdictions. He said that a lot of time was spent simply aligning the same piece of information that different jurisdictions labelled as different things: "More complexity means more cost."

However, he also said that the additional costs could be offset, at least for large companies, by the ecosystem in place, and the scalability and efficiency that comes with it. The pair warned against 'comparing apples with oranges', and maintained: "The real challenge for the funds industry is to try to become the investment vehicle of the future."

In what was perhaps the most futuristic presentation, a panel discussed the virtues of virtual currencies in the funds space.

Philippe Hoss, a partner at Elvinger, Hoss & Prussen, referenced Jersey's Global Advisors Bitcoin Investment fund, which was approved in July last year, and the bitcoin exchange-traded fund (ETF) set up by the Winklevoss brothers.

He suggested that while some funds will choose to treat the bitcoin "as a commodity", others see it as "something like money", and that virtual currency funds could soon start investing in infrastructure. Hoss maintained, however, that bitcoin funds will not become the norm, partly as "there is not much to buy", but also because those who do own bitcoins are not conventional investment fund clients.

The panel also discussed the bitcoin's credibility as an asset. Nadia Manzari of Luxembourg financial sector regulator the Commission de Surveillance du Secteur Financier (CSSF) said that some concerns about the securitisation of virtual currencies are unfounded.

She pointed out that there "is no financial activity without risk", and argued that it is the adopters that ultimately create the risk, saying: "We don't regulate the currency, we regulate the operator."

Manzari also reminded the audience that any transfer going through a depository will be regulated, and as soon as funds transfer from virtual currency in to 'real' currency, they are as tightly regulated as any other financial transaction.

Jean-Louis Schiltz, a partner at law firm Shiltz & Shiltz, brought the conversation to a philosophical close, pointing out that there is "no legal definition of money that is accepted around the world", while questioning what exactly defines a currency, especially in the modern world.

The morning's chairman, Bob Kneip, founder and CEO of fund service provider KNEIP, summed up the general mood of the room, concluding: "As soon as something gets too virtual, I like to bring it back to reality."

Among much talk of complexities of investments and a new technological word, ALFI also took the opportunity of the conference to launch its new online resource, created with the sole intention of simplifying funds for average, non-institutional investors.

The site, Understanding Investing, comes as a response to the investor demand to take control of their own finances, and the increasing demand for transparency. It features basic knowledge and a guide to beginning investing, as well as tools to help investors decide which fund would be best for them.

It also features podcasts explaining topics such as UCITS funds and the costs and risks involved in investing.

While the funds industry may be more transparent, and more reputable, than it has been, both in Luxembourg and around the world, the feeling seems to be that there is more to be done.

Whether technology will simplify the industry or make it more complex, and whether the investor will take the reigns, its clear that ALFI attendees—at least, the majority—are looking to the future with cautious confidence. **AST**

Safety in numbers

SWIFT's IM survey revealed that asset managers are concerned about KYC sanctions, regulations and mitigating risk, but firms can work together to adapt to the new world, says Olivier Lens

STEPHANIE PALMER REPORTS

According to the recent SWIFT investment management survey, KYC and AML have been highlighted as priority challenges for managers. Why are these being identified now?

Many tend to talk about the 'tsunami' of regulation, but I object to the word 'tsunami', because regulation is clearly here to stay. It's part of the new world and we have to live with it, but it is having a great impact on the industry. 'Know your customer' (KYC) is the beginning of the relationship with your counterparty, so from that perspective it is very important. Investment managers need to know who they are doing business with.

KYC and anti-money laundering (AML) aren't new. However, since the crisis in 2008, regulators have paid more attention to cross-border counterparties and have been issuing more fines, all of which have made asset managers increasingly vigilant. Because these fines are dramatically high, KYC and AML are at the top of the senior management-level agenda.

Investment managers don't want the reputational damage, not to mention the financial impact, of a fine. The question is, now that it's become so important, how do asset managers cope with the additional risk and cost associated with KYC/AML? Everybody has to do it, and the industry should be able to find a common solution so that they can focus on what they do best: making returns for the end investor.

If the industry comes to an agreement that this is a non-competitive space, then we can move forward and gather the necessary industry engagement to successfully reduce cost and risk for all participants.

In December last year, we launched the KYC Registry with an initial focus on correspondent banks. This will allow for all the KYC information from cash correspondents and their counterparts to be collected in one place, making it easier to do business, as not everybody has to collect the information individually. The results of the investment management survey confirm the demand of the investment managers to address the KYC burden in the funds distribution space.

Although the regulations are here to stay, is the rate of change likely to slow?

There has been a constant stream of new regulations in the last few years, and I would hope that at some point we will get a period of stability so that the industry can adapt and implement the required systems and procedures to be compliant. That being said, it's not over yet. Asset managers still need to cope with new regulations that have the potential to significantly disrupt the landscape they operate in. For funds distribution, an important one is the Markets in Financial Instruments Directive (MiFID) II, which is similar to the Retail Distribution Review (RDR). Questions remain about how the ban on inducements will be translated in individual member states and the impact it will have on distribution strategies.

I think, after that, there will still be more regulations to come. The question will be how we manage these and how we communicate with regulators.

SWIFT is a member-owned cooperative and our role is to support the industry in reducing cost and risk by standardising data flows and automating the exchange of financial information. It is hard to predict what will happen next, but I think that at one point in the future there will be a basic set of regulations for all institutions to comply with—and it will be there to stay. However, it's too early to know what the industry will look like once all these changes have been implemented.

It will depend on our industry, too. If we can manage to achieve transparency in an effective way, then we can take a big step forward and reassure both regulators and end users that the financial industry is in a good place. I think that might be the key.

Are you seeing an increase in outsourced services, or does that create more risk?

The question of outsourcing surfaced in our interviews with asset management firms: are organisations outsourcing, how are they outsourcing and are they creating increased dependencies when they do so? It's possible that we will see a trend towards re-insourcing in order to manage that liability. Firms also have to be capable of managing their own data, as you may only be increasing complexity when you bring in third parties.

Within the asset management or fund management business overall, there is still a lack of standardisation. There remain significant flows today that have not been standardised, and I think the next step for the industry should be to look beyond automating order processes such as transfers, cash forecasts and price reports.

You can link this back to the KYC challenge. I see automation and standardisation as the key ingredients to enable asset managers to increase transparency, meet regulatory reporting requirements, and do so in a cost effective way.

Many fund managers have outsourced processes to transfer agents, and certain activities have largely become commoditised. Yet transfer agents have an opportunity to develop new services, for example, around distribution intelligence or reporting. There is a lot of talk about how asset managers are going to review their distribution channels to adapt to the changing investor landscape, and how transfer agents will capture some of these emerging opportunities remains to be seen.

What are the big issues surrounding fund distribution?

Regulatory change, as we have seen through RDR, and potentially will see with MIFID II, affect the way fund managers traditionally distribute. Although a ban on inducements should benefit the end investor, the question is what sort of unintended consequences this may have for collateral. Could we see investor orphans? Will it open the door for new distribution channels?

It will be interesting to see how managers distribute in the future, and how they will tailor their services to changing demands and changing investor types. The younger generation handles technology in a very different way, and the demands of the modern investor will inevitably change accordingly. Today, asset managers use mainly independent financial advisors, but tomorrow they may have to rethink the picture completely, in this as well as with outsourcing.

Corporate actions are perhaps a bigger issue for investment managers. As an industry, we very much acknowledge that in this area operational efficiency and risk management remain very costly issues for all players in the value chain. Investment managers receive their corporate actions information from a multiple sources and need to review, interpret and reconcile those data sets. The idea of a corporate actions 'golden source' utility has been around for many years and is more valid today than ever before, considering the increasing number of corporate action events and their complexity. That utility would supply all of the corporate actions information required, while maintaining the required transparency and servicing the investor in the best possible way..

Is the eventual aim to get a better service for the end investor?

For me, it is. I think the industry is continually striving towards that goal, and SWIFT helps to address the operational challenges in this dynamic period of change, allowing asset managers to continue to increase service levels to the end investor, while coping with regulatory requirements. Managers are actively trying to reduce cost and risk, which will ultimately benefit the investor. It's all interlinked; operational efficiency, regulatory compliance and client service. That is what SWIFT is about.

We ran this investment management survey to identify where risk and cost remain in the ecosystem with the objective of fostering the dialogue around operational efficiency, cost and risk. **AST**

"The idea of a corporate actions 'golden source' utility has been around for many years and is more valid today than ever before, considering the increasing number of corporate action events and their complexity"

Olivier Lens
Head of funds and investment management, EMEA
SWIFT

Data's darkest before the dawn

As the data revolution gets underway, asset managers need to be armed to analyse, or risk missing the battle all together

STEPHANIE PALMER REPORTS

In an age of increased reporting regulations and ever-changing financial technology, data and analytics are being shuffled to the top of the priority pile. State Street recently conducted a data and analytics survey of asset managers and owners, and found that about nine out of 10 respondents considered data and analytics to be a strategic priority.

As more and more data is created, compiled and filed away, firms are beginning to consider how they can build a better picture of their investors, assessing their needs and wants. According to Chris Collins, global director of regulatory response at Sapient Global Markets, having large volumes of data is not the new development.

He says: "Data is a hidden asset. Firms have had it for years, but haven't been making use of it."

According to Collins, collecting volumes of consumer data is an important part of improving customer service. Asset managers should be moving towards using their data for more commercial purposes, and they already have the data at their disposal to start doing this.

"You don't want to have the best on-boarding system in the world, get clients on board, sell them their first product and then lose them," he says.

The challenge will be balancing operational data, driven by regulation, against analytical data, or the larger-scale data in the background, creating the best service for the investor.

Collins says: "If firms just focus on operational data, they can do the cost-cutting and service the client, but they won't be terribly pro-active in the business. If they only look at big data, their client service is probably going to be offering services that are out-dated, and that the client no longer wants. They need to focus on both and align."

Getting to a stage to utilise the data is a challenge in itself for some. The State Street research revealed a correlation between firms' confidence in their abilities and their progress in implementing data and analytics strategies.

Respondents fell in to three categories: starters, which were at the entry stage of their data and analytics journey; movers, which were actively moving towards better data capabilities; and innovators, those who boast an advanced data infrastructure and high-quality data governance. While starters made up 27 percent of respondents, movers and innovators where almost equal, making up 36 and 37 percent, respectively.

JR Lowry, head of Europe, the Middle East and Africa at State Street Global Exchange, points out the significant difference between the confidence levels in the starters category compared to the innovators category, saying: “The innovators were more confident across the board.”

For example, when asked their level of confidence in generating forward-looking insights from data, only 4 percent of starters answered that their confidence was high, compared to 44 percent of innovators.

When asked their confidence levels in evaluating risk and performance across the portfolio, again 4 percent of starters said their confidence was high, compared to 31 percent of innovators and 15 percent of movers.

Lowry says: “On top of that, the innovators say this is more important, they’re spending more time on it, and they’re spending more on it across the board.”

Those businesses that see the importance of investment in this area will continue to spend money on it, and will continue to pull away from those who don’t necessarily consider it a major priority.

Interestingly, 81 percent of respondents did say they consider data and analytics as either a high-level priority (47 percent), or even as their most important strategic priority (34 percent). Only 2 percent considered it low-level, although these numbers are not reflected in the percentages of starters, movers and innovators.

Lowry says: “The investments are getting tougher and tougher to make. This is an industry that has, historically, built a lot of things for itself, and it gets harder to do that as cost pressures in the industry get more significant.”

“Essentially, all the technologies that firms created for themselves have become largely redundant, and probably not efficient on a larger scale.”

He suggests that these firms are still struggling to tackle the regulatory requirements and legacy reporting aspects of data management, or what they consider the ‘must-do’ activities, but that they must adjust their priorities if they want to stand a chance of catching up.

“In this industry where the cost pressures are getting tougher, distribution is changing, the regulatory expectations are getting more significant and consolidation is taking place, you don’t really want to be at the back of the pack.”

The industry’s drive towards data analytics seems to have arrived in tandem with the increase in regulatory reporting, a mandate that ensures a certain level of data organisation.

According to both Collins and Lowry, that’s not the only reason it’s moving to the forefront. Lowry says: “It’s definitely a driver, but I wouldn’t say it’s the only driver.”

Collins adds: “Regulatory reporting has not led to an increase in data—there has always been a lot of it—but it has led to an increase in the desirability of data governance and quality.”

> “If data can be separated neatly, labelled effectively and made searchable, that all leads towards a more transparent system”

Collins says: “What you’ve got to be thinking about is how you segment your data in to areas that you can manage. That segmentation is part of the governance, and by doing that you can start to synchronise between the ‘big’ data and your operational data.”

If data can be separated neatly, labelled effectively and made searchable, that all leads towards a more transparent system. If a manager doesn’t have access to a certain set of data, they will know where to go to get it, and processes won’t be repeated.

While ideal for transparency reporting, this leads to concerns about data privacy—and this gets even more complex for multinational firms.

“That’s the conflict,” says Collins. “You have data privacy on one side and regulatory transparency on the other. In the US, transparency is key, but in Europe, data privacy is more important.”

In this situation, he says, many firms resort to ‘masking’ where they will allow certain users access to accounts, but censor certain fields. But reporting regulations are only increasing.

The Commodity Futures Trading Commission recently fined the Intercontinental Exchange (ICE) $3 million for submitting incorrect data reports. As part of the ruling, it ordered ICE to comply with additional rules to improve regulatory reporting, including the appointment of a chief data officer to oversee and be held responsible for all systems and procedures relating to data reporting.

The Basel Committee on Banking Supervision has also released its principles for effective risk data aggregation and risk reporting, setting out governance procedures and outlining the importance of managing risks. While the principles only apply to the global systematically important financial institutions, Collins argues that all companies should aim to adopt them anyway.

“The principles are such common sense that any company should read them and realise that they are a good idea, then they can assess how they can use them proportionally in their organisation.”

This can be achieved by using segmentation and a horizontal trajectory: a scalable and consistent model that can be applied to firms of any size, of any systematic importance.

“Firms have to start with a bit of reason, build from the bottom up to international standards, and then spread horizontally across the organisation,” says Collins. “The biggest challenge will be agreeing those standards and the consistency of application.”

However they go about it, there seems to be an industry consensus that data and analytics are something worth investing in. The State Street survey revealed that a vast majority of firms are increasing their investment in this area.

More than half of the companies asked had, in the past year, increased their investment by 5 to 10 percent, while 21 percent had increased investment by 10 to 20 percent, and 17 percent had increased by less than 5 percent. At either end of the scale, 5 percent answered that their investment had remained flat or declined, and 5 percent had increased investment by 20 percent or more.

With regards to data regulations, while 90 percent believed that reporting regulations will increase, 50 percent thought that their data capabilities would struggle to cope. This statistic just proves Lowry’s stance on the importance of catching up for the starter companies.

Lowry says: “Data and analytics is a really important topic for institutional investors. There are big differences in terms of capability levels, and the research we’ve done suggests that the gap is going to widen unless those at the back of the pack take active steps to catch up.”

It’s also important to keep the investors in sight, says Collins, particularly where analysis is involved. Cost cutting should be a benefit for clients, too.

He says: “Suddenly we’re coming out of the financial crisis and the world has changed. Firms are trying to cut costs by squeezing every margin point that they can out of their existing business. This means being proactive in terms of how they treat their clients. It’s got to be a win-win situation.” **AST**

Industry Events

FundForum Asia 2015

Date: 14-16 April 2015
Location: Hong Kong

You're invited to join over 550 top asset managers, fund selectors and industry experts attending FundForum Asia 2015, Asia's largest gathering for the Asset & Wealth Management community. You'll participate in executive-level conversation with 140+ top speakers and receive over 40 hours of exclusive content & best-practice strategies for navigating the Global Investment Management landscape.

3rd Edition Risk Data Aggregation and Reporting

Date: 28-29 April 2015
Location: London

This marcus evans conference will provide banks with a platform to see how their peers are managing their risk data projects in terms aggregation and reporting in the organisation. As the third edition this event offers the opportunity to encourage exchange on solutions for the major challenges that have arisen throughout the process so far.

Industry appointments

Mitsubishi UFJ Fund Services has appointed Ken McCarney as CEO.

Glenn Henderson, who previously held the position, is retiring but will remain an advisor to the firm. McCarney also retains his current position as chief operating officer.

McCarney joined the firm in 2007. Prior to this, he was instrumental in the acquisition of Meridian Fund Services and integrating their clients onto Mitsubishi UFJ's global asset administration platform.

Takafumi Ihara, chairman of Mitsubishi UFJ Fund Services Holdings, commented: "McCarney's appointment is a reflection of our commitment to excellence in the fund services and wider asset servicing industry."

Polaris Consulting & Services has appointed Uma Krishnan as a director on the board and N.M. Vaidyanathan as CFO.

Krishnan's leadership roles include senior positions in Royal Bank of Scotland (RBS) in the UK.

New CFO Vaidyanathan is a finance and operations leader with experience in various organisations across sectors.

LCH.Clearnet has confirmed that Frank Soussan will become global head of CDSClear on 1 July 2015.

Based in Paris, Soussan will lead the continued expansion of the service, which is the only European Market Infrastructure Regulation-authorised central counterparty for the clearing of credit default swaps.

Michael Davie, group COO at LCH.Clearnet, said: "We are delighted to announce Soussan's appointment as the new global head of CDSClear, which further strengthens the group's senior management team."

Confluence has appointed Tom Pfister as manager of Europe, Middle East and Asia (EMEA) market management and Nicola Le Brocq as regulation and compliance market analyst to its London office.

Pfister is relocating from the firm's Pittsburgh office and brings expertise that he will utilise to assess strategic objectives for the EMEA market and to evaluate market trends and analysis.

Le Brocq joins from a regulatory consultancy background with investment and funds services experience and a strong technical understanding of the US and European regulatory environments.

Todd Moyer, executive vice president of global business development, commented: "Europe is now one of the vital markets for our company and as we grow the business it has become necessary to have more staff present."

He added: "Pfister and Le Brocq will be responsible for not only growing the business but helping to interact with regulators and other stakeholders in the market."

BNY Mellon has appointed Kathleen Scott in to a newly created role to lead corporate and insurance activities within the bank's corporate trust business in the US.

In her new role, Scott has responsibility for all aspects of sales, business development and client relations and reports to Richard Stanley, BNY Mellon executive vice president and head of the US region for corporate trust.

Stanley said: "Scott has demonstrated strong leadership skills in leading the growth of corporate trust operations globally, and I am confident her experience and expertise will be a significant asset to BNY Mellon."

Northern Trust has named David Burnett as head of its hedge fund services business in the EMEA.

Burnett will be based in the bank's London office and will report to Peter Sanchez, global head of hedge fund services at Northern Trust.

He joined Northern Trust in 2011 as head of relationship management for the EMEA, following Northern Trust's acquisition of Omnium from Citadel. **AST**

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