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Issue 185 07 Mar 2018

## The hunt for value

Thomas Zeeb discusses cost pressure



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## Benelux trio set to strengthen collaboration on blockchain

B-Hive, the Luxembourg House of Financial Technology and the Dutch Blockchain Coalition have signed a memorandum of understanding to strengthen further collaboration in blockchain within the Benelux region. The agreement confirms the mutual interest in collaboration and defines the general guidelines of collaboration between the firms.

It includes exchange learnings on how blockchain technology can create added value for society and business in general; working together on defining international/European standards for distributed ledger technology (DLT); exchange learnings on managing identity on the blockchain from a self-sovereign identity perspective (the concept that people and businesses can manage their own identity data without

relying on a central authority); identify and collaborate on cross-border use cases; and help each other to extend respective know-how regarding DLT topics and themes. The document was signed by Dave Remue, programme manager of TrustHive at B-Hive, Alex Panican, head of partnerships and ecosystem at the LHoFT Foundation and Frans van Ette, coalition manager of the Dutch Blockchain Coalition.

According to Panican, the cooperation between the three firms is confirmation of “strong and trusted collaboration between three tech-minded organisations in the Benelux region working side by side for mutual benefit around blockchain technology”.

Remue said: “We are very excited about this Benelux blockchain alliance. It provides

us a structure to exchange learnings about blockchain projects on a larger scale, and we look forward to those use cases that leverage blockchain technology across sectors and across borders where innovative startups and scale-ups work together with established organisations.”

Van Ette added: “The rapid development of distributed ledger technologies (blockchain) leads to challenges that cannot be resolved within the borders of a single country.”

“Therefore, it is of the utmost importance to collaborate on the international stage in order to effectively coordinate the development of this young, disruptive technology.”

“As in many other partnerships, the Benelux countries seek collaboration in this space.”



## asset servicing times

W: [www.assetservicingtimes.com](http://www.assetservicingtimes.com)  
T: @ASTimes\_

Acting Editor: Becky Butcher  
[beckybutcher@blackknightmedialtd.com](mailto:beckybutcher@blackknightmedialtd.com)  
es.com  
+44 (0)203 750 6022

Junior Reporter: Jenna Lomax  
[jennalomax@blackknightmedialtd.com](mailto:jennalomax@blackknightmedialtd.com)

Designer: James Hickman  
[jameshickman@blackknightmedialtd.com](mailto:jameshickman@blackknightmedialtd.com)  
+44 (0)203 750 6021

Publisher: Justin Lawson  
[justinlawson@blackknightmedialtd.com](mailto:justinlawson@blackknightmedialtd.com)  
+44 (0)203 750 6028

Associate Publisher: Joe Farrell  
[joefarrell@assetservicingtimes.com](mailto:joefarrell@assetservicingtimes.com)  
+44 (0)203 750 6024

Marketing and Sales Support: Paige Tapson  
[paigetapson@blackknightmedialtd.com](mailto:paigetapson@blackknightmedialtd.com)  
+44 (0)203 750 6020

Office Manager: Chelsea Bowles  
[accounts@blackknightmedialtd.com](mailto:accounts@blackknightmedialtd.com)

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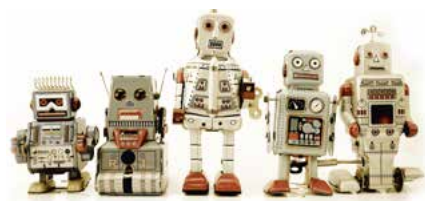
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## Saudi Fransi Capital selects HSBC as custodian

HSBC Saudi Arabia has been appointed by Saudi Fransi Capital (SFC) as custodian for its public and private funds.

The agreement follows the introduction of new investment fund regulations by the Capital Market Authority of Saudi Arabia, which require asset managers to appoint independent third party custodians for custody of the assets of public funds.

Signing a mandate with an independent custodian makes SFC one of the first large asset managers to seek compliance with this requirement in Saudi Arabia.

Majed Najm, CEO and board member of HSBC, Saudi Arabia, said: "This regulatory change is an extremely positive step in the development of

asset services and the custody industry in Saudi Arabia. We are delighted to be working with SFC and we look forward to a mutually rewarding relationship between our organisations."

Waleed Fatani, CEO of Saudi Fransi Capital, commented: "We welcome this new regulation. Not only is it in line with international best practice, but it will help strengthen the fund management sector in Saudi Arabia. It enables a greater focus on the core capabilities of asset management, while specialist service providers manage the safe-keeping and servicing of assets."

He added: "We chose HSBC Saudi Arabia due to the scope of its securities services offering as well as the strength and expertise of its local team in Saudi Arabia."

## Middle East SWF selects AxiomSL's regulatory platform

AxiomSL's platform for global shareholding disclosure compliance has been chosen by a large sovereign wealth fund (SWF).

According to AxiomSL, its regulatory platform enables firms to build and sustain a compliance infrastructure with transparency.

The platform includes rule sets calculations and a templates and reporting functionality, which is needed to remain fully compliant with shareholding disclosure requirements and related transparency directives.

The analysis performed by AxiomSL includes calculating a firm's total shareholdings in individual entities and comparing these amounts with the issued share capital to see whether the firm has accumulated a substantial shareholding and is therefore obliged to report the fact.

Gaurav Chandra, product manager at AxiomSL, said: "We are delighted to be supporting the funds in the Gulf Cooperation Council and around the world to meet their shareholding disclosure obligations."

He added: "Market participants must continually monitor changes in their shareholdings whilst already being inundated with ever-increasing regulatory requirements."

"High complexity of rules alongside different disclosure demands per jurisdiction pose significant challenges to firms to remain compliant."

"AxiomSL's multi-jurisdictional reporting capability, end to end automated platform and flexible technology supports firms in addressing these intricate challenges."

## Klesia Finances goes live with NeoXam's Density solution

French mutualist firm Klesia Finances, has gone live with NeoXam's solution, Density. According to Klesia, NeoXam Density will assist it in facing the current French and European regulatory landscape.





### RSA implements SimCorp Dimension

The Retirement Systems of Alabama (RSA) has successfully completed the implementation of SimCorp Dimension.

The new system will globally support RSA's investments, worth approximately \$40 billion in assets under management.

The implementation consolidates the management of the RSA's diverse alternatives and real estate portfolio, together with its entire investment book.

As part of the implementation, SimCorp has provided RSA with reporting capabilities; global portfolio management, including local currencies and foreign exchange; straight-through processing on investment processes; intra-day reporting; and investment transparency for the board of control and other stakeholders.

David Adams, assistant CFO and head of investment accounting at RSA, said: "Given our fiduciary responsibility to our

members, we have always sought to ensure that our operations are conducted to maximise efficiency and effectiveness. SimCorp Dimension enables us to do just that. Since going live, we've been able to automate many of the investment processes with increased straight through processing rates. This has freed up many of our team members from performing a range of manual tasks."

James Corrigan, executive vice president and managing director of SimCorp North America, added: "We are pleased to have completed the RSA implementation, using our robust and standardised offering for state pension plans."

"Many pension plans are turning to insourcing of asset management in a bid to reduce costs and gain access to newer investment opportunities. SimCorp is proud to serve some of the leading US State and Canadian pension plans."

Klesia was formed by the merger of the Mornay and D&O groups in July 2012.

Olivier Fellous, managing director of Klesia, said: "NeoXam Density enables us to fulfil the new requirements for the front office [...] as well as [optimising] the work of Klesia Finances' middle to back office teams."

Florent Fabre, managing director of Europe, Middle East and Africa, NeoXam, commented: "Klesia's confidence in NeoXam demonstrates the relevance of our offer to institutional investors, as well as our ability to help our clients increase their efficiency and manage regulatory pressures."

He added: "Moreover, this new reference reinforces our presence with other professionals in the insurance sector, and more broadly, with those in the institutional management space."

### Volante supports SWIFT standards

Volante Technologies has welcomed in SWIFT's new 2018 standards, which includes a number of significant changes to the firm's messages used in payments, trade finance and securities.

The SWIFT 2018 standards state that payments messages must now implement the unique end-to-end transaction reference even if they are a member of SWIFT gpi. There have also been updates to other message categories, the most significant of which will affect every user of the MT7nn category messages with major changes to existing messages and the introduction of three new messages relating to documentary credits.

These are the biggest changes introduced in trade finance in over a decade and represent the first wave of changes that will be completed in 2019.

Updates have also been made to the Treasury and Securities categories to support the second Markets in Financial Instruments Directive-related rules on transparency of fees.

Venkat Malla, vice president of product management at Volante Technologies, commented: "Volante is dedicated to helping firms overcome integration and messaging challenges in the complex world of changing message standards in payments and other business domains."

"We continuously track and implement changes to standards so that clients can remain focused on their business rather than being unnecessarily distracted by the challenges of support and implementation of new messages and standards."

He added: "We take great pride in the fact that we can provide support for SWIFT 2018 within a matter of days."

"The speed with which we can react to new standards means that we give our clients ample time to adopt and test standards within their own environments so they can minimise the impact on originating and receiving systems and avoid rejected messages."

## Vermeg completes Lombard Risk transaction

Vermeg has acquired Lombard Risk to create a "leading force in financial services solutions".

Lombard Risk will expand Vermeg Group's geographical footprint and product lines in growing areas, including collateral management and regulatory risk solutions.

The acquisition also adds compliance products for banks and buy-side firms to its customer base of insurers, institutional investors, asset managers, depositories and central banks.

Vermeg currently has offices in France, Belgium, Luxembourg, Spain, the Netherlands and Tunisia.

Lombard Risk's presence in the UK, North America and the Asia Pacific provides Vermeg with a platform for further expansion and growth.

Badreddine Ouali, chairman and founder of Vermeg, said: "Through our acquisition of

Lombard Risk, we will reach a turnover of €100 million."

"Moving forward we will further develop our offering so that clients can benefit from a team, expertise and proposition that are more established than the newer financial technology, and much smarter and more responsive than the incumbent larger software houses."

Alastair Brown, CEO of Lombard Risk, added: "We believe that the combination of Lombard Risk and Vermeg will create a powerful, global financial services software champion, and we strongly believe that the new group will be well positioned to generate and seize exciting opportunities in the future."

"Our dedicated focus on the collateral management and regulatory reporting industries will continue, whilst opening access across the group to the markets in the UK, North America and the Asia Pacific."

## Fidessa and Virtu form liquidity partnership

Fidessa Group and Virtu Financial have teamed up to connect Virtu systematic internaliser's customisable liquidity to Fidessa's market access solutions.

The partnership will allow Fidessa's clients to access Virtu's transparent and disclosed liquidity, together with improved upstream workflow to manage the more complex trading environment brokers now find themselves dealing with.

Virtu's customisable systematic internaliser price feeds are integrated to Fidessa's smart routing capabilities and market access so that they can be consumed as if they were additional venues sitting alongside traditional sources of liquidity.

In addition, Fidessa's order handling capabilities now enable users to manage all their order flow across lit venues, systematic internaliser operators, and the new large in scale dark pools that have emerged in the wake of the second Markets in Financial Instruments Directive (MiFID II).

James Blackburn, global head of equities product marketing at Fidessa, said: "MiFID II is reshaping the liquidity landscape as trading migrates to more transparent and disclosed systematic internalisers and away from broker crossing networks and dark pools. At the same time, the focus on best execution has never been greater and now extends formally to the buy-side as well."

Christiaan Scholtes, head of Europe, the Middle East and Africa markets at Virtu, added: "As a leading equities and exchange-traded products market maker, we are pleased to be working directly with one of the premier technology providers in the industry and believe that this level of collaboration is helping to build the platforms of the future and drive efficient access to competitive liquidity."

## OFI AM and SETL become shareholders of IZNES

OFI Asset Management (AM) and SETL have been joined as shareholders of IZNES by five asset management companies after IZNES announced its first fundraising.

The asset managers include Arkéa IS, Groupama AM, La Banque Postale AM, La Financière de l'Échiquier and Lyxor AM.

According to IZNES, the collaboration gives the platform the necessary means and support for the deployment and production phase expected for 2018 in France and Luxembourg.

The collaboration comes just weeks after IZNES, the mutual funds blockchain issuance platform, went live and processed its first real transactions.

More than ten new asset management firms have officially joined the project as contributors to the development of the platform.

These included Allianz GI, Amundi, Aviva Investors, BDL Capital Management, BNP Paribas AM, Candriam Investors Group, La Française, Lazard Frères Gestion, Mandarine Gestion, Natixis AM, Pléiade AM, SMA Groupe and Sycomore AM.





## FCA launches call for input on use of technology for regulation

The Financial Conduct Authority (FCA) is seeking views on how technology can make it easier for firms to meet their regulatory reporting requirements and improve the quality of the information they provide.

In a recently released call for input, the FCA, outlined the technical steps that developed this proof of concept and asked for views on how it can improve this process. The FCA is also looking for feedback on some of the broader issues surrounding the role technology can play in regulatory reporting.

Questions asked whether there are more efficient ways to achieve machine executable reporting, if there are any specific regulatory rules or policies that could act as a barrier to implementing machine executable reporting, and, how the FCA can ensure that the potential benefits and costs are appropriately shared across the industry.

The FCA said: "All regulators need to ensure that those they regulate are complying with the rules, public confidence in regulation depends on it. However, it said it understood "the resulting collective burden on firms is significant."

In November 2017, the FCA held a two-week TechSprint with the Bank of England (BoE).

TechSprint brings together financial services providers, technology companies and subject matter experts to develop solutions to regulatory challenges. It explored the potential for a fully automated process that firms could use to provide their regulatory returns.

Commenting on the role technology can play in helping firms to meet their regulatory requirements the FCA said: "The TechSprint has proven that technologies exist and can be effectively combined to make machine-readable and machine executable regulatory reporting a reality."

"We believe that introducing this technology to our regulatory reporting process could [...] increase clarity, increase efficiency, result in more responsive regulation and help produce a higher quality data."

It added: "Technology now plays an increasingly fundamental role in financial services and is also a catalyst for change and innovation."

Christopher Woolard, FCA's executive director of strategy and competition, commented: "Technology is a powerful shaper of financial regulation, able to make compliance simpler and more efficient. Our TechSprints bring people from across the financial services world together to share their collective knowledge to solve common problems.

We look forward to working with industry participants in the coming months to drive these ideas forward."

The call for input has been sent to regulated firms, technology and software providers as well as regulatory technology and financial technology firms, among others.

The deadline for comments on the call for input is 20 June 2018, after which the FCA will publish a feedback statement.

These asset management companies have different economic models, products and clients, which, according to IZNES, ensures that it will be able to meet the requirements of both clients and asset managers for the European market.

Pierre Davoust, CEO of IZNES, stated: "I am delighted to welcome Arkéa IS, Groupama AM, La Banque Postale AM, La Financière de l'Échiquier et Lyxor AM as shareholders of IZNES, and to announce new contributors to the project."

He added: "With 20 asset managers, representing together more than €5 trillion of assets under management, IZNES now benefits from a solid market backing and becomes a central market infrastructure. We now focus our efforts on the delivery of the commercial version of IZNES, which will occur this year."

## EBA Clearing's RT1 hits 500,000-transaction-mark

EBA Clearing's instant payment system RT1 has processed more than half a million transactions since its launch on 20 November 2017.

The RT1 system passed the transaction milestone on 19 February.

RT1 supports real time payments in the Single Euro Payments Area (SEPA).

According to EBA Clearing, over 95 percent of the transactions are processed in less than three seconds.

In the three months since it went live, RT1 has processed on average more than 10,000 transactions per day.

Erkki Poutiainen, chairman of EBA Clearing, said: "RT1 has had a very promising start and is the heart of the instant payment ramp-up across SEPA. We are pleased to see that the system continues on a successful path following its smooth and timely delivery in a collaborative effort fuelled by our pan-European user community and supported by SIA and Swift."

Hays Littlejohn, CEO of EBA Clearing, commented: "Driven by the active experience of our participants and the expected volume uptake, we plan two further releases in 2018, which will expand connectivity options and introduce additional functionality."

## Gen II exceeds \$175 billion in assets under administration

Gen II Fund Services has revealed that its assets under administration have exceeded \$175 billion.

The fund administrator now services over 100 private fund sponsors, administers over 2,100 fund entities and reports to over 9,000 investors for its clients.

The firm also expanded its presence from its New York office with additional client service teams in Boston and San Francisco.

Norman Leben, Gen II managing principal, commented, "We are grateful to our clients for their confidence and our Gen II team for their dedication, as we put tremendous efforts into ongoing training and development ensuring that our clients receive the highest quality level of service."

Steven Millner, Gen II managing principal, added: "Our singular focus on private equity fund administration, dedication to performance at the highest levels and our unmatched experience has proven to be a recipe that produces industry-best performance and client retention."

"We look forward in continuing to deliver service excellence to our clients."

## Confluence partners with ICE Data

Confluence and ICE Data Services have teamed up to help asset managers meet compliance with SEC Modernization and other regulatory reporting requirements.

As part of the implementation of SEC Modernization, asset managers will see increased frequency and depth of reporting required by Form N-PORT and Form N-CEN presenting them with

unprecedented challenges to their back-office operations.

The new partnership between Confluence and ICE will provide asset managers with the required content, data management and reporting capabilities to help meet compliance needs.

ICE Data Services will help Confluence clients cover the analytics requirements of these regulations, including the calculation of market risk sensitivities at the portfolio- and position-level, as well as properly classifying funds' investments according to prescribed liquidity categories.

Todd Moyer, COO at Confluence, said: "The advent of SEC Modernization has radically altered the playing field for asset management back offices."

He added: "Fund managers are faced with an ongoing challenge to obtain the data they need to comply with new requirements. While Confluence has become the go-to provider for the industry, our model depends upon partnerships with the best market data and analytics providers, exemplified by ICE Data Services."

## Smartkarma launches Premium Services

Smartkarma has launched Premium Services, a suite of value-added services including, analyst calls, corporate access, financial modelling and bespoke research.

The launch follows the recent announcement of Smartkarma's expansion across Europe and the US.

The new service provides buy-side firms with second Markets in Financial Instruments Directive (MiFID II) research services, allowing them to work with all insight providers across the network "without any fear of inducement".

As part of the new service, clients can also access Insight Providers, where they can gain knowledge on a specific topic, or check newly formulated trading ideas.

Jon Foster, co-founder of Smartkarma, said: "The finance industry is seeing unprecedented change and traditional bank-led models for research coverage and analyst interaction is no longer enough."

He added: "The market wants more access to independent research that is compliant and actionable."

"Premium Services delivers this in a new and innovative way, allowing asset managers to dive deeper into the written ideas on Smartkarma and their next investment."

Premium Services is now live across the Smartkarma platform and the service will also be available to European focused Insight Providers joining the platform this year.

## Brexit has had limited impact on European private equity market

Around half in the industry have seen no real effect of Brexit, and investors indicate no change in their views on the UK as a destination for investment, according to Augustus' annual global survey.

Augustus, which asked over 100 managers and investors from across the globe, found that because of these views, ongoing Brexit negotiations are not having a "significant impact on fundraising and investment".

Some 42 percent of European general partners said Brexit would have "no real effect" on global investment compared to 55 percent and 70 percent of Asian and American general partners, respectfully.

In the survey results, it said: "For all the sound and fury Brexit continues to cause in the news, very little is yet known about how it will affect the landscape of the UK and European market, and the extent to which (if any) the UK market will shift in its relationship to the continent [...] suggesting that the general uncertainty is allowing for a 'wait and see' attitude before any big decisions are made."

It added: "However, a minority of investors do report being more conscious of their managers' strategies in light of possible Brexit outcomes."



## SimCorp selected by German pension fund

SimCorp Dimension has been selected by Soka-Bau, a German pension fund, to manage its new front to back office investment management platform.

The agreement, signed in December 2017, will consolidate its current systems to provide the fund with a more efficient investment management setup.

SimCorp Dimension will provide Soka-Bau with a risk management capability, which will support the pension fund with risk measurement of its portfolio.

To enable more accurate forecasting, Soka-Bau will also use a single source of real-time data, powered by the system's investment book of record (IBOR).

Soka-Bau's corporate pension schemes are provided to all employees of the approximately 75,000 companies within the German construction industry.

Maria Güntner, head of portfolio management at Soka-Bau, said: "After a comprehensive selection process, SimCorp Dimension proved to be the most complete solution to meet our integration, automation and transparency requirements."

She added: "Consolidating our system architecture onto one multi-asset class platform will significantly enhance our asset management capabilities, while reducing our operating costs."

Alexander Hase, vice president of sales and account management of SimCorp central Europe, commented: "We are very pleased to welcome Soka-Bau to our global community of pension funds and insurance companies. This partnership underlines the significant benefits of consolidated investment management for the pensions and insurance industry."

By contrast to UK and European thought, Augustius stated that its answers from the US and Asia were "more bullish" when concerning the market climate.

It explained: "Although the industry overall is feeling positive, on the investor side, sentiment is a little more conservative but nevertheless, they reported no change to their appetite for investing in UK based funds."

Augustius found that a similar regional split was seen in managers' views on what they found most challenging over the past year.

It said: "While US and Asian managers were primarily focused on fundraising and finding investment opportunities, UK and European managers by contrast, identified market and tax regulation as their two biggest headaches."

Augustius stated that Asian and American opinion on the investor side seemed to be more conservative.

When asked how they would compare the sector in 2017 to the previous year from an investment point of view, a majority of Asian and American firms felt it had either stayed the same or become less attractive.

The survey also indicated that investors remain very favourable towards the aspects that third party administrators can add to the process.

Some 88 percent of limited partners said that third-party administrators provide better independent insight and 63 percent of limited partners asked said third-party administrators were good value for money.

Elsewhere, Augustius' survey indicated that the industry is continuing to significantly increase its spend on cybersecurity to meet growing threats.

A large majority of UK, European and American managers significantly increased their cybersecurity spending during the last year, and when asked said they intended to do the same over the course of 2018.





### Minium, IBM and Promontory release joint white paper

Firms must invest in expertise and reshape their business models to manage the level of regulatory change, according to a white paper, jointly published by Minium, IBM and Promontory.

The white paper, titled 'The Way Ahead for Derivatives Clearing and Prime Services', discusses some of the key challenges faced by the sector, such as the cost of operational processes, the ongoing wave of new regulations and their impact on existing systems, as well as how new technology can provide firms with an advantage to increase their market share.

The white paper explained that to face these challenges, business should consider four steps to help them explore new geographies, refocus on new businesses, and invest in new technologies.

These include ensuring that forthcoming financial regulations are "fully understood and their impact on existing systems is clear to firms".

Firms should also, according to the white paper, "review issues with current systems to understand whether a modular replacement approach could yield significant business benefits". It also suggested that financial services should also ensure that "a plan is in place to prepare for new technology ecosystems" and "devise a strategic plan to replace antiquated technology stacks, perhaps, via a modular approach".

The white paper explained that the investment in new technology is, inevitably, the way forward and that

firms should embrace application programming interfaces (APIs), cloud computing cognitive processes and blockchain.

It suggested that an API can "eliminate redundant processes" and cloud computing "provides firms with access to vast amounts of computing resources without them having to physically own servers, write code or set up any networks".

While cognitive processes "use computer models to simulate human thought processes to help analyse regulatory text to identify any obligations and assess the adequacy of their compliance programmes".

The white paper stated that firms should use blockchain to "enable the secure flexible, low-cost management of secure value transfers across a global business footprint".

In the conclusion, the report said: "[We] believe that there is an opportunity for firms that provide clearing and prime services to take a quantum leap forward by investing in new technologies that are tailored for modern businesses and aligned with the current regulatory environment."

They added: "A system capable of ensuring a single source of truth with real-time trade information that can be shared internally across all functions could significantly increase the profitability of clearing and prime-services."

Augentius warned: "The private equity and real estate industry is increasingly realising that it is a prime target for attacks, and that outdated approaches to infrastructure and security are leaving it uniquely vulnerable."

Again the private equity and real estate investors found that Asian and American outlook differed to that of UK and European investors.

A slight majority of Asian general partners invested less in 2017 than the previous year, and an even larger majority intend to spend less in the year to come.

Though an increase in cyber security was still evident in both continents.

Looking ahead, Augentius concluded: "On a global level the findings paint an upbeat picture of an industry coming off the back of a better-than-expected 2017, and looking forward to another year of opportunity."

"However, it also highlights a number of potential headwinds and challenges, both immediate and on the horizon, that firms could do well to be wary of."

"In Europe especially, firms need to ensure they are effectively navigating regulation so they can get back to their core job, and those affected will need to keep a keen eye on Brexit negotiations as details of the future UK-EU relationship begin to crystallise."

Ian Kelly, group CEO of Augentius, said: "Despite all the political dislocations of the past two years, our annual surveys have tracked a steady improvement in sentiment among private equity and real estate managers across the globe."

"While it's good to see this trend continuing in the US and Asia, the feeling among UK and European managers is slightly more subdued."

## asset servicing times

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## The hunt for value

**Thomas Zeeb of SIX Securities discusses how the post-trade industry should address challenges such as increased oversight, continued cost pressure and more demanding clients in the face of the perpetual hunt for value**

Towards the end of last year, we hosted our Post-Trade Forum in London, bringing together key players from the industry to debate how the post-trade industry can continue to grow in value for financial market participants and ultimately, the end investors.

The European post-trade industry is confronted with a number of key questions. Foremost among these is the question of value. While the push for breakthrough and innovation is common across all industries, the difference today is the speed at which today's value-added service becomes tomorrow's commodity. The result is a perpetual "hunt for value", a hunt that is complicated by a relative lack of understanding of what post-trade processing delivers to the full securities value chain.

This issue is weighing heavily on the minds of post-trade service providers, highlighted through some recent research we conducted. It found that 67 percent of respondents believe that post-trade service providers will need to focus on new service creation and revenue

opportunities by 2027, if they are to continue creating value beyond being "simply operational".

### Re-thinking the fundamentals

This is potentially a daunting statistic, and points to a need to question the fundamentals of how our industry operates. For decades, the correspondent and transaction banking models have served the post-trade industry well, but with increased oversight, continued cost pressure and more demanding clients the challenge now is to fundamentally and profoundly reshape the way we work. But how does an industry that has grown to gigantic proportions even begin to address these challenges?

It is difficult to talk about innovation without focusing on technology. Over half, 63 percent, of the survey respondents highlighted robotic process automation (RPA) and artificial intelligence (AI) as the technologies that have the potential to provide the greatest value.



This is interesting in that these technologies change the “how”, but not the “what” of the process.

This is followed by distributed ledger technology (DLT) (57 percent), cryptocurrencies (50 percent) and application programming interfaces (APIs) (37 percent). We can expect to see these buzzwords cropping up across almost every sector in 2018, as they jostle to streamline, centralise and improve customer experience. The unique challenge for the post-trade industry is the size of the ship we are looking to turn. And of course, ensuring that innovation is focused in the right areas.

### Outsourcing success

Outsourcing is one of the most interesting trends that will have an impact on how post-trade service providers are able to add value. Of course, it is understandable that this sometimes comes with a degree of trepidation, generally centered on concerns about losing “know-how”, and ensuring that the partnership is with a provider with the right level of intelligence. That said, there are major cost efficiencies that can be driven through outsourcing non-differentiated functions such as tax services, corporate actions and collateral management.

Smart outsourcing, based on true partnerships with complementary capabilities will allow organisations to re-focus efforts on their core business, giving them the ‘corporate bandwidth’ to focus on the strategic, high-value, high-return services that will enable them to build a sustainable future.

### Financial technology competition

While established post-trade service providers grapple with how to challenge the status quo to understand how things might be done differently, more nimble fintech providers are quickly re-writing the rule book.

The opportunity for fintech shines through in our research: 37 percent of respondents said that their organisation is ‘highly likely’ to turn to a Fintech provider for at least one post-trade service by 2027. This figure increases dramatically to 60 percent among asset management

companies. The three key attractions of a fintech company are that they are perceived to be able to react more quickly to client needs, as well as approaching problems from a more innovative perspective, unconstrained by legacy systems and culture. This is closely linked to the perception that fintech companies are seen to have a different skill set in their employees that enables them to generate more value-creating services.

### Spotlight on collaboration

When asked about how post-trade service providers can achieve the same level of innovation, the common theme of collaboration and openness emerges – not something that has historically been part of our industry’s outlook. Just under half, 43 percent, of respondents believe that post-trade service providers will need to partner with other companies, while 53 percent point to the need to hire different kinds of talent from outside the industry if they are to retain clients. Counterbalancing these perspectives, 37 percent of respondents highlight that a mixture of both technological and financial knowledge will be required to secure future value provision, bringing together a detailed understanding of the landscape and the skills to create new solutions.

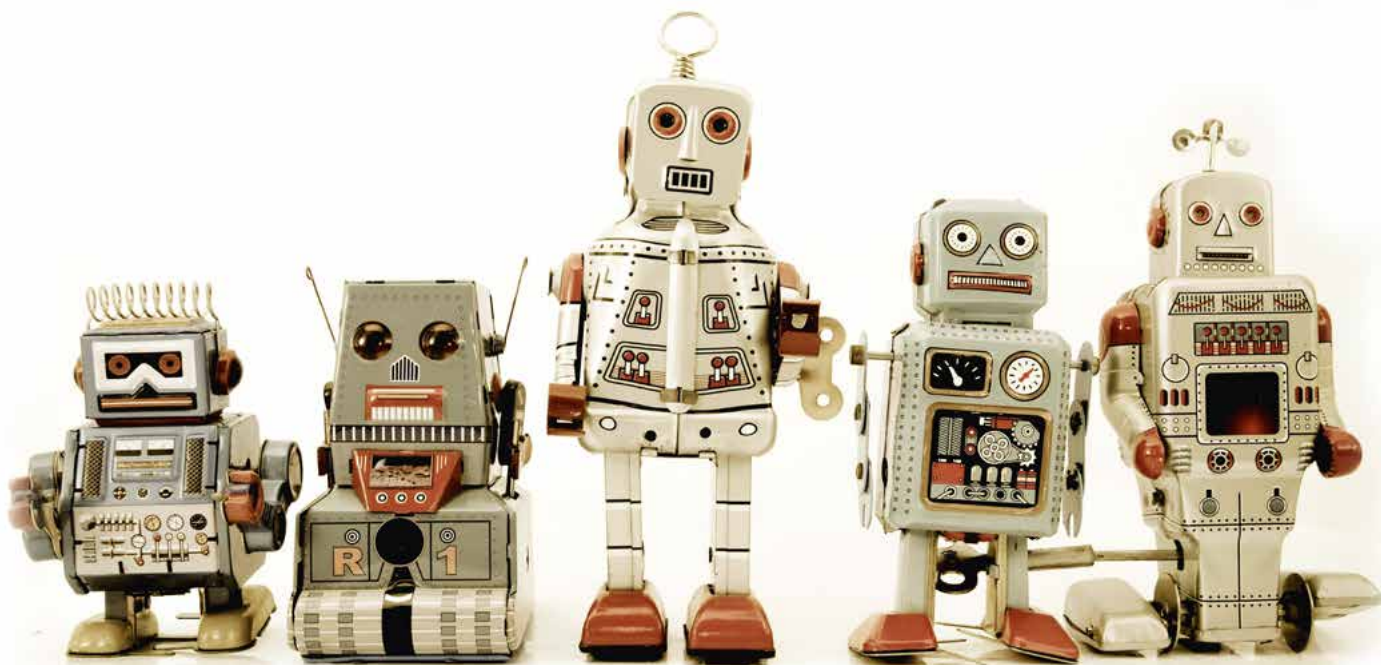
To truly achieve a more agile value chain, and reduce costs substantially, the goal must be not to automate existing redundancies, but to eliminate them altogether. That, in turn, requires a fundamental re-evaluation of the roles, functions, and responsibilities of each player in the value chain. Technology, in all sectors, is increasingly moving power to end clients and users, and yet ‘our’ industry model is still focused on streamlining financial intermediaries, rather than focusing on what the end client wants and needs.

In the hunt for value, it is clear there is a new path to forge. With businesses to run, the pressure to innovate, a backdrop of change and indecision in Brussels and Westminster, and creeping regulations such as the second Markets in Financial Instruments Directive (MiFID II) and General Data Protection Regulation (GDPR) on the horizon, 2018 will be a pivotal year for the post-trade industry in a bid to retain and develop the high-value business lines it has worked so hard to establish. **AST**

*To truly achieve a more agile value chain, and reduce costs substantially, the goal must be not to automate existing redundancies, but to eliminate them altogether*

Thomas Zeeb, division CEO, SIX Securities Services





## Bots behaving badly

**With change in regulatory developments for the EU, Michael Huertas of Baker McKenzie suggests that there is also a deeper-rooted level of change with digital disruption shaking up how processes work**

Asset servicing is a critical component of the collateral ecosystem. However, as an industry, it is often an unsung, unseen and underappreciated afterthought both with regulatory and supervisory policymakers as well as market participants and market infrastructure providers that rely upon it to function. Even with the tome of change that the second Markets in Financial Instruments Directive (MiFID II)/Markets in Financial Instruments Regulation (MiFIR) has brought to bear in the run-up and start of 2018, the breadth of compliance workstreams will likely stay as the delayed transposition efforts continue. The pace of change is also likely to quicken on both sides of the Channel and the Irish Sea as the UK and the EU-27 move to meet reform goals of existing change as well as those that are in the pipeline let alone those that are Brexit driven.

There is also a deeper-rooted level of change afoot than just legislative and regulatory developments. Digital disruption is shaking up how processes work and who operates let alone supervises them.

The interest in and the prevalence of innovative solutions and processes in the post-trading space is being advanced by asset servicers as well as clients.

This has raised profound questions and debate on 'man versus machine' or 'man leveraging machine'. It has also settled the

importance of data as a commodity and data analysis along with regulatory reporting as a much more monetisable workstream in its own right and one that is beginning to propel new business models and client needs.

Yet, in many ways the uncertainty of Brexit, the risks that have begun to appear in relation to some automated offerings, both in terms of providers but also the solutions themselves, mean that the post-trade space is likely to remain reliant on human-assisted channels to ensure both responsiveness and resilience to known idiosyncratic and systemic risk exposures as well as the range of known and unknown risks being driven by political and macroeconomic uncertainty as well as increasingly tech-specific risks. To further complicate matters, much of the technology platforms in widespread use in the asset servicing space may be built on legacy systems, slow digital communication channels (in particular fax) and legacy operational arrangements, whether documented or undocumented. This means that digitisation, and more likely the bots that are coded and employed in these areas and across workstreams may have to come leaps and bounds and span a greater degree of interoperability.

Whereas some market participants have begun to take the plunge and prioritise replicating asset servicing of for instance cryptocurrencies and other digital assets and others have even begun engaging or

facilitating in margin lending or other monetisation of such assets, this is very much a grey area regarding how it is taxed, regulated and supervised. So too is the full spectrum of what digital ledger technology, whether as private or public blockchain can do better in settlement efficiency than some existing systems and their relevant safeguards. The same is true in relation to the fragmented nature of standards in the tokenisation process, which would need to be made uniform to create smart securities that can be mobilised in one lot alone across multiple asset servicing value chains and the relevant touchpoints of risk analysis, monetisation, accounting, transfer agent and corporate actions processes. It is not a question of whether innovative solutions and use cases exist in these areas, or in asset servicing as a whole, but rather, whether what can do better and be more resilient generally, as well as specifically due to the tech-related risks than non-digitised methods and whether the relevant supervisor agrees that this is the case.

Global as well as regulatory and supervisory policymakers at the EU and national levels of the European System of Financial Supervision are only beginning to find their feet in how to regulate and supervise financial technology and regulation technology and remain “tech neutral” and jurisdiction agnostic about it. One thing that is, however, clear as it was in the pre-digitised age, regulatory and supervisory reform can catch-up pretty quickly and have some very real impacts on market participants. Policy concerns are split between enabling the evolution of efficient and sustainable market practice yet still very much protecting against risks of ‘ghosts in the machine’ or from ‘bots behaving badly’.

Ignoring EU legislative and regulatory reform, the EU’s search for its financial technology strategy, the following Eurozone specific measures may be of relevance to the asset servicing industry. This may prompt some market participants as well as asset servicers to consider whether they might require new or have to re-document certain contractual arrangements but equally their compliance frameworks.

## BMR and replacement rates

Benchmark rates and indices matter. They also play a key role for SFTs. In response to the issues around benchmark rates, the EU finalised reforms which fully entered into force in the form of the EU’s Benchmarks Regulation (Regulation (EU) 2016/1011 (the BMR)) on 1 January 2018. The BMR will have transformative effects across markets, asset classes and transaction types. It will also delineate between activity that is regulated and supervised in the EU and such activity that takes place outside the EU, for example in a third-country and, which will need to be given permission for access into the EU or for use by those entities that—as per the BMR— qualify as an EU supervised entity. This will be of particular importance once the UK leaves the EU and becomes a third-country.

Regarding impact, these rules go very much beyond cleaning-up Interbank Offered Rate (IBORs). For example, the interbank bid and offer rates that shot to prominence in the London Interbank Offered

Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) fixing scandals and which have meanwhile caused policymakers as well as private sector market participants to search for replacement rates. The European Central Bank has begun creating a replacement to EURIBOR. In Q4 2017, it announced the launch of a new working group and a methodology for an overnight benchmark rate. This rate would serve as a central bank-led backstop to private sector benchmark rates.

The current working title thereof is the Euro unsecured overnight interest rate (EUOIR). Both the ECB’s consultation process and the submission date to join the working group closed on 12 January 2018, and a further consultation on EUOIR is set to follow. Work by the regulators has been replicated by industry associations in creating an IBOR Roadmap of who is doing what and where.

## ECB’s pension fund statistics regulation

The ECB has also, together with the European Institutional and Occupational Pensions Authority (EIOPA), been active in mapping how pension funds engage in financial markets and its impact on resilience and systemic risk. In 2017, the ECB published consulted on and held a public hearing on a draft regulation on statistical reporting requirements for pension funds (the ECB PF Regulation). Once finalised, this will prompt reporting requirement that start during Q1 2019.

The rules are clear and far-reaching. They seek to capture asset-level data on a quarterly and annual basis. They call for submitting granular data on securities borrowing against cash collateral, claims under reverse repos, any form of lending (including securities lending), cash collateral received in exchange for securities lending and similar transactions.

However, what the ECB pension fund regulation, at least in its current form, does not do, is interlink with defined terms that already exist in Securities Financing Transactions Regulation (SFTR) and/or the MiFID II/MiFIR Framework. Given that most in-scope pension funds are likely to expect their dealer entities, including on the Securities Financing Transactions (SFT) side of things, to take the lead on preparing regulatory reporting to fulfil the ECB pension fund regulation’s obligations, this could cause both conceptual and practical problems for buy and sell side participants unless preparatory action is taken on both sides.

## ECB-led market infrastructure changes

The ECB as the gatekeeper of the Eurosystem’s settlement systems (TARGET2 and T2S) has since their inception undertaken some consultations and initiatives to improve their functioning and efficiency. This has been a catalyst to create more common standards and greater efficiency including with respect to asset servicing. In 2016, the ECB put together a Task Force on the Future of Real Time Gross Settlement Services and, in 2017, that group made large strides in



its mandate to deliver the TARGET2 and T2S consolidation project. This project is set to advance further along four distinct workstreams, which are:

- Technical consolidation of the Eurosystem market infrastructure with an aim to provide more cost-efficient and resilient services to users
- Consolidated and harmonised connectivity solutions across the Eurosystem market infrastructure services
- Functional convergence and sharing of common services between TARGET2 and T2S both regarding payment and user interface (multi-currency services, additional payment fields and collateral options)
- Introduction of new real-time gross settlement services, such as the TARGET Instant Payment Settlement (TIPS) solution

Also, the ECB coordinated Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) will finalise the remaining 24 Priority 1 and Priority 2 activities. These deliverables aim to improve the harmonisation and efficiency of the T2S environment as well as the interaction with CSDs for cross-CSD settlement and the provision of ancillary services. A further update will be released in the 'Eighth T2S Harmonisation Progress Report' in Q1 2018.

### **Brexit, new and alternative dispute resolution venues, possible changes to governing law clauses in financial transaction documentation**

The uncertainty of Brexit has also raised questions on governing law and jurisdiction. As a result, some industry associations have begun to explore how to replicate English law governed master agreement documentation suites used across an array of financial transactions and subject them to the laws of other EU Member States.

Concurrently, a number of these EU 'challenger financial centres' have begun to amend existing venues or build new dedicated dispute resolution venues that embed English as the lingua franca in resolving their disputes. This is welcome in many ways but does not displace the use case for English law in financial market transactions post-Brexit.

Even if the UK is leaving the EU, the enthusiasm for English law as the governing law for financial market transactions and as the use of English as the language for dispute resolution has not diminished. Even the European Court of Auditors found in its report that the Court of Justice of the European Union ought to consider adding English as a procedural language. Those market participants affected the question on how to "Brexit-proof" their documentation and dispute resolution options may want to consider the range of challenger venues that are being set-up in Paris, Amsterdam, Brussels or Frankfurt. With some of these new bespoke or anglicised venues starting their operations in 2018 through 2020, the race is on to find an alternative to the Courts of England and Wales. Those that can evidence sufficient "bench strength" and cost efficiencies will score first-mover advantage.

### **Outlook towards 2019**

Asset servicing professionals, management and strategy teams may wish to consider how all of this will impact upskilling functions and make them more technology aware regardless of the pace of disruption and the future of who processes and supervises which operations and where. In the absence of the EU's Capital Markets Union (CMU) action plan, which was originally intended to be complete by 2019 (lest political troubles and Brexit delayed it) having sidestepped some fundamental issues on (further) improving the pan-EU harmonisation and interoperability of asset servicing, market participants may want to continue how to lobby their interests and/or to revisit earlier pre-CMU proposals, such as the proposal for an EU Securities Law instrument, that aimed to bring greater efficiency and legal certainty across the value chain running through front, middle and back office.

Technology, including digital ledger solutions, which come with their risks and uncertainty on resilience and regulatory treatment and may thus not be as much of a panacea as first promoted. As a result, market participants, asset servicers and their clients, will want to consider how to leverage both tech and the legal/regulatory drivers of change to ensure that the engine room of the collateral ecosystem and thus financial markets remain fit for the future, compliant and ahead of the curve. **AST**

*Technology, including digital ledger solutions, which come with their risks and uncertainty on resilience and regulatory treatment and may thus not be as much of a panacea as first promoted*

Michael Huertas, counsel, Baker McKenzie





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### Appointments at the FCA, Sanne, Lux, Customs House and more

The Financial Conduct Authority has appointed Liz Daniels as policy advisor.

Daniels started the role in November last year.

Previously, Daniels served as a consultant at Culture, Conduct, Change from January to November 2017.

She worked with a range of clients, including entrepreneurs in financial technology, large and small asset managers and the public sector.

She has also served as senior project manager, individual accountability regime and global head of job descriptions at Standard Chartered Bank.

**SANNE has appointed Hannah Correll Jaeger as head of client relationship management for the Americas to support the company's growth.**

Jaeger will help to build the SANNE brand in the Americas and represent the company's global services.

Based in the firm's New York office, Jaeger will be responsible for building and maintaining all client and intermediary relationship while overseeing business development, marketing, and sales.

She joins from Vistra Group, where she served as director of business development. In her previous role, she focused on the alternatives investment industry, specifically within the private equity, real estate and hedge fund markets.

Jeffrey Hahn, managing director of alternative assets in the Americas, commented: "Hannah Correll Jaeger's appointment further strengthens SANNE's offering in the Americas and supports our strategic business objectives and brand recognition in the US and globally."

"She has deep roots and is highly respected in the alternative assets investing community."

LUX Fund Technology and Solutions has hired Christopher Bloechle as chief technology officer.

The company has also promoted the founding partner Mark Christine to chief innovation officer.

Bloechle has 20 years of experience designing, developing and delivering technology for financial services.

Previously, he served at Point 72 Asset Management/SAC Capital Advisors for 16 years.

With Bloechle servicing as chief technology officer, Christine will transition into the newly created position of chief innovation officer.

Nik Takmopoulos, CEO and founding partner of LUX Fund Technology and Solutions, said: "Serving the day-to-day needs of clients, Chris Bloechle's institutional knowledge will help the company to better serve larger funds as well as allow us to scale the Transcend platform for increased complexity and our growing client base."

Commenting on his new role, Christine explained: "In my new role, I will focus on building out our research and development department, which will deliver innovative new products and features to be deployed across the Transcend platform."

**Custom House Global Fund Services has hired David Barry as chief operations officer.**

Barry will be responsible for the oversight and managing of the firm's global administration team. He will split his time between the group's Dublin and Malta offices.

Barry rejoins Custom House after serving at Portcullis Asset Management for two and a half years as CEO.

Helen Breen, CFO of Custom House, said: "David Barry will oversee our global operating model and is responsible for our multi-jurisdictional fund administration teams, managing eight direct reports located in our regional offices."



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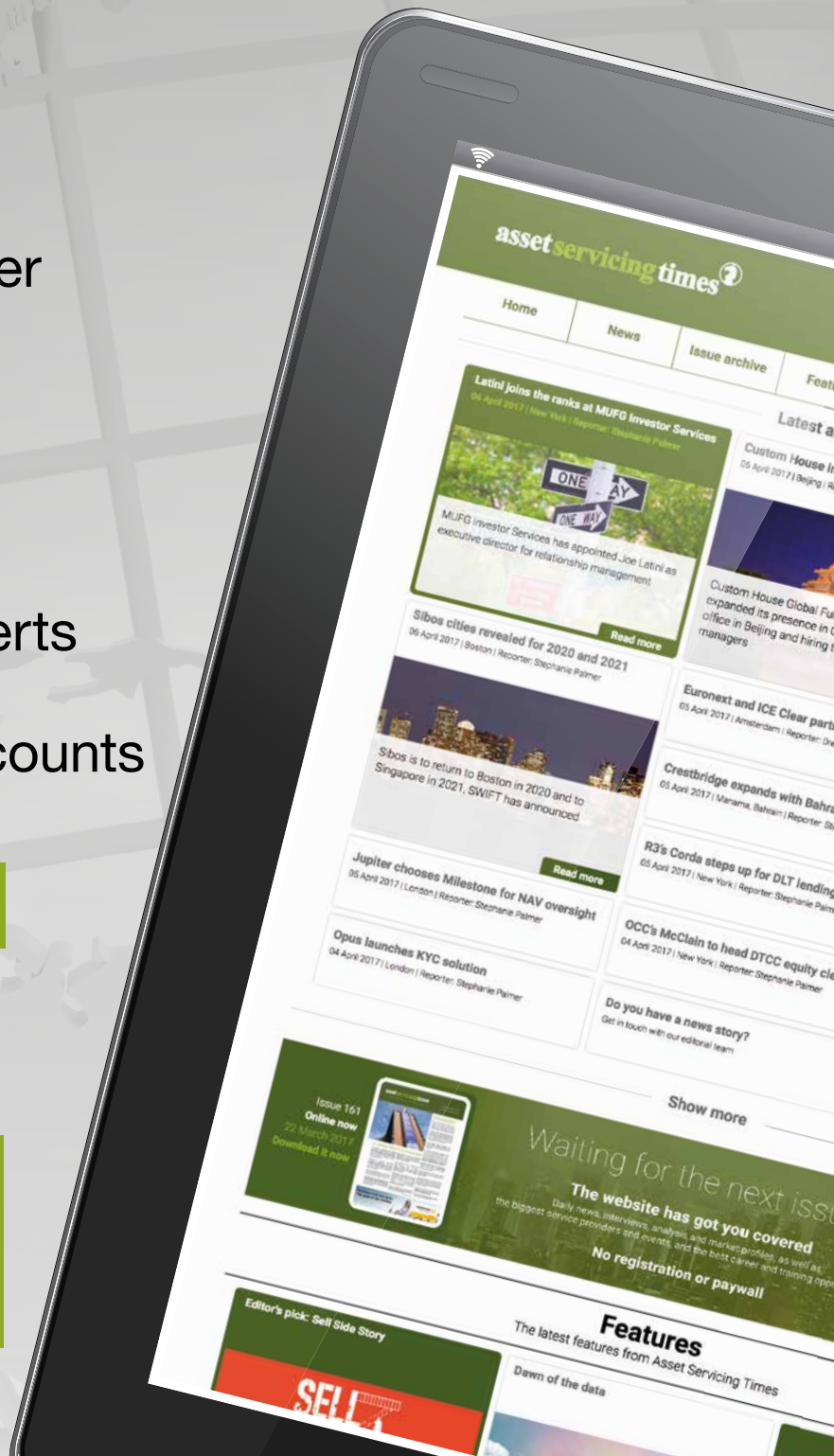
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Barry added: "Custom House combines almost 30 years of experience as a fund administrator for alternative investment funds with an innovative, entrepreneurial, technology-driven service model that puts our clients first."

"I look forward to continuing to develop this model, and to ensure we are ahead of the curve when it comes to meeting our client's needs."

**Milestone Group has appointed Paul Roberts as CEO and created the new role of president of North America for Geoff Hodge.**

Hodge will be based in Boston, while Roberts will be based in London.

Roberts has previously worked for Milestone's Europe Middle East and Africa (EMEA) business for eight years. As CEO, Roberts will be responsible for the company's global software business, developing and deepening its presence in key markets, and expanding Milestone's global expansion of solutions for fund managers, life companies and pension funds.

Geoff Hodge, co-founder and previously CEO of Milestone Group, will assume a dual role continuing as executive chairman and becoming president of North America. According to Milestone, this role has been newly created to provide strategic support to the growth Milestone Group has seen in North America, and the potential it sees in the region.

Commenting on his new role as CEO, Paul Roberts said: "Around 70 percent of our business is now in EMEA and North America, while a strong focus remains in Australia and Asia Pacific, so it made sense to align the leadership team accordingly to best serve clients and support future growth." He added: "As part of my new role I will be overseeing the development of our core solutions, the global roll-out of our newer net asset value and multi-asset solutions, and in particular supporting our exciting 'smart-sourcing' initiatives, which deliver more intelligent, blended operating models."

Hodge commented: "2018 is going to be a significant year for Milestone Group, and this change ensures we are correctly positioned to support that. We have had great success to date operating with a low profile supporting innovation in mission-critical functions for our clients and we are now layering on top of that a new level of relationships with organisations looking to achieve big things in new ways."

**SmartStream Technologies has promoted Christian Schiebl to COO.**

Schiebl has moved from head of SmartStream's Corona business to COO in order to manage global operations.

Before SmartStream, Schiebl held various management positions at companies including Digital Equipment Corporation, Compaq and Management Data.

SmartStream has also appointed Vincent Kilcoyne as head of product management.

Kilcoyne brings more than 30 years of industry experience in leading and advising financial and technology organisations and will be responsible for the management of all products. Prior to joining SmartStream, Kilcoyne held senior roles in product strategy, pre-sales and product development for financial technology organisations, including FIS, Finastra, Ion Trading, and SAS.

Haytham Kaddoura, CEO, SmartStream, stated: "Our key priority is to hire high calibre candidates, both Vincent Kilcoyne and Christian Schiebl are excellent additions to the executive management team, both have an outstanding knowledge of the industry and the know-how to keep our customers resilient, in a highly competitive market."

**Ricky Maloney will rejoin Eurex as head of fixed income trading and clearing sales.**

He previously worked at Eurex from 2013 to 2016 as head of over-the-counter clearing sales and relationship management.

From 2016 to 2017, Maloney served as front office business manager at Old Mutual Global Investors. He has also held senior positions at Ignis Asset Management and BNP Paribas.

**Kane LPI, a manager of administration solutions in the pensions sector, has appointed Alain Fournier as head of its administration services business.**

Based in Kane LPI's head office in Bermuda, Fournier will be responsible for the management of the life, pension and investment division. He will report to and work closely with Kane LPI CEO, John Uprichard. Fournier has more than 15 years of accounting experience in the financial services sector. Previously, he served as managing director and COO at HH Management.

Prior to HH Management, Fournier was group manager at Citi Hedge Fund Services, responsible for the management of shareholder services and the transfer agency team. He has also worked at Olympia Capital International, Charles Taylor Captive Management Company and KPMG.

Commenting on Fournier's appointment, Uprichard said: "Kane LPI offers a range of administrative services for all forms of fund structures, including hedge funds, fund-of-funds and insurance-linked securities funds, and under Alain Fournier's direction, we will further strengthen our position in a very competitive marketplace."

Fournier commented: "By offering the full spectrum of administration capabilities, Kane LPI is ideally positioned to support managers across the investment spectrum, from the initial start-up of the investment vehicle through to providing the flexible and robust infrastructure to facilitate their growth ambitions." **AST**