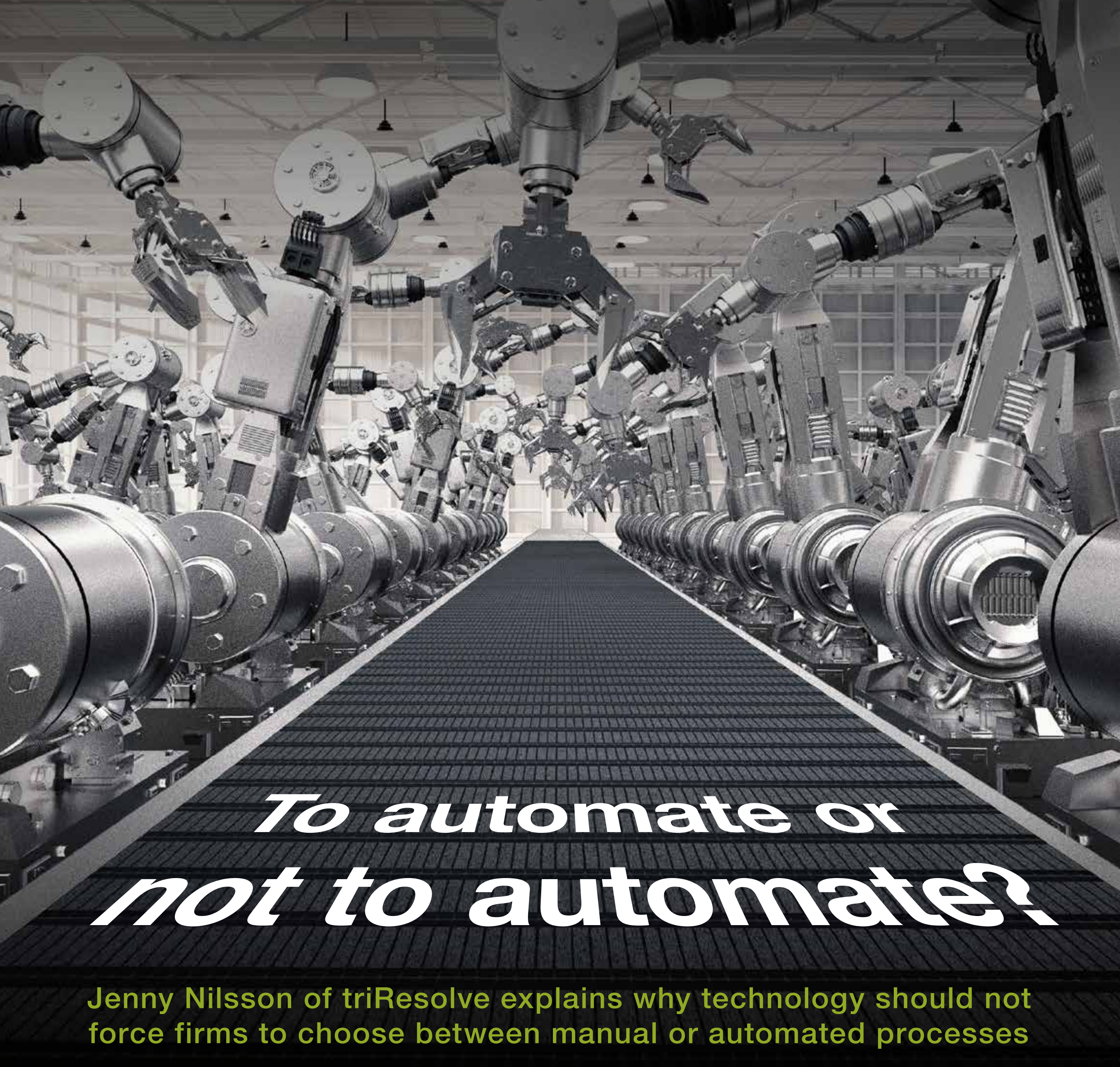
asset servicing times

The primary source of global asset servicing news and analysis

Conference Special



# To automate or not to automate?

Jenny Nilsson of triResolve explains why technology should not force firms to choose between manual or automated processes

# AFME calls for further progress in European post-trade reform

AFME's post-trade division has published a new white paper setting out a vision for a future post-trade system in Europe.

The paper outlines AFME's vision for integrated, safe, and efficient post-trade in Europe. In addition to this, the paper explores impending progress in European post-trade reform as well as the key objectives for public authorities and the industry in the paper, entitled "A Roadmap for Integrated, Safe and Efficient Post Trade Services in Europe."

To achieve the vision of low-risk and low-cost post trading in Europe, the paper calls for a number of strategies including continuing a close and institutionalised cooperation between the public and the private sector.

It also suggested intensified dialogue with European and national public authorities in a bespoke and targeted manner, and leveraging opportunities created by new technology.

Key areas of focus include: a sound legal basis for cross border holdings in book entry securities, an efficient method of reclaiming withholding taxes, and ensuring open access and interoperability for European central counterparties.

Stephen Burton, managing director of post-trade, AFME, said: "European post-trade reform must go further if we are to build larger and more diverse capital markets in Europe. While the solutions put forward to date are necessary, they have not gone far enough in addressing the barriers to efficient post trade."

He added: "In order to make progress towards an integrated, low-risk and low-cost post-trade eco-system in Europe, European and national authorities should prioritise reform."

"The overarching goals of post trade reform are well-established, the mandate and the foundations have been clearly set, now it's time for action."

assetservicingtimes

W: www.assetservicingtimes.com
T: @ASTimes_



**Acting Editor: Becky Butcher**
beckybutcher@blackknightmedialtd.com
+44 (0)203 750 6019

**Junior Reporter: Jenna Lomax**
jennalomax@blackknightmedialtd.com
+44 (0)203 750 6018

**Junior Reporter: Maddie Saghir**
maddiesaghir@blackknightmedialtd.com
+44 (0)203 750 6019

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

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

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

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

**Office Manager: Chelsea Bowles**
accounts@blackknightmedialtd.com


Published by Black Knight Media Ltd

## INDOS Financial appointed depositary by Gresham House

INDOS Financial Limited (INDOS) has been appointed as depositary to four alternative investment funds (AIFs) managed by Gresham House, the alternative asset manager.

The AIFs are Gresham House Strategic, an Alternative Investment Market (AIM) quoted investment company, as well as Gresham House Strategic Public Equity, and Gresham House British Strategic Investment Fund, which are both Guernsey Limited Partnerships. The fourth is Gresham House Forestry Fund, a Scottish Limited Partnership.

Bill Prew, CEO of INDOS, said: "We are delighted to have been appointed as depositary to the Gresham House funds."

He added: "The appointment leverages our expertise as an independent depositary across a number of disciplines, including private and public equity, real estate, infrastructure, and custody, and UK-listed and other UK and non-EU fund structures."

John-Paul Preston, head of corporate advisory for Gresham House, commented: "We selected INDOS because we required a depositary with the breadth of experience and regulatory permissions to support our continued growth and diverse requirements."

He added: "The INDOS Financial team were pro-active and professional to work with and provided valuable guidance throughout."

## Hedge fund asset flows 'barely positive' for April

Hedge fund asset flows are 'barely positive' and the majority of managers are seeing small outflows, according to eVestment's April hedge fund asset flows report.

Almost 63 percent of reporting managers faced some level of net outflow in April, the most elevated level seen since October 2016.

However, these outflows were generally small and outweighed by new funds coming into the industry, the report says.

Additionally, investor flows were found to be near flat but positive in April. Allocations were estimated at $1.78 billion during the month, and $13.67 billion for the year.

The report also found that despite broad redemption pressures, few funds lost few assets. Fewer than 20 percent of managers lost greater than 2 percent of their assets under management (AUM) from outflows in April, which is below the 18-month average.

Among primary strategies, Marco funds were +$3.23 billion, whilst directional credit funds were +$2.89 billion, bringing year-to-date flows to $8.21 billion, according to the April report.

Other key findings included managed futures funds seeing the biggest outflows among primary strategies at -$1.79 billion. Event-driven funds also lost AUM, down -$1.63 billion in April and -$5.23 billion year to date.

## Ocorian launches new corporate trust offering and appoints trio

Ocorian has launched its new corporate trust offering with the appointment of three senior-level professionals from the banking sector. The three new professionals joining Ocorian, the provider of corporate and fiduciary services, are Sally Gilding, Chris Wilson, and Sinead McIntosh.

Gilding joins as senior consultant and non-executive director tasked with driving the strategic direction and rollout of the new product range.

intellect™
Design for Digital

# INTELLECT™ OneMARKETS

## Over 98%
throughput rate across asset classes

## Administer/ Service
a wide range of Corporate Actions

## Multi
-Asset, Multi-Currency, Multi-Lingual Solution

## Market Leader
in India with significant traction in International Markets

## Supports
SWIFT 15022 messaging standards

Intellect OneMARKETS offers a robust, scalable and comprehensive 360-degree digital platform that supports straight-through processing, direct market access, and high speed execution across a variety of asset classes and market segments with seamless interfaces to local and international market infrastructure providers like exchanges, central counter-parties, custodians, and central securities depositories. It minimizes pre and post trade operational risk by digitizing asset servicing functions across front, mid and back offices

## Analyze
statistical data related to settlement & corporate action transactions

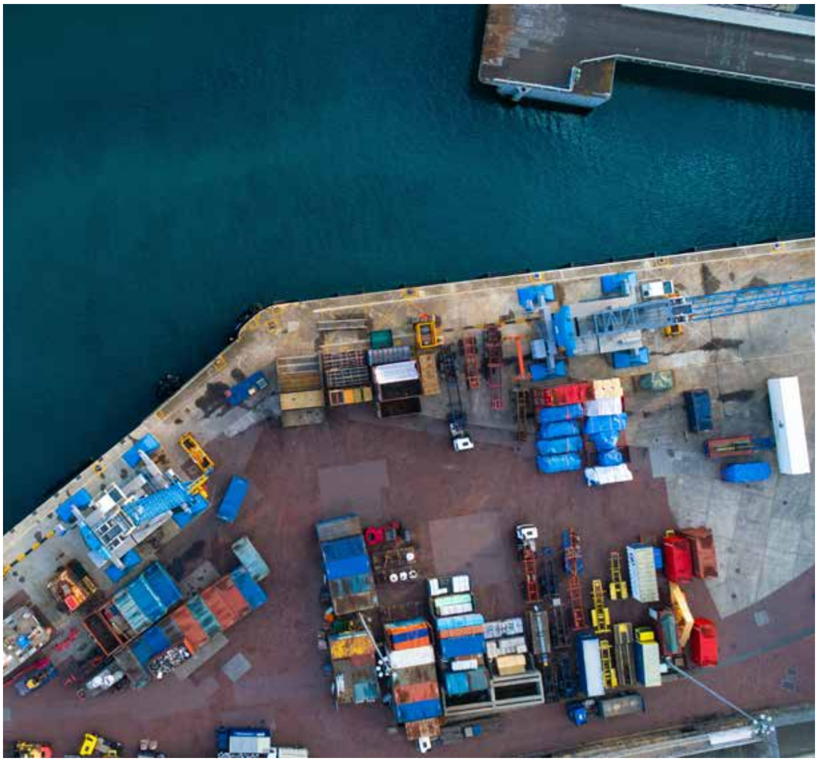
Intellect OneMARKETS is designed to seamlessly fit into your technology landscape. It has ready connectivity with:

- 15 Exchanges
- 14 Depositories
- 06 Leading Core Banking Systems
- 02 ICSDs

A Securities Trading & Asset Servicing Platform

High Throughput Solution for Custodial Clients

Contact: +91 96194 22762 | preeti.mishra@intellectdesign.com



## Time spent on regulation is ‘grotesquely obsessive’

The time spent on regulation by active investment managers is “grotesquely obsessive”, according to a panellist at this year’s Guernsey Funds Forum. The panellist gave this remark after the moderator asked: “In terms of board time, how much do you spend on regulation and compliance versus actually running the fund/manager business?”

The panellist said that the amount of hours spent on regulation takes away “useful time” and it places more of a burden on senior management.

He added: “senior management cannot expect regulations to be taken by more junior members of staff.”

Another speaker said that the industry is in need of a “global framework of regulations”. She said though there has been “a lot of half-hearted stabs” at trying to achieve a global framework, an “overarching global framework is really needed”.

Though the speaker said she understood the notion that “without risk [that regulation generally lessens] you don’t get reward—there’s no creativity or income”, she added.

The moderator brought the subject of technology and artificial intelligence into the conversation as he asked what technology could do to improve the runnings of firms within asset management. One of the speakers said: “Technology can bring down the operational costs and can help with pressure on fees.”

The moderator concluded by asking the panellist their views on cryptocurrencies.

One speaker said: “Some of it is complete crookedness, logically it’s a nightmare as it gives an opportunity for rogues”

However, he said: “Run properly though there’s nothing wrong with it at all.”

Prior to Ocorian, Gilding was co-chief executive of Deutsche Trustee Company Limited in the UK. Most recently, Gilding has sat on numerous Trustee Boards across the Middle East, Africa, and Asia.

Wilson, who has been appointed as director of transaction management, joins from Citi.

McIntosh, who previously served at HSBC, joins Ocorian as associate director of product development.

Commenting on the new appointments, Nick Cawley, CEO of Ocorian, said: “This is an exciting time for Ocorian. We continue to invest heavily in all areas of our business but the development of our corporate trust offering, both in terms of bringing on-board high-quality people with superior skills and know-how and providing the right process and systems to support them, underpins our long-term growth strategy.”

## IIFA launches new report on worldwide open-end funds

The International Investment funds Association (IIFA) is launching a publicly available statistical report.

The report named, World Historical Assets and Flows for Regulated Open-End Funds, will be updated quarterly. It features a new data series that begins with Q1 2008 and goes through to Q4 2017.

In addition to this, the IIFA will continue to publish its quarterly update on worldwide-regulated open-end fund assets and flows.

The report contains data on total net assets, total net sales, and a number of funds from 48 jurisdictions, broken out by jurisdiction and published in euros, US dollars, and local currencies. For more than two decades, IIFA has been compiling worldwide open-end fund statistics released by European Fund And Asset Management Association and other IFA member associations.

IIFA suggested that this information will be valuable for the work of industry researchers, analysts, and regulators.

# A Canadian Asset Servicing Leader

With more than 1,300 professionals exclusively focused on servicing Canadian investors and global investors into Canada, CIBC Mellon can deliver on-the-ground execution, expertise and insights to help clients navigate the Canadian market. Leveraging the technology and scale of BNY Mellon, a global leader in investment servicing, and the local presence of CIBC, one of Canada's leading financial institutions, CIBC Mellon has the experience and the capabilities to help you succeed in Canada.

- Canadian custody and sub-custody
- Canadian correspondent banking[1]
- Broker-dealer clearing
- Securities lending[2]
- Brokerage[1]
- Investment fund services
- MIS (Workbench, STP scorecard, trade match report card)
- Data analytics[2]

---

[1] Provided by CIBC
[2] Provided by BNY Mellon

Learn more, contact:
Shane Kuros at +1 416 643 6365
**www.cibcmellon.com**

CIBC MELLON

## Smartkarma launches Boost Research

Smartkarma has launched Boost Research, an accelerator programme designed to support investment analysts who want to start independent research businesses.

Boost Research aims to improve the overall supply of independent research to the market as well as increasing the variety of opinions in research to aid investment decisions.

The Boost Research accelerator offers subsidised office services, through to financial support, mentorship and access to regulatory cover, initially from the Smartkarma London office. Smartkarma's platform also provides data, publishing tools and distribution of research to its network of global buy-side institutions.

According to Smartkarma, Boost Research will change the landscape of investment research provision, ensuring growth and improved diversity in the independent investment research space.

Mark Artherton, head of research at Boost Research, said: "We are dedicated to growing the independent analyst landscape around the world to enhance the variety of opinion available to investors."

"At a time when sell-side analysts are facing an uncertain future, we are taking these skilled analysts and empowering them to build a sustainable business."

John-Paul Smith, founder of independent research provider, Ecstrat commented: "At the start of my career as an independent analyst, setting up the business and focusing on things outside of the core research took up so much of my time and slowed the development of my business. Boost Research would have made my start much easier."

He added: "I am now looking forward to being part of the Boost Research mentoring programme and helping support the next generation of independent research providers."

## CaixaBank Asset Management selects SimCorp Dimension

CaixaBank Asset Management has selected SimCorp Dimension for its front to back office operations.

According to SimCorp, SimCorp Dimension will enable CaixaBank Asset Management to scale and enhance its position in the market.

SimCorp Dimension will replace a number of in-house built applications in the front and middle office, across portfolio and order management, pre- and post-trade compliance and performance measurement, through to fund accounting and other back office functions.

Supported by SimCorp's foundational Investment Book of Record, CaixaBank Asset Management will be able to address its data management with a single source of real-time data delivering a view of positions, cash and exposure.

The agreement with CaixaBank Asset Management follows an agreement signed with its sister company, VidaCaixa, in late 2016. CaixaBank Asset Management, part of the CaixaBank Group, has it headquarters in Spain.

The contract between CaixaBank Asset Management and SimCorp was signed in December 2017 and all conditions in the contract were met in March 2018.

Jaume Viladrosa Cutrina, chief technology officer at CaixaBank Asset Management, said: "We have selected SimCorp Dimension for its broad functional coverage and its proven ability to increase operational efficiency".

"The implementation of SimCorp Dimension will enable us to scale for growth by relying on a single source of data across the entire organisation from trading to fund accounting."

He added: "In the front office, our teams will benefit from real time data enabling them to make faster and more informed investment decisions. We look forward to working with SimCorp on this strategic project."

Emmanuel Colson, managing director for SimCorp Southern Europe, commented: "We are very pleased to welcome CaixaBank Asset Management to the SimCorp client community and to have the opportunity to support their growth strategy. Their investment in the integrated SimCorp Dimension platform to drive business transformation and efficiency demonstrates a strong commitment to securing the firm a competitive edge."

He added: "The Spanish market is key to our expansion in Southern Europe and the partnership with CaixaBank Asset Management further strengthens our position in this market."

## Dains Business Recovery selects encompass verify

The insolvency practitioners at Dains Business Recovery Limited have selected encompass verify to support and enhance their know-your-customer (KYC) compliance process.

Midlands-based Dains Business Recovery Limited work with a range of businesses in a variety of industries.

Encompass provides real-time access to multiple sources of global company and person data. It is also the creator of KYC automation for global financial and professional service firms.

Nick Meadows, insolvency practitioner at Dains Business Recovery Limited, commented: "The ability to really understand who our customers are has become increasingly important to us."

Expanding on this, he said: "encompass verify allows us access to the full picture, offering us a visual representation of our customers. We can now quickly and easily locate the information we need in order to fulfil our customers' mandates."

Paul Charmatz, managing director, encompass, said: "I'm delighted to welcome Dains Business Recovery Limited as an encompass user. We have witnessed encompass become increasingly popular with debt recovery specialists, who benefit from

## Bernstein utilises Commcise commission management platform

Bernstein has completed two years' production use of Commcise's CommciseSELL platform.

In delivering the project, the combined team implemented commission management rules for Bernstein's individual asset management clients.

Commcise provided consultancy to ensure a smooth transition from Bernstein's legacy solution, working with its team to ensure rapid configuration of the CommciseSELL unbundling and eligibility rules—enabling downstream integration to internal payment systems.

According to Commcise, the Bernstein client team has continued to use the toolset as asset managers increasingly require full transparency of their execution and research commissions through unbundling.

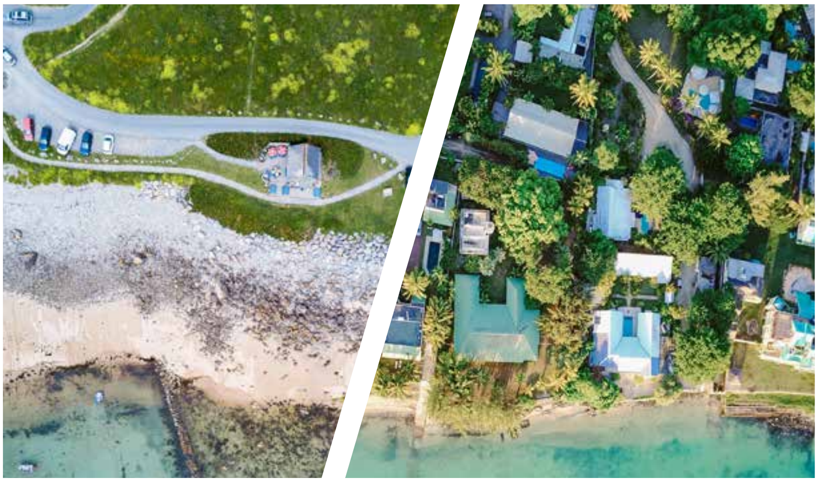
A fully-integrated payments module ensures client payments instructions are recorded in CommciseSELL, which provides Bernstein, their asset manager clients, and the research providers, a real-time audit via the client portal Aggregator fees are calculated, where applicable, to provide Bernstein with full cost transparency.

In addition, Bernstein can pool its client cash (by buy-side legal entity, strategy or team), whilst managing balances and payments, as instructed by its clients.

Fredric Gilde, global head of client strategy at Bernstein, said: "Commcise has given us the ability to handle a range of client needs efficiently and effectively. Features like automated delivery of statements and trade files have enabled us to double our capacity, scaling to hundreds of clients globally with minimal staff increase."

He added: "The enhanced client portal gives our clients full visibility into their account balances and trades. Clients are also able to raise payments to research providers and see a detailed audit of the invoice payment process."

Amrish Ganatra, managing director of Commcise, said: "We have been delighted to work with Bernstein to ensure CommciseSELL continues to meet broker and research provider needs in today's world."



## Block Commodities and FinComEco partner with OST

Block Commodities Limited and Financial Commodities Ecosystem (FinComEco) have partnered with OST, the complete blockchain toolkit for business.

The strategic partnership is set to unlock consumer goods, education, and healthcare for African farmers utilising the Blockchain.

The token-based ecosystem will enable sub-Saharan farmers to deploy the profits from the sale of their surplus crops in the wider economy by being rewarded in Feed Africa Commodities Eco-System (FACES) tokens, powered by OST technology and the OST token.

Block Commodities and FinComEco are endeavouring to build an ecosystem of ecommerce partners featuring local vendors and service providers where the FACES tokens can be redeemed.

The OST utility token enables any website, app, or marketplace to launch a branded token and integrate it into their business.

Chris Cleverly, executive chairman, Block Commodities, said: "The sub-Saharan region tends to have fewer fungible currencies but higher interest rates, which outside agencies base on perceptions of Africa rather than its realities. This, with the region's need for secure relationships to thrive, as well as its recent history of rapid technology take-up, means that Africa is likely to see the fastest blockchain growth."

Chairman of GMEX Group and CEO of FinComEco Hirander Misra, commented: "The utility OST tokens enable consumer transactions to become part of the FinComEco and Block Commodities supply to demand value chain, which helps facilitate a sustainable and increasing improvement in the sophistication and living standards of smallholder farmers and their families across Sub-Saharan Africa."

He added: "This enables the 'unbanked' not only to gain access to these services but also facilitates increasing consumer demand as incomes rise across a whole range of goods and services. This, in turn, leads to financial inclusivity and has a positive social impact."

Jason Goldberg, OST founder and CEO, commented: "OST enables any company or project to deploy branded cryptocurrency tokens backed by the market value of OST, on scalable utility blockchains. We are thrilled to partner with GMEX Group, Block Commodities, and FincomEco to blockchain-enable the African agricultural market."

the holistic view afforded by our wide range of data providers."

He added: "We look forward to working with Dains Business Recovery Limited as it continues to grow its business."

## Guernsey Funds Forum: Be cautious, but be as flexible as you can

"Be cautious, but be as flexible as you can", warned a panellist when asked how financial institutions should prepare for the UK leaving the EU at this year's Guernsey Funds Forum.

The panellist said that an asset manager's biggest issue with Brexit is the uncertainty surrounding it. Discussions surrounding Brexit, the EU and US President Trump's de-regulation of the Dodd-Frank regulation (also known as the Volcker Rule) featured heavily at this year's conference.

A speaker said: "[An asset manager] can manage risk within the corporate sector, but we are being confronted with chaos on the political front, which could lead to a 'wait and see attitude' which could later lead to a significant drag on the economy."

He added that the two-year negotiation period between the UK government and the EU concerning Brexit "needs to be used well".

When asked to raise their hands and vote, no audience members thought Brexit was doing "reasonably well".

The panel agreed that the biggest issues to do with asset management and asset servicing are the uncertainties of cost, staff, and the issue of the industry's access to market routes.

They also agreed that the key to tackling these issues was to create and innovate, especially in terms of technological advancement and artificial intelligence. One panellist said this is largely easier for bigger firms that are in a better place financially.

However, another panellist, commented that despite the concerns, the "industry is used to change and uncertainty".


Think Malta,
think BOV
Fund Services

She also noted that “some managers have very detailed plans about all potential outcomes”, which she explained involves improving asset servicing and operational models.

In terms of location change, one panellist said there may be a mass movement toward Paris. He warned that movement away from London “could break down the fabric of the city of London” and questioned what would be the financial value of the city of London in the future. He stated: “Paris and Frankfurt would be delighted to steal our thunder.”

The panel also discussed the possible “Atlantic rift” that could come in the next few years between the Trump administration and the UK government.

One panellist, an asset manager based in Switzerland, said his firm is set to move a lot of its business away from the US toward Asia following the changes in regulation within the US financial sector since the start of the Trump administration in 2017.

He said: “At the moment, the US has an inward looking market. [The US and Trump] doesn’t care about consequences within Europe. It wants to strike deals.”

He added: “Dodd-Frank is being gradually buried by this Trump’s administration— that’s something we [the rest of the financial sector] should not underestimate. And we should not underestimate the current level of de-regulation in the US.”

## AxiomSL’s regulatory platform goes live on major banks systems

AxiomSL’s regulatory platform has gone live on a major America bank’s system within its UK, Ireland and the Netherlands offices.

The bank selected AxiomSL’s platform to deliver a roll-out of the local Common Reporting Framework (COREP), Financial Reporting Framework (FINREP), local central bank and AnaCredit reporting.

The implementation started with capital calculations and COREP and focused on the bank’s subsidiaries in the UK and Ireland, which was delivered to plan. This was followed by FINREP and local central bank reporting in the UK and Ireland as well as their branch in the Netherlands.

AnaCredit was added to the project after it started, and included their German branch. These projects will be followed by a roll out of local reporting in a further six countries. Acccording to AxiomSL, the implementation was successful because AxiomSL offers a single platform that can be used for all regulatory calculations and reporting requirements.

The platform provides native extensible business reporting language functionality (also known as XBRL) and supports cross jurisdictional regulatory obligations.

Abhishek Awasthi, product manager at AxiomSL for Europe, the Middle East and Africa, commented: “In a constantly-evolving regulatory environment, global banks are seeing a greater need for integrated solutions to tackle the complex compliance demands.”

He added: “AxiomSL’s robust multi-jurisdictional strategic platform addresses regulatory requirements on a local, regional and global level.”

“We are proud to empower our clients to successfully go-live in a timely, efficient and cost-effective manner, yielding tremendous resource savings that can be allocated to core business activities.”

# Feeling the heat

**As the European custody landscape continues to evolve, industry players are seeing higher levels of competition, increased scrutiny around regulation, the rise of automation and continued uncertainty around Brexit. Panellists discuss whether they are handling the pressure**

**Do central securities depositories compliment a custodians' back-office operations and if so, how?**

**Eric Derobert:** Central securities depositories (CSDs) and custodians differ in nature. CSDs are part of the financial market infrastructures layer whereas custodians are predominantly banks. They are also subject to differing regulatory frameworks, with their own particular duties, liabilities and supervisory requirements. However, custodians and CSDs are both part of the custody/settlement value chain, and in this respect, they certainly do complement each other.

Nevertheless, the scope of services custodians offer is far larger as they must provide access for their clients (investors) to all financial markets for all asset classes.

**Penelope Biggs:** Custodians recognise the value of CSDs as partners in maximising efficiencies in back-office operations. Working directly with CSDs such as Crest and Euroclear, we actively exchange information and work together on solutions that will ultimately optimise our performance, drive results for our underlying clients, and enhance market performance in general.

**Tom Wooders:** CSDs, as the ultimate repositories for settlement and custody, are essential market infrastructure. Whether a custodian runs its own CSD, in addition to interacting with others, will depend on its specific needs and the market access and relationships that it has in specific geographies.

**How has European custody business evolved in the last 12 months?**

**Derobert:** Over the past year, the custody business has continued to be a very competitive market. The level of competition will remain as intense as before, but many custodians are seeing light at the end of the regulatory tunnel and have been looking at ways to increase the efficiency of their business.

**Wooders:** The biggest recent change in market infrastructure is the introduction of T2S, which brought 20 European markets into a harmonised model for settlement, for now taking in the euro area plus Denmark. The key tenets are that settlements in T2S taps into European Central Bank/central bank funds, and issuance of new securities via the CSDs can be accessed cross-border, and settlement cycles have been reduced as standard to T+2.

The net results are increased efficiency of settlement across the markets concerned, and greater mobility of collateral. For the custodians this facilitates simplified connectivity across multiple, previously local CSDs and in theory reduced costs of operation.

**Biggs:** We continue to see an increasing demand for innovative solutions that address our clients' need for enhanced transparency and governance.

As an industry, we are ever more mindful of the way we use data to provide services: we have evolved our business to focus on satisfying the increasing demand for middle office investment data. New transparency and enhanced governance requirements placed on custodians have also changed the way in which we operate.

For example, the way we use data has evolved in accordance with change mandated by the second Markets in Financial Instruments Directive (MiFID II) and General Data Protection Regulation (GDPR) and Securities Financing Transaction Regulation (SFTR) in the near future.

New innovative technologies, such as distributed ledgers, which Northern Trust has used to develop a new private equity ecosystem, present opportunities to service clients in a quicker, more efficient manner than ever before.

**Rob Lowe:** One of the significant impacts has been on Brexit. This is not a negative in many ways because it has led organisations to stay focused on clients' strategic priorities. Pictet are well placed to support managers through this potential transition and we see an evaluation of the European landscape, as a whole, leading to opportunities.

The implementation of regulatory requirements has involved most staff in one way or another across the custody landscape. Whether it's implementation, training or simply adjusting to MIFID II or GDPR; the regulatory changes over the last 12 months are notable.

Clients will have also seen an improvement in reporting standards and the scope of information provided by service providers such as best execution from brokerage counterparts.

The last 12 months has also seen the larger providers putting regulatory reviews behind them, which in turn has led to improved business models and operational oversight. This should be seen as progressive and a positive to both investors and the institutions that service financial assets.

Taking a wider view of the industry, volatility in the market has presented financial institutions, including custodians, with increased transaction volumes. Needless to say, high stock market valuations and volatility also bring commercial benefit.

I think a pause in the quantitative easing driven momentum is not necessarily a bad thing and removes some complacency on continual basis point fees.

### Is automation of back-office operations a necessity or a luxury?

**Wooders:** In my view, automation is a necessity, mandated by the pressures on margins across various sectors of the financial services industry and the ongoing spate of regulatory change. From a participant's perspective it has become increasingly important to be able to leverage technological platforms that can offer increased automation, freeing up resource to be able to focus on core client-facing/revenue-generating activity. From a provider perspective the successful platforms of the future will be those that offer their clients higher rates of straight-through processing and operate on a basis of variable costs.

This enables institutional clients to outsource non-core functions to achieve greater efficiencies and economies of scale.

**Jerry Norton:** There is increasing pressure including regulatory scrutiny relating to the transparency of pricing. One way of addressing that is to look at ways to re-engineer the back office to help reduce costs and remain competitive; a manufacturing style approach.

There is also a need to create scale in the back office, to handle higher volumes, with longer operating hours whilst improving reliability and stability; the removal of manual processes and automation between various back office functions should achieve this objective.

In addition, there is a need to do processing more quickly. Processing time didn't matter in the back office of ten years ago but that is no longer the case. For instance, regulators now demand transaction reporting within minutes not days and the only way to ensure this requirement can be met is by automation.

We live in competitive markets, where competitors will use new technologies to save costs and improve customer experience. Accordingly, all participants need to automate their operations, and not just limit themselves to the back office.

Automation itself of course is getting smarter with new techniques, for example algorithmic automation and machine learning, which supports humans, improves the quality and increases the scope and number of automation options available.

**Lowe:** It is a necessity and it will be interesting to see how the advent of new technologies supports operational automation over the coming years. I would like to think that clients are demanding excellence in this area—both to ensure that their providers are responding to advances in technology but also to reduce manual processes where at all possible.

Financial service providers have already seen benefits in rationalising back office processes but the driver has to consider both cost reduction and operational efficiency.

To enable both is easier said than done but isn't out of the reach of c-suite executives. Blockchain has a significant potential impact long term in this space.

By treating automation as a luxury, organisations are at risk of being left behind in the technology game. While vinyl still draws in music lovers, technological regression should be strongly avoided. Thinking positively about automation also means that organisations can think about removing legacy processes, which are often standalone in nature and add complexity to operating models.

**Derobert:** It is definitely a necessity. We see it as a key response to increasing volumes and complexity (for example, reporting obligations), as a way to free-up staff from tedious, repetitive tasks and at the same time, to help mitigate operational risk. Investments in automation are on the rise across the industry and we certainly welcome and support this trend.

**Biggs:** Technological innovation is proving to be a transformational force within the industry. Today we work in a 24/7 environment where we need to embrace new technologies and strive for solutions that work best for clients. Automation, something that was once thought of as a luxury, is certainly becoming a necessity for back and middle office operations. The onus is on service providers to ensure that data flows smoothly and consistently—regardless of strategy or approach.

**How do you envisage the European custody business changing over the next 10 years?**

**Biggs:** The biggest changes are impacting how businesses engage with their clients and each other, as well as being focused on operational efficiencies and speed of delivery.

As we look to the evolution of the custody industry, we can expect that technology will continue to play a pivotal role in supporting data requirements. Artificial intelligence, distributed ledgers, true digitalisation and process automation have the potential to improve efficiency and enhance results.

Asset servicing firms continue to develop new products and services designed to support client demands for flexible and intuitive data and analytics and present new revenue streams for clients, driving the evolution of the custodian beyond its traditional definition.

At Northern Trust, we are also focused on developing capabilities to aid distribution for our clients, help them manage liquidity, achieve transparency and optimise investment and operational performance. An example of this is our foreign exchange (FX) Algo Suite and currency management solutions, which allows clients to manage their FX exposure with an enhanced level of control, transparency and flexibility. Moreover, we are building-out our integrated trading solutions—combining brokerage, foreign exchange and middle office services—to help clients enhance their operational and investment results.

**Derobert:** All along the chain, there are a high number of requirements and demands. In the wake of MiFID II, the Packaged Retail and Insurance-based Investment Products (PRIIPs), and other regulations, players are in search for increased efficiency and appropriate solutions to reduce cost. One of the responses to this will be some form of industry consolidation, but also improved interaction, for the benefit of the clients and the transparency of the market, between services linked to the assets under custody and the more integrated added-value solutions (such as execution, clearing, collateral management, reporting).

**Penelope Biggs**
Chief strategy officer, Corporate and institutional services
Northern Trust

**Jerry Norton**
Head of strategy
CGI

**Tom Wooders**
Head of sales, clearing and wealth solution
Global Prime Partners

**Eric Derobert**
Head of public affairs and communication
CACEIS Group

**Rob Lowe**
Head of business development
Pictet

Wooders: Some of the biggest changes will be driven by regulation such as TARGET2-Securities (T2S) and MiFID II. The latter impacts the industry as a whole where new provisions are dictated regarding, for example, transparency of best execution and enhanced end client reporting. Both T2S and MiFID II are part of a broader process where the eurozone continues to harmonise the financial services markets in line with the ongoing evolution of euro area fiscal institutions. The other main transformative impacts for European custody will be driven by technological change, such as blockchain, AI and robo solutions. An additional challenge lies in aligning a harmonised, highly regulated market in Europe with other global jurisdictions, such as the US and Asia, that may or may not continue to diverge in terms of regulatory equivalence.

Lowe: The next 10 years should see quite a significant shift towards automation and the use of technology to improve infrastructure, processes and overall business models. I would also envisage an increased commercial pressure on custodians to support low-cost investment models. The last few years have seen custodian's clients respond to the rise of algorithms, exchange-traded funds (ETFs), passive investments, trackers, many of which are designed to offer a low cost alternative to both retail and institutional clients.

The inevitable rise of a millennial mindset in the markets should only add to the weight of argument that the reduction in overall fee structures in any investment is natural progress. That said, I think that custodians have turned the page in having to prove their worth in terms of being considered simply as a commodity.

It is clear that institutional grade infrastructure within financially sound institutions is critically important to the financial markets and I don't see too many changes to a 'global custody' proposition with sub-custodian relationships.With improvements to technology, international settlements, rationalising networks and reducing complexity, commercial benefits will be passed on to clients—especially those with a millennial mindset. Technology improvements will also change the way clients and custodians interact and this will cover the entire range of client types. Wealth managers will benefit from an improvement in valuations for more complex and non-liquid investments.

Sovereign and pension funds will have far clearer dashboards across their holdings/counterparts. Fund managers should, for example, receive real time subscription alerts, see an end to next day net asset values (NAVs) and instantaneously demand attribution analytics.

**How has T2S affected European custody business? And what about MiFID II?**

Derobert: T2S has been a major achievement. It provided a major impetus in terms of harmonisation of industry practices and better understanding of the settlement processes in Europe. We fully support the current business model of T2S. The complete benefits of T2S will be reaped gradually, but there is no question that the euro, the currency common to the majority of EU Member States, would benefit from a common infrastructure for settlement in Central Bank Money. Note that the infrastructure is opened to other currencies if they wish to join.

Lowe: T2S has fundamentally impacted the European post-trade landscape. By harmonising and standardising settlement, T2S has paved the way to a wealth of new solutions and operational set-ups.

These are far from being limited to securities settlement; they span custody as well as cash and collateral management, with opportunities for further operational efficiencies stemming from direct access to Central Bank money and centralisation of collateral.

I don't believe there is a 'one-size-fits-all' solution to harness T2S but we are certainly reviewing the incumbent model and adapting to the potential this has created.

In many ways T2S can be seen as a logical step in a long line of market improvements. I am supportive of any infrastructure improvement that simplifies client outcomes, enables more efficient business models and embraces collaboration across jurisdictions.

Biggs: T2S harmonises the cross-border settlement of securities for select markets in Europe. Earlier this year Northern Trust announced the launch of a T2S solution in conjunction with Deutsche Bank and Euroclear.

The collaboration enables us to achieve enhanced efficiency benefits for our clients through a consolidated settlement platform and central bank funding across European securities markets. It enables us to leverage the functionality of T2S and deliver a true investor CSD model. In offering a single settlement platform to eliminate differences between domestic and cross-border settlements, T2S is improving liquidity and benefiting consumers by increasing competition and choice among post-trade service providers in Europe.

T2S is also creating a level playing field between central securities depositories in terms of local asset servicing markets—helping to streamline asset servicing life cycle activities.

**Do you see blockchain working in the asset servicing market and in what context?**

Derobert: The asset servicing market is definitely an area where there is active research into blockchain and its potential. The nature of our industry (multiple players, importance of data integrity, the necessity for speed, the level of investments in automation and productivity) makes it an obvious candidate. We are definitely open to blockchain technology. As we speak, the objective is to ascertain whether blockchain will be able to live up to its promises, and bring a competitive edge to current legacy systems and models which, regardless of their flaws and shortcomings, have a strong track record of resilience and demonstrated their adequacy in satisfying the demands of the legal and regulatory environment.

**Biggs:** Last year, Northern Trust announced the first commercial deployment of a blockchain solution for the private equity market. Technologies such as blockchain provide a secure, transparent and efficient way to bring all the relevant parties in the value chain together to access a single ledger of information.

As a result, we can streamline fragmented processes and meet more exacting client demands in areas such as transparency, access to real-time information and integration. We are exploring how best to expand the private equity offering into other asset classes and jurisdictions.

**Lowe:** Whilst all the benefits are discussed frequently in the financial press, it is prudent for organisations to fully understand the implications of blockchain to their business. For example, shareholder recordkeeping is prime for disruption using blockchain, but in isolation will see minimal overall benefit for a financial services organisation—or their clients. Only by automating processes with a strategic view of the business will organisations benefit from this technology.

Equally, an important consideration for implementing blockchain in an asset servicing environment is to look across the industry. Closed-ended processes are essential in some regard but it will take true collaboration across central banks, CSDs, regulators to realise the benefits available to the industry.

Distributed ledger within an 'internet of value' concept (the recording of a transaction—and thus the direct ownership of a security) is created over blockchain technology. I see interesting potential over the long term if you look across the range of processes involved in an individual buying a single security using this framework. If this process was adopted by service providers, they would be able to add value to clients by enabling a whole host of processes. These could include instantaneous settlement between buyer and seller, real time valuations and consolidating reporting of assets by the provider and instant notification to regulators and even HM Revenue and Customs (HMRC). All of these provide enhanced services versus what may well be deemed very basic and cumbersome services of today. This would of course remove the need for many intermediaries in the process leaving a cost saving benefit to the client. The potential presents a truly fascinating journey but it does require significant share of mind, capital and intent from the industry as a whole.

**Wooders:** Blockchain is already being applied in the asset servicing, settlement and custody markets, for example by the Australian Stock Exchange, which uses the technology for equity clearing, and in Luxembourg, where the first fund transaction took place via blockchain last year.

The hallmark of this application to date has been where a market or sector is reasonably self-contained. Whether referred to as 'blockchain' or distributed ledger technology there are obvious advantages in terms of audit chains and unambiguous records of asset ownership. The challenge to this type of technology being adopted more widely, for example in place of established settlement and custody platforms, is that all participants in a given sector need to have access to the same technology and agree to abide by the same rules of engagement and deployment.

**How is your firm planning, or what plans do you have in place, for the outcome of Brexit negotiations?**

**Lowe:** As an international group with an important presence in the UK, in Luxembourg and in other continental European countries, we have prepared, in collaboration with the regulators, contingency plans to ensure we remain fully operational, once the UK has left the EU.

At this stage of the negotiations between the UK and the EU, with the political agreement on the transition period, we see no reason to adjust our operational model. In fact, with significant resources in continental Europe as well as in the UK, we believe we are suitably structured.

Last year, we continued to invest in our UK and European operations with confidence, developing further our investment capabilities and hiring additional employees and we intend to continue to do so this year. We therefore expect and are confident that London will keep its leading position among financial centres worldwide in the future.

**Wooders:** The final outcome of Brexit and its impact on the UK-EU financial services industry remains unclear. One can be optimistic that the UK/Financial Conduct Authority will remain super-equivalent with EU regulation, but it does appear there will be a lengthy adjustment or transition period giving firms the opportunity to align their business models with the eventual outcome.

**Derobert:** CACEIS, with its extensive coverage in Continental Europe is well positioned to provide appropriate solutions to its UK-based clients looking for solutions in Europe, and it is also able to support clients seeking new structures and services within the UK. We have already taken the necessary steps to ensure we have everything in place, whatever the outcome of Brexit.

**Biggs:** Northern Trust has an established network of offices across the UK, Ireland and Continental Europe and remains well placed to continue to service our existing clients and attract new clients regardless of the outcome of the Brexit negotiations. Northern Trust is preparing for Brexit by re-domiciling our existing EU bank in London to Luxembourg.

Our London office remains our regional headquarters for our business in Europe, the Middle East and Africa. Our acquisition of UBS Asset Management's fund administration servicing units last year in Switzerland and Luxembourg increases our scale in Luxembourg, which is underpinning our Continental European growth strategy. AST

# Europe: One continent, many directions

## With bitter divorce proceedings between the EU and the UK in the form of Brexit, coupled with cost pressures and increased regulatory responsibilities, in what direction is Europe's asset servicing industry heading?

*Jenna Lomax reports*

Europe is only just coming to terms with the second Markets in Financial Instruments Directive (MIFID II), the aftermath of which some in the industry dubbed "MiFID flu". Biting at the heels of MiFID II is the European legislation of the General Data Protection Regulation (GDPR), as well as the forthcoming Securities Financing Transactions Regulation (SFTR), expected in 2019.

Synonymous with meeting these regulation deadlines is the industry-wide worry of cost consideration, as firms grapple with doing the calculations while complying with the aforementioned regulations beyond their implementation dates.

Sean Tuffy, head of market and regulatory intelligence for Europe the Middle East and Europe (EMEA) at Citi custody and fund services, advises: "As regulation looks set to be a continuing challenge for the industry, the ability to clearly articulate the impact of regulation to clients is a core skill that asset services need to develop."

While Clive Bellows, head of global fund services for Northern Trust EMEA, surmises: "Across Europe, asset managers are assessing their investment strategies and expertise. Increased requirements for data, governance and transparency drive the development of cutting-edge technology solutions that help both institutional investors and asset managers."

So how did MiFID II change asset servicing?

Gerard Walsh, head of business development and institutional brokerage at Northern Trust Capital Markets, says: "[MIFID II] was aimed at driving transparency into front office execution and research commissions, and became so large in scope that it had knock on impacts all the way through the asset management, broking and asset servicing ecosystem."

With this in mind, what does the future hold for Europe and asset servicing in the region? Bellow's predicts that technology is the future.

He says: "Whether it is artificial intelligence, the rise in automation and data analytics, or the development of scalable platforms, technology has dramatically altered the investment landscape, and will continue to do so."

He adds: "Due to the complexities of the European market and multiple jurisdictions, asset servicers operating in this market need to differentiate themselves with the breadth of solutions and services they can offer."

### Looking a little closer

France, in particular is one of Europe's heavyweights, as it grows its physical presence of asset administration and asset custody.

France stands strong, with firms such as AxiomSL expanding its European presence to Paris, while OFI Asset Management completed their first transactions in Paris using blockchain last year.

"And there's also the introduction of the Europe wide TARGET2-Securities (T2S) initiative, which according to Jeff King, head of custody product development at Citi Custody and Fund Services, "has enhanced the asset servicing industry coordination efforts with the formation of working groups such as the T2S Corporate Actions Sub Group (CASG)."

CASG is focused on the drafting and agreeing of common market standards for Corporate Action processing.

T2S is growing in popularity in Europe, especially in the Nordics. Bo Thulin, head of the Nordics for Northern Trust, confirms that Denmark is scheduled to join T2S with DKK in October this year, while Finland has also planned to join, though an implementation date has not yet been announced.

Also in Scandinavia last year, one of the world's largest Nordic banks, SEB, joined forces with Nasdaq to test and further develop a prototype mutual fund trading platform based on blockchain technology.

And in the Finnish financial market, Municipality Finance implemented Acumen, a treasury solution platform created by Login SA, to manage and automate its operations.

Also in 2017, SIX x-clear, the clearing arm of SIX Securities Services, extended its services to the Nasdaq Nordic cash markets, and offered an interoperable clearing solution for Denmark, Finland and Sweden.

But the Nordics, like the rest of its European neighbours, have been bogged down, not just by MiFID II and GDPR, but also by the Alternative Investment Fund Managers Directive (AIFMD).

Roel Van De Wiel, commercial director for the Netherlands and the Nordic Region at Societe Generale Securities Services, explains "AIFMD and UCITS V all refer to the role of a global custodian and therefore have been challenging regulations".

And you cannot mention UCITS V, without mentioning UCITS adoptive home and biggest benefactor, Luxembourg.

As of November 2017, The Association of the Luxembourg Fund Industry reported that Luxembourg held over 4,000 separate funds. So it's no wonder then that Luxembourg is the second investment funds market after the US, representing 9.3 percent of the investment funds market worldwide. As Bellows mentions: "Europe is better placed than most other markets when it comes to asset servicing due to the power of the UCITS brand as it is recognisable and transferable globally."

Luxembourg has the chance to be the world's highway into Europe but it is competing with several other major markets for that honour, most notably Germany and Ireland, who withhold a massive physical asset servicing space in Frankfurt and Dublin, respectively.

Although many industry experts think Luxembourg is up to the task of remaining relevant on the global asset servicing stage, could the small country benefit from Brexit? As was said by a panellist at the recent Guernsey Funds Forum, the buzzword surrounding most aspects of Brexit is "uncertainty".

And as Daron Pearce, CEO of asset servicing for EMEA at BNY Mellon, reflects: "The biggest high-risk factor we are witnessing in financial services is uncertainty, and this is being felt in all sectors and in the wider economy."

He advises: "Both the future framework of relations between EU27 and the UK, and the transition period towards that future framework, need to be designed in such a way that they minimise systemic risk."

### The little matter of Brexit

At Sibos 2017, an audience poll predicted that Frankfurt, Germany could be set to displace London as a global financial centre after Brexit. Over 45 percent of audience members said they think Frankfurt will be the next big financial centre. Could this possible shift to the German financial hub affect Europe's financial future?

As we've seen, Northern Trust and Liberty Speciality Markets are just some of the big global firms to move their back and middle offices Luxembourg bound, while other big players, such as NEX are planning to move its European Market Infrastructure Regulation (EMIR) platform from London to Stockholm for its trade operations post-Brexit. In terms of location change, another panellist at this year's Guernsey Funds Forum, suggests there may be a mass movement toward Paris.

He also warned that movement away from London "could break down the fabric of the city of London" and questioned the financial value of the city in the future. He stated in that sense, "Paris and Frankfurt would be delighted to steal our thunder".

Elsewhere, an ESMA representative at this year's European Asset Management Conference in Luxembourg stated that the association is "prepared for the UK to become a third party".

However, Bellows concludes that location may not even matter. He predicts: "Today we work in a 24/7, always-on environment and as long as asset servicers are embracing technology and striving for solutions that will genuinely work for clients, location will become less important."

He affirms: "[Northern Trust's] London office remains our regional headquarters for our business in Europe, Middle East and Africa." **AST**

# Opening the door to innovation

## Vincent Kilcoyne of SmartStream explains why financial technology firms are a very easy and elegant way of accessing innovation

*Maddie Saghir reports*

**What trends are you currently seeing around technology in the financial services space?**

There are a number of dimensions that are emerging. Traditionally, post financial crisis, which was a catalyst for a huge amount of financial technology growth within the industry, there were thousands of investment bankers and bankers in general, who moved out of the banking arena because of the onslaught of regulation and the feeling that it wasn't going to be as much fun, and there wasn't going to be as much innovation as expected.

From the banking perspective, all of the dollar spend was going on compliance and regulation. This drove the growth outside of the banks in fintech. Effectively, that has driven a lot of fintech initiatives. They have focused heavily on solving operational inefficiencies across the banking diaspora. That has driven a continuous focus on finding areas in which banks are inefficient in solving those problems.

By and large, that area has been very much focused on the customer side, the growing use of platforms, infrastructure, etc. There is an increasing realisation that the industry wants to try and standardise as much as possible, and that is making way for the growing use of utilities. The increasing cloud-based adoption within the industry, and the introspective questioning within the financial industry of when they look at any piece of spend, regulation, or compliance that they need to embark on, the first things that they will do is look at it, and ask: is there a better model? Is there any internal IP associated with this? If I do this, is there any market advantage that I am engineering into? And, is there another way for me to solve this problem more cheaply, more cost effectively, and in a more timely fashion without adding headcount to my organisation?

There are new wedge propositions that are becoming evident as fintechs are increasingly stepping up to provide hosted services, combinations of technology, and market understanding.

For example, with the second Markets in Financial Instruments Directive (MiFID II), there is an element of ubiquity to the nature of the problem and an increasing willingness to adopt that as an approach.

It could be from a regulatory perspective, but it could also be from an operational improvement, operational cost reduction, and so that is where I am seeing things coming from.

### At what point did technology start being considered at board level?

Technology has always been considered at board level, but its role at board level has changed, and this has been relatively recent for some organisations. If you look at many major financial institutions, some of them saw technology as being a real market edge and some saw it as being a business process support activity.

Increasingly, financial institutions are now seeing it as being a differentiator, competitive advantage, and even a defensive strategy. The perception, focus, and interpretation of technology has changed. Previously, most organisations saw it as a cost of doing business whereas now it is seen as an increasingly unacceptable cost of doing business, while some have closely aligned business and technology strategies, where you have high levels of IT literacy at board level.

IT is starting to become a real enabler and a mechanism for change. Regulation has been an enabler for this thinking because of the substantial IT element in such programmes. Increasingly, the banks are seeing themselves as technology institutions as opposed to exclusively financial institutions. I hasten to add that there is a substantial difference between a financial technology firm and a bank.

I may be controversial in saying this, but a fintech takes technology and uses it to solve a financial problem. However, banks don't do fintech, banks do techfin. If they have a financial problem then they use technology to solve it. There is a different focus in the way in which they do it, there is a different cost dynamic, overhead, operational model, level of oversight, and regulation. Therefore, technology has always been a focus, but the extent and dimensionality and direction of that focus has changed. Probably more so since around 2009/2010, when the banks saw what was happening outside of themselves, from the point of view of increasing fintech growth, growing threats, digital challenges, etc, and they suddenly saw technology as an enabler and a market differentiator.

### With all the new fintechs servicing predominately the front office, the back office is still being serviced by the more reputable organisations. Why is this the case?

When we look at the front office, I don't think we are necessarily looking it from a treasury or trading perspective. There are interesting emerging technologies in that space. However, if we look at it from the front office of the bank and the retail of the bank, and the customer servicing perspective, there is an enormous onslaught of growth in the number of financial technology organisations, emerging banks, platforms, and channels that are servicing the customers in a better way.

This means that there is growth in blockchain because there are a number of interesting open banking initiatives, and payment initiatives. This is going to drive organisations through real time type operational activities, and increasingly the banks are becoming utilities that have a compliance overhead, but for some reason they don't necessarily own the relationship with the customer. In consequence they have a huge amount of cost with increasing margin erosion.

The fintechs have very much been focusing on that side. When you break it down to the operational parts in the back office, I think that the reason why the banks have been perhaps reticent about changing is because in order for the bank to operate viably, and to continue to be compliant, they must have reliable technologies. Technologies that have the maturity to support their business, that basically keeps the bank running. You can change front of house, the windows, and the doors but ultimately when it comes to be being compliant from the regulatory perspective, from a systemic perspective, you need to know that you have got mission critical applications, which are best in class and are equally poised, ready and able to respond to emerging technologies—with the ability to connect to the blockchain, connect to digital channels, and to be able to automate all of the downstream processing that your front of house problems are creating. The banks from an operational perspective must operate at absolute capacity with as low failure rates as possible, because ultimately from a utility perspective they have to be able to respond and satisfy the needs of both their customers—their direct–traditional customer base–indirect customers, and then a new emerging type of customers, which is called the fintech of disemedientation. So the technologies that they have must be robust and be able to accommodate the changes that are occuring outside the traditional operating system.

### Do you think collaboration with smaller fintech firms is the answer to innovation around technology in the financial services industry? And why?

From the point of view of collaborating with fintechs, absolutely. The banks have provided ample evidence. They attend all of the major start-up community events, they observe all of the core parts and in many cases they have invested in fintech accelerators and fintech incubators, so engaging with them, absolutely. But, there has to be a measured level of engagement. I ran a fintech incubator for five years, and I found that a lot of ideas and a lot of the people that were coming had an appreciation for a problem, but had never really operated in an environment of having sold software. They didn't know how to create a value proposition. They didn't know how to validate or test it, and they were coming up with interesting ideas, many of which never actually sold. The banks have been through a number of iterations of this, we have seen them evolving from being somewhat nascent to slightly more evolved, and slightly more mature, and that means that different levels of discipline have come in. The speed of innovation has perhaps changed to be more measured and more considerate of what's happening. The investment community are not only providing money and investment, but they are also providing industry insight. There is a huge focus across the industry to look at what's happening in the fintechs, and to truly validate how viable the solutions or ideas are. Rather than just piling in and saying it looks interesting—wow. Now its a case of sitting down, and mobilising a team to look at it. Within SmartStream, we have created something that's akin to fintech, we've created an emerging technologies practice, an innovation team, comprising of an entrepreneurial team of technologists and industry practitioners who test and validate the ideas and concepts. This team operate in a similar way to how investment banks are now engaging with fintechs. Very simply, fintechs are absolutely crucial, they are a very easy elegant way to access innovation—but not all of them succeed. Typically, the ingredients for success are the ability to look at it and test the relevance of the solution to an industry product.

### What is SmartStream currently working on in the fintech space?

We set up an innovation group to look at how the core focal capabilities of SmartStream could be improved or enhanced through the use of artificial intelligence and everything that it encompasses, and also by engaging with the blockchain. We have created a team of technologists and industry practitioners. The industry practitioners have 25 to 30 years of experience individually, gained while working across hundreds of banks. As you can appreciate, SmartStream has an impressive client base, that means we are testing the validity of an approach, we are not testing it from a lens of a single bank. We are testing it from the experience of hundreds of banks and buy-side institutions and some corporates, looking at that from a geographic lens, a usability in a volume perspective, a different regulatory regime, and a different market dynamic perspective.

Almost as if you have taken a single initiative by any investment banker in London, and how they look at fintech, and combined the entire financial ecosystem to look at individual fintech initiatives. This is very much what we are doing, bringing that depth, and wealth of experience and variety, and mobilising it to solve very discreet problems that we can articulate to the customer base and solve problems that are completely relevant—we can understand what the value is to the organisation and to all the different organisations. This we can articulate from the point of view of the value proposition, the technology footprint, the cost of ownership, the benefit and the return of investment. That's the primary focus, how do we use Artificial Intelligence or Blockchain technologies to drive real benefit to our customers?

### What plans do SmartStream have over the next 12 months in the technology space?

We have been heavily focused on engaging with our customer base, listening to the key areas that they see from a strategic and cost prospective, and from revenue enhancement control. So we have been reviewing some elements of our technology stack in order make the necessary changes to reduce the cost of ownership. We have been looking at newer technology persistence capabilities, database layers etc, in providing our customers with broader options in terms of cost profile that they want, and to closely align with their technology strategies.  It is very much around creating more optionality to satisfy the changing technology platforms that we are seeing globally. Being able to support their interest and their appetite for embracing new technology sets.

### Considering how quickly technology within financial services has excelled over the last few years, what predictions do you have for the next five years?

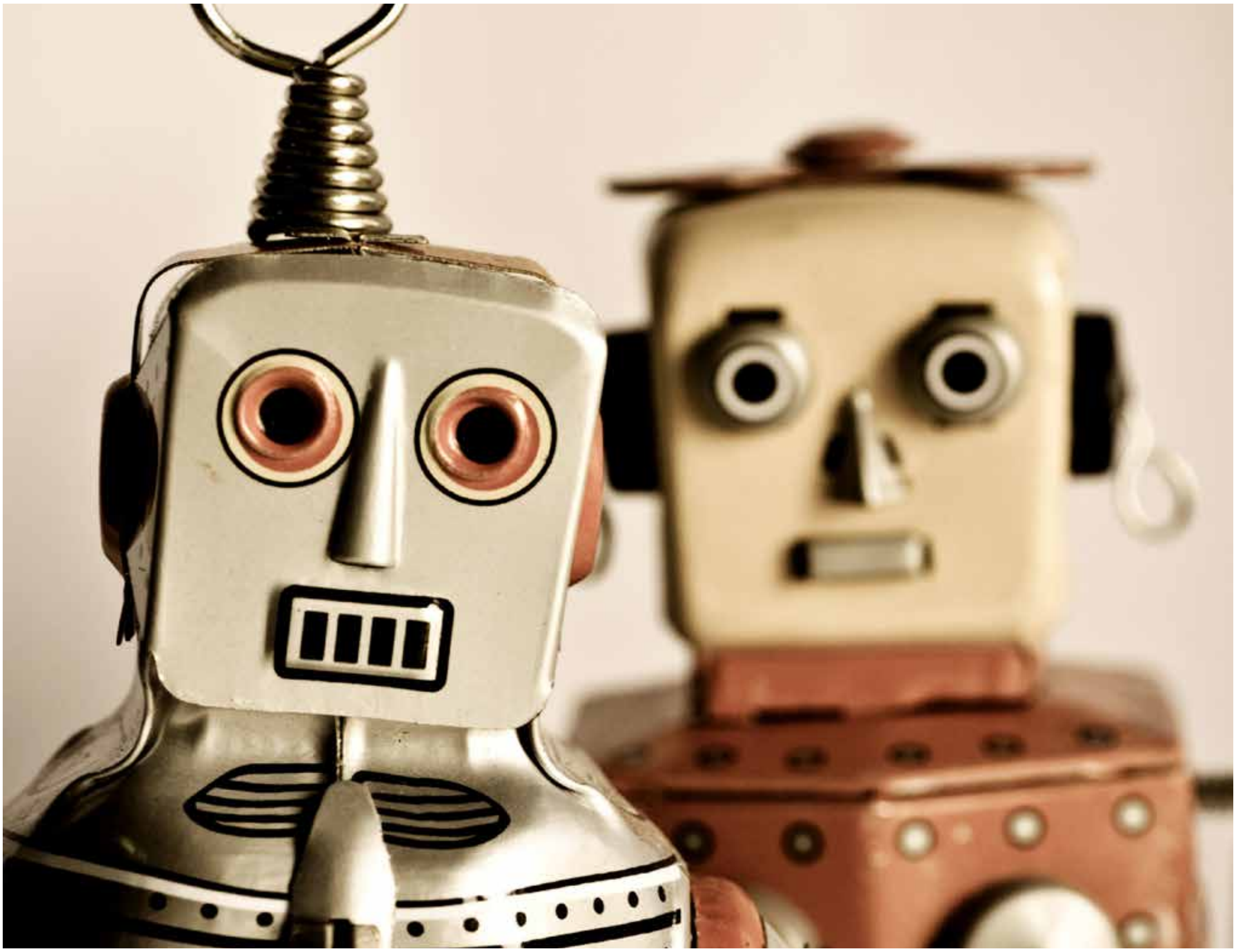
Technology has not excelled, it has evolved at an incredible pace, however, if you were to look at the success of the fintech community, there is more likely to be an approximate 60 to 70 percent failure rate. That doesn't mean it has excelled—I think quite the opposite. We have witnessed an incredible evolution in the way technology has advanced, with a number of excellent successes, but they are very much the edge event. We've got the incredibly successful ones that everybody knows about but if you look at the incubation, the acceleration community there is an incredible level of failure there.

We need to look at why they are failing. There is a wealth of insight with various different pieces of research, insights and so on, that look into the reason for failures in fintechs. The inability to actually gain client endorsement is right at the very top. You have a situation whereby there is a wealth of fintechs with incredible products and no customers—that is not a recipe for success, but in fact a recipe for a failed investment. There is now a huge amount of caution, a lot more diligence being employed when investors look at fintechs and the initiatives to test for viability.

The venture capital community, the investment community, the acceleration community, incubation community are all typically looking at it and testing it with the broader community to see how viable it is. They are also using that to measure whether or not to make the investment. Another reason why we see fintechs failing is because they are failing to pivot, meaning they fail to move beyond the first customer.

I think the industry will continue to see a deeper set of rigour being associated with any such investment. There are a number of fintech investors who will not touch blockchain technology investments, which is just their choice. There is a lot of suspicion around what is happening around the fintech innovation, however, there is a lot more rigour being associated with it to test for relevance, ability to sign customers, and the ability to pivot, and to scale up. AST

**Vincent Kilcoyne**
Executive vice president, product management
SmartStream



# Me, myself and AI

## Market participants at BNP Paribas explain that artificial intelligence and data will be a key part of the firm's technology

*Becky Butcher reports*

**How connected are the technology and regulatory challenges?**

**Jean Devambez, global head of digital and acceleration, BNP Paribas Securities Services:** The huge regulatory wave of the last decade has put the financial industry under pressure. The cost of implementation of those new regulations has been high but it has also raised the level of complexity and risk for players like us. Take the example of compliance within the fund industry. Today, it represents 11 percent of the entire cost base. We see new technologies as an opportunity to address this cost issue and to reinvent the way we address those regulatory challenges.

On the other side, new technologies raise new regulatory challenges. Take the example of blockchain applied to fund industry. People are still working on how to cope with data protection, responsibility of the blockchain platform versus one of the users of this blockchain. Regulators are still working to adapt regulatory framework to distributed ledger technology (DLT).

Another example is artificial intelligence (AI) for anti-money laundering (AML) or fraud detection. If you can't demonstrate how the machine processed the detection, it will be difficult to have a validation from the regulator on your control framework.

**Do you think collaboration with smaller fintech firms is the answer to innovation around technology in the industry?**

**Devambez:** Innovation is not only about new technology. It's also about business approach, mind set and agile processes.

Smaller fintechs or regtechs can definitely help bring those components to a bank. Most of the time a bank will face the following challenges: management of legacy platforms and organisation, a focus on short-term client satisfaction and monitoring of regulatory and compliance duties.

Cooperating with a start-up, a bank will benefit from the capacity of this start-up to innovate, while bringing business expertise and client base.

This can definitely be a win-win situation, provided you find the right balance between upgrading the start-up offer to match the bank security and compliance requirements while preserving its agility.

**Where will AI add the most value to the financial services industry?**

**Philippe Ruault, head of digital transformation, BNP Paribas Securities Services:** We believe there will be tremendous value in the integration of AI technologies within our existing framework in areas such as financial risk assessment, industry regulatory compliance (especially AML and know-your-customer functions), and in particular on cybersecurity.

We also think AI will significantly help to optimise and enhance our processes, helping our teams to reach a stronger level of automation. This will result in an increased customer satisfaction with lower operational risk.

**How will AI be regulated and can it help firms manage risk and compliance more efficiently in the new digital landscape?**

**Ruault:** We don't think AI should be regulated per say, but our institution as a user of AI will need to strictly continue to comply with regulation. We will, and we are therefore working on: the auditability of AI—ensuring the tools are learning and reacting properly; and the skills of our teams who need to understand AI and ensure data and algorithms are frequently assessed and benchmarked.

In a way, this is not very different from the experience financial institutions already have in value at risk management or algorithmic trading.

**Do you think firms will rely too much on technologies such as AI and machine learning?**

**Ruault:** No, I actually think the opposite will be true as AI and machine learning are so vast that many firms have trouble identifying what AI technology is better suited to their business models and to their business strategies.

The foundation work in terms of research and investment is significant and lengthy, and I am aware that many firms underestimate this in their approach to AI.

Overall, I think most institutions are at the start of the journey and there are many areas where AI can be implemented, delivering a lot of value to our customers.

Having said this, stronger use of AI and machine learning brings challenges to 'extreme scenarios' management where systemically important financial institutions like ourselves need to be fully prepared to continue operating without technology.

**What is the future for AI, as it becomes widely adopted across financial services in the next five to 10 years?**

**Ruault:** AI and data will be a key part of our technology and a key enabler of our operations and customer services, it will be fully embedded in our core servicing.

New skills and resources will be needed to monitor AI tools, creating new opportunities for people (for example AI conversational manager, data scientist, data architect, language expert etc).

It will also be a key requirement from our customers—particularly millennials—who will expect us to support their needs on a 24/7 basis—provide immediate answer to any request, anticipate their needs, deliver even more performance on all our services.

**Do you think technological innovations are creating opportunities or causing more problems for financial services firms? And why?**

**Ruault:** Technological innovations present both challenges and opportunities. On the challenges side, financial institutions have to cope with increased customer requirements (accessing data via application programming interface (API), renewed customer experience, 24/7 service opening) and new waves of technology (cloud computing, artificial intelligence, blockchain).

At the same time new entrants such as fintech/regtech startups or 'legacy' IT institutions, are progressively eating some of their space (in payments, product distribution), starting with renewed customer experience and data exploration.

Most financial institutions have well understood the global context and are now dedicating significant amount of resources and money to start their transformation, individually but also collectively.

Yet they still own the 'customer' relationship and data, and the 'trust' aspects, which are key elements to build a positive transformation. A lot of opportunities can be addressed by leveraging these key elements—such as leveraging customer knowledge and historical data to build new distribution models for financial products, predict customer needs from historical interactions and behaviours, develop new trust services such as digital identity, crypto assets servicing and more—it is a matter of focus and resources for financial institutions to seize new opportunities.

**With so much data around, how important is it to have something in place that can manage it?**

**Françoise Nikly-Cyrot, head of smart data programme, BNP Paribas Securities Services:** Managing your own data, your client's data and your environment's data is critical.

Financial institutions have legacy systems, which have built up over time and have evolved to incorporate restructures and regulatory change—rather than as a cohesive strategy.

As such, most of the data managed by these heterogeneous systems are in siloes, not fully defined and understandable or even known.

Everyone is very excited by the 'AI and machine learning revolution' and the benefits this technology can bring: better understanding of how investment strategies impact the investor base; predictive models on performance, risk monitoring, weak signal identification in markets etc.

But for those to work—large, clean, understood and qualified data sets are necessary to run/train the models.

Data ingestion and preparation uses up as much as 80 percent of the time spent and only 20 percent is real 'data scientist' time (source GARtner).

Organising your IT system in such a manner so that it simplifies, speeds up the data ingestion and data preparation lead time and enables you to capitalise on previous data preparation work, which is of utmost importance: 'Ingest once use many times'.

This is why there is so much literature around 'data governance' and 'data factory/data hub'.

One cannot work without the other, data factory being a set of tools that are there to facilitate the implementation of your 'data governance' and can comprise the following aspects:

- Fast connection of your operational system data sources, of internet data sources, or third party data sources, cataloguing these data sources (definition, who owns the quality of this source, who is allowed to consume this source, how reliable/trusted is this source)
- Sharing the catalogue and allowing 'peer network' enrichment of the catalogue
- Advance tools to create models, compute results on large sets of data
- Advance visualisation tools
- API framework to share the data (with internal or external partner/client applications)
- Only at the price of industrialising the way you make data available to your data scientists will you be able to really get the benefits of AI in a run/continuous mode and not just an experimental mode (one shot). **AST**

**Jean Devambez**
Global head of digital and acceleration
BNP Paribas Securities Services

**Philippe Ruault**
Head of digital transformation
BNP Paribas Securities Services

**Françoise Nikly-Cyrot**
Head of smart data programme
BNP Paribas Securities Services

# The Asia attraction

## Frank Carr of Financial Risk Solutions discusses the firm's Asia Pacific expansion and how it will affect the market

*Becky Butcher reports*

**What motivations were behind FRS's decision to open offices Hong Kong and Malaysia? What are the market's main advantages?**

In Europe, we often think we are very au fait with long-term savings in every sphere, including making provision for old age, but that's relatively new in parts of Asia where retirement provision is less established. Our attraction to the Asian market really lies in three areas:

- Asian economic growth has made pension saving commonplace. Asia's rapidly changing demographics will drive long-term savings growth into the life and pensions industry and onwards to the asset management sector
- Many of the legacy investment administration systems in the region are ill-prepared for the growth now being experienced
- Strategically many of our global clients have ambitious growth plans in Asia

Changes in the region include rapid population aging, population growth and the emergence of large affluent middle classes all point to increased long-term saving.

Citizens must make private pension provision and increasingly the global default structure for long term savings is buying unit-linked funds.

These are typically offered by life and pension companies. Providing the core infrastructure for administering long-term savings is precisely what our core software Invest|Pro does.

In terms of retirement savings, some countries have made it mandatory, people will be familiar with the UK where auto-enrolment has come in. Contributions will be 8 percent of salary from February 2019.

However, in Australia it's 9.5 percent, but will be 12 percent by 2025.

When you think about 12 percent of people's income, it's a big amount of new money flowing into the industry annually so modern technology systems are required—that's certainly one of the drivers for us moving into these markets.

For example, on a recent trip to Indonesia, I marvelled at reported growth of almost 14 percent in their insurance market. This is staggering growth compared to European growth rates of 2 percent or 3 percent, but further Asian growth is being held back by the prevalence of manual administration processes.

If the investment administration systems were more automated in the region, which is where we think FRS can make a difference, that would

solve the scalability problem and operational risks would reduce and profitability would flourish. We are currently in detailed discussions with some companies on how changes to current operating models underpinned by modern technology could resolve scalability issues.

**How are technological innovations transforming financial services firms? Are they creating opportunities or causing unnecessary challenges?**

Technology innovations are transforming most industries and creating opportunities for providers to serve policyholders, regulators and the boards and risk committees like never before.

Over the last five or 10 years some of the metrics that we're seeing in terms of the headcount needed to administer hundreds of funds or hundreds of billions in assets under management have drastically changed. In the past, just to put some context on that, you may have had one person manage five or 10 funds. Now, however, some of our multi-asset funds, mirror funds, and funds of funds clients are reaching efficiency ratios such as these:

- We have a client where 219 funds are being managed by each individual
- We've another one where 356 funds are being managed by each person and another with 581 funds per person

Part of our DNA at Financial Risk Solutions is about exploring emerging technologies. With artificial intelligence (AI) we are discovering patterns in investment data based on fund activities and market data, which we've seen before. Our software has such wide usage across over 60 life companies and administrators that the system can predict whether this fits into behaviors seen before. The actual technology mimics a very experienced practitioner, which are difficult to source these days. It's these AI models that can assist efficiency and risk mitigation in the industry. So, having locked down automated robotic process automation (RPA) in the investments and fund administration departments allows you to achieve such metrics. It's a good thing, but it's all about getting the project sponsored and in initially, and there lies some of the challenges which relate to general change management.

**Are firms relying too much on technologies such as AI and machine learning?**

Right now we are in the first stage of AI and technology is starting to bring remarkable benefits; it may take the second and third phase to perfect this. Human management skills in collaboration with technology are very much the target operating model.

From FRS's point of view, we offer software which has a configurable validations framework. By this I mean that a validation can be based on calculations using any database field or combination of fields that the user chooses. This framework also allows the user to associate a validation with a process, say the valuation/unit pricing process, and say whether the validation should be run before or after the process runs. If a validation fails then this triggers a message to a user group. You can grade such checks so that if a severe check fails, the process stops. This combined set of validations is the internal audit framework. The framework records every time a validation is run and whether it passed or failed. If it failed it also records what action was taken to remedy the failure and by whom.

New validations can be added at any time so you have an embedded validation framework and culture of continuous improvements and raising of standards.

The real point is that the culture framework must be based on having good rules in the first place; and then managing and reacting to them—that is where I would be hesitant to say there is too much reliance on AI and machine learning rather than human intervention. It's about getting the optimum operating model working, and that requires change process in terms of training and integrating teams who wouldn't be familiar with operating these emerging technologies until recently, because it's all quite new.

**How have FRS's recent endeavours affected the Asia Pacific region?**

As the unit-linked funds market has grown in Asia, products have become more complex and numerous, so FRS bring proven software which assists firms growth in a controlled environment. Also, regulations have increased as assets under management have grown. European Solvency II and Packaged Retail and Insurance-based Investment Products (PRIIPs) initiatives have placed greater emphasis on the need to be able to store and access investment related data for both risk management and customer and regulatory reporting purposes. The logical place to store these additional data points is in the fund admin system database. We like to think that we are assisting in the raising in standards of investment administration systems, controls and practices.

*Working with regulators*

I was at a recent collaborative event with the Bank of England, the European Central Bank and the Central Bank of Ireland, where they discussed a vision of a world where some new regulations could be introduced alongside new systems code to deliver the regulation. The idea was to come up with a new regulation and give some source code that was system agnostic and could at least be run in a test environment.

This regulatory cultural vision takes into account that regulators recognise the challenges firms have on the systems side to embrace new regulatory requirements. This positive industry and regulatory collaboration is a positive dynamic and it is assisted with modern technology.

*Data-focused*

Separately, I was at a regulation technology event in New York last November, and again a lot of the collaboration related to unstructured data and how problematic that is, and conversely if data is structured then you can get great power and controls into your operating model.

**Aside from Hong Kong and Malaysia, what other Asian markets do you see as critical to the region's development? Any plans of expanding to these markets?**

The Philippines and Indonesia are very promising, and we have met with a number of life companies there. We attended a Chinese life assurance conference in Beijing last November, it's a very large and different market with a vast middle class and huge assets that weren't there 10 or 15 years ago. They have all of the right metrics for an even bigger industry and participating in that takes time—you've got to meet the right people there and clearly this is something we have been very interested in doing.

We also sponsored a unit pricing conference in Sydney recently and are investigating the Australian market, which is one of the largest pensions markets in the world. The Asia Pacific market is diverse, and we are exploring local partnerships to assist our growth.

It's an exciting time for us, there is a large opportunity because our software is extremely relevant for many of these markets where insurance providers are struggling with scale in an environment where their current operating model has inherent operational risk but this also comes with formulating the best market distribution strategy for the software. It is an exciting time as technology takes its place in offering things that were previously very challenging whereas now this is not the case. With the correct technology operating model in place the insurer can dedicate its energy to scaling their distribution and getting that part right.

When you have very good value products widely distributed and operating in a very controlled manner, It's a win-win for all parties. **AST**

**Frank Carr**
Chief marketing officer
Financial Risk Solutions

# Upping the automation ante

## Rahul Kanwar of SS&C Technologies explains that increasing automation will change the way fund administration is performed in the years ahead

*Becky Butcher reports*

**SS&C Technologies recently acquired CACEIS's fund administration business, what were the company's motivations behind the acquisition?**

SS&C has a long history of successfully acquiring and integrating in the fund administration space.

These acquisitions have increased the firm's intellectual capital by gaining highly-skilled employees and have helped to increase SS&C's client base by gaining managers with unique strategies.

With the acquisition of CACEIS North America, SS&C adds a team that has delivered high-quality service to its clients for over a decade and adds to SS&C's depth and capability.

**How will the acquisition help expand your current offering? And what opportunities does it provide?**

The acquisition provides SS&C with a great footprint in Canada and brings with it a number of experts in the nuances of fund administration for Canada, the US and other domiciles.

For customers it provides access to a wider range of products and services and for CACEIS North America employees, an opportunity to be part of the world's largest fund administration business.

**How is the fund administration space currently faring? What trends are you currently seeing?**

The fund administration industry is a diverse one with both large and small players.

Quality administration services are needed more than ever for the investment industry, and SS&C remains well-positioned to capitalise on market opportunities.

Some global trends which SS&C is focusing on include: retailisation of alternative strategies such as liquid alternatives and UCITS; enhancing electronic client communication, onboarding, and data protection; and an increasing diversification in the jurisdictions and strategies by which managers seek performance, bringing with it operational complexities that SS&C is geared up to help solve.

**What are your views on regulation in the financial services industry? What challenges/opportunities do they provide?**

We view our role as being that of helping investment firms comply with various regulations world-wide that they may be subject to. In this we are helped by our history as a technology and commercial software company as well as by our knowledge of operational and accounting processes. We have over 700 investment firms that we provide regulatory and compliance services for and view this as a key value-add and differentiator.

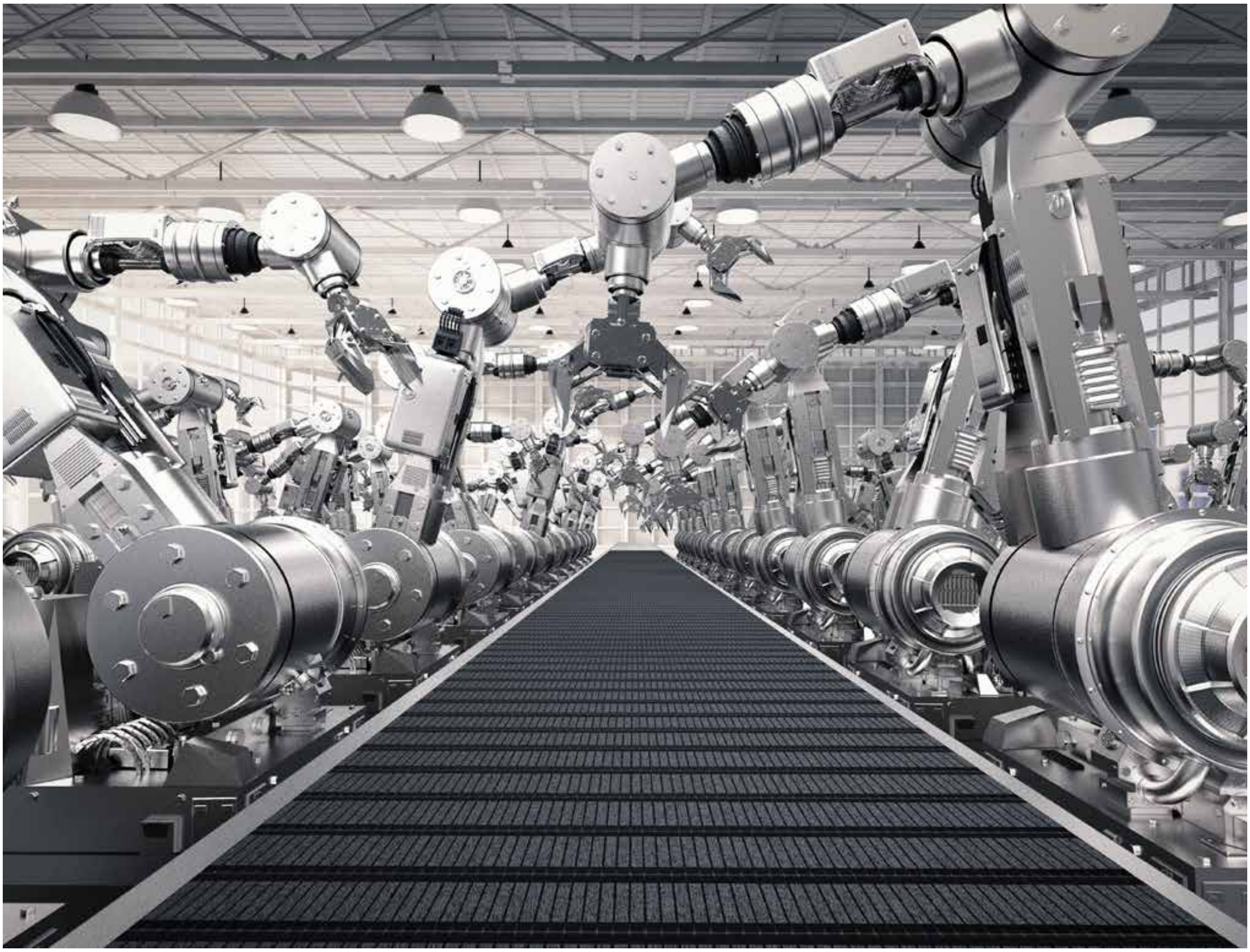
**What are the biggest challenges the industry will face over the next 12 months?**

Keeping up with technology advancements will be challenging for managers and service providers alike. Ensuring data protection will be top of mind to investors, raising capital and finding performance remain perennial priorities as well as for asset managers.

**How do you see the industry developing over the next five years? What are your predictions?**

Increasing automation will change the way administration is performed in the years ahead. Leaning on technology, and integrating all steps of the process together seamlessly, will reduce the potential for error and enhance the quality of service experience. Managers will increasingly seek more value-add applications of their data held by custodians, prime brokers and administrators. In addition, we will continue to see a wide spectrum of asset classes and geographies traded within the same manager requiring robust applications to help normalise and provide required analytics. **AST**

**Rahul Kanwar**
Executive vice president
SS&C Technologies



# To automate or not to automate?

## Jenny Nilsson of triResolve explains why technology should not force firms to choose between manual or automated processes

*Becky Butcher reports*

**How have regulations changed the way firms view and manage their collateral management commitments?**

The regulation has certainly changed the way firms view and manage their collateral management obligations and many saw it as an opportunity to streamline their collateral processes. However, as is often the case when regulatory deadlines are looming, it forces some firms to make hasty decisions in a bid to become quickly compliant. For many firms no (or limited) extra resources were provided to help market participants meet their uncleared margin obligations.

As a result, many firms overlooked the opportunity that the regulation presented to review their existing processes and consider the use of new technologies to optimise their margin workflows.

Those firms that did opt to overhaul their traditional margin processes are reaping many operational benefits and are experiencing new levels of automation.

**What opportunities has this created?**

Those firms stuck using manual, fragmented processes should take the time to re-evaluate their approach and ensure their collateral management workflows are both cost and operationally efficient.

This will most likely require a change in processes and adopting the right technology to eliminate cumbersome repetitive tasks, which are better suited to automation.

Along with a change in processes, firms need to adopt a change in attitude and be willing to move away from the comfort blanket of manual touch and verification of each workflow step. Automation can help firms move away from manual processing and focus their efforts on higher value activities that help reduce risk.

**How basic are some firm's in-house collateral systems?**

The margin call lifecycle has not really evolved much over the years with many firms still manually calculating and exchanging margin calls.

Collateral management by default comprises many different parts, which traditionally relied on multiple tools ranging from excel spreadsheets to email to installed software.

The calculation and issuance of margin calls alone is dependent on the collation of data from multiple sources and communication via email, and in some cases even fax. This approach typically requires users to send each margin call individually.

Calls may be slow to calculate, slow to send and require many manual touch points; vastly increasing the risk of user error. For those firms that have not yet embraced automation and are stuck using manual and fragmented processes, it's highly probable that they may experience incomplete margin calls and failed payments, plus the increased operational costs required to rectify errors and unsecured exposures.

**Where do your systems sit within the collateral landscape?**

Our web-based collateral management service, triResolve Margin, was built as a new generation margin platform, where automation is at the heart of the solution. triResolve Margin can fully automate the collateral process, without requiring a complex retro-fit to suit a firm's existing processes.

Margin amounts are calculated using triResolve portfolio reconciliation data and users simply select from a suite of predetermined auto-rules and automate the areas that best suit them in seconds.

There is the option to implement a completely automated end-to-end workflow, or to configure each collateral agreement differently. This allows the client to select the exact level of automation with which they are comfortable.

Regardless of the approach, triResolve Margin consistently highlights the exceptions and provides the analytics and dispute resolution tools required to quickly resolve discrepancies.

**What can firms do to meet operational efficiency?**

For firms to achieve real transformative change they need to adopt a solution that considers the entire margin workflow; including margin call calculation and validation, messaging with counterparties, call issuance/reply, booking of collateral, pledge acceptance and settlement instruction.

triResolve Margin, an extension of triResolve Portfolio Reconciliation, is best placed to provide the market with the operational efficiency it so desperately needs. triResolve Portfolio Reconciliation has over 2,100 groups working together to regularly reconcile 85 percent of all collateralised over-the-counter derivatives and corresponding collateral balances. If a market participant needs to verify the trade information underlying a margin call and resolve disputes, they use triResolve.

By leveraging triResolve Portfolio Reconciliation, triResolve Margin is unique in its ability to automate the collateral management process. Firms simply select their auto-rules, and triResolve Margin provides the required level of straight-through processing, highlighting any exceptions. This unique and unrivalled integration of processes enables the service to truly automate collateral management, allowing the industry to focus on regulatory compliance and risk—rather than the process.

**Will technology force firms to choose between manual or automated processes? How do firms know what technology is best suited to them?**

Technology should not force firms to choose between manual or automated processes. Instead, clients should be given the flexibility to choose a workflow, which helps them confidently fulfil their regulatory and operational objectives. Some firms see value in continuing to perform manual tasks, but the right technology should enable them to eliminate cumbersome repetitive tasks, which are better suited to automation. In the instance of collateral management, automation can help firms to move away from manual processing and focus their efforts on higher value activities that help reduce risk. **AST**

**Jenny Nilsson**
Head of product marketing
triResolve

# Follow the leader

## Harry Newman of SWIFT explains why the UK is currently at the forefront of change and innovation in the payments industry

*Becky Butcher reports*

**Do you think the last 12 months have been positive for the payments industry? What progression have you seen?**

The last 12 months have been an exciting and transformational period for the payments industry, following the rollout of SWIFT global payments innovation (gpi) in January 2017, the largest transformation in cross-border payments over the last 30 years.

SWIFT gpi dramatically improves the customer experience in cross-border payments by increasing speed and transparency, and by introducing end-to-end tracking.

Hundreds of thousands of cross-border payments are today being sent using the new gpi standard, and payments are typically made within minutes, even seconds. It is set to be the standard for all cross-border payments made on the SWIFT network by the end of 2020.

**A panellist at the SWIFT Business Forum in London said that SWIFT should look to do more within the financial technology (fintech) space. How do you react to this comment?**

SWIFT is very active in the fintech space through Innotribe, our unique incubator that brings together innovators and investors from leading financial institutions worldwide to identify, develop, and implement transformational innovations. Since 2011, the Innotribe Startup

Challenge has connected the financial services industry with more than 650 fintech startups. While supporting community engagement, it has also enabled us to stay abreast of the latest innovation activity. Through the year, there are showcases across the globe featuring fast-paced company pitches and social networking events.

**Do you think collaboration with smaller financial technology firms is the answer to innovation around technology in the industry?**

Fintechs of all shapes and sizes have a role to play in innovation and disruption in the payments industry; we encourage and support the way they develop and progress ideas. In a sense, SWIFT was the original fintech startup 30 years ago and, as a leader in supplying innovative solutions to the financial services industry, is always looking at how new technologies can improve the payments experience. Fintechs have a big part to play in that.

**SWIFT recently extended its instant payment tracker, what does the extension provide clients? And have you had any feedback from clients on the extension?**

In March, we announced that from November this year we will extend our gpi Tracker to cover all payment instructions sent across the SWIFT network, enabling gpi banks to track all their SWIFT payment instructions at all times. Feedback from gpi banks has been extremely positive, with many reporting that, as a direct result of the speed and transparency afforded by gpi, they have seen a significant reduction in frictions and as much as a 50 percent fall in their enquiry costs.

**Are you planning to release any further updates throughout the rest of this year? If so how will these improve clients cross-border payments experience?**

The gpi is rapidly gaining customers, as they see the benefits of improved speed, transparency and traceability. But this is a journey to a new industry standard, during which we expect to be rolling out additional features in the coming months.

**There have been concerns in the industry that innovation and change within payments sector in the UK is moving too slow. Do you agree with this? If so, why do you think this is and what can the UK do to improve?**

The UK has for a long time been at the forefront of change and innovation in the payments industry, leading the way with instant payments and open banking. Instant payments are now being adopted in many other countries, such as Australia where SWIFT helped design and construct the infrastructure for the new payments platform. Equally we will soon supply connectivity to the European instant payments system Target Instant Payments Settlement (TIPS) and the EBA's pan-European RT1 platform.

With Open Banking, the UK started well ahead of the rest of Europe, and efforts led by HM Treasury go back as far as 2015. Improving access to open data, and making account switching seamless and straightforward, are all initiatives where the UK has led the way.

**What challenges are you experiencing around preparations for the implementation Second Payment Services Directive (PSD2)?**

The Second Payment Services Directive (PSD2) is bringing strong security requirements with mandatory two-factor authentication. This will improve safety in retail banking, which is crucial when new third-party payment providers begin entering the market.

The impact will be lesser in the corporate to banking space, where secure and automated communication with strong customer authentication has been the norm for many years. SWIFT has always been at the forefront of efforts to improve security so we strongly support these developments.

**What opportunities will the directive bring?**

Inherently PSD2 will increase competition in the banking space, not only with new fintechs but also between the banks themselves. We will likely see new products and services—ultimately, this will benefit the end customer, and spur further growth in our industry.

**What are your predictions for the next 18 months in the payments sector? What developments do you think the industry will see?**

As customer requirements and expectations increase, I expect the sector will continue rising to the challenges presented to them.

At SWIFT, we are constantly evolving, innovating and expanding our services. I expect to see further gpi services rolled out in the coming months, further enhancing our customers' payments experience as gpi quickly becomes the new industry norm.

For example, using gpi we are exploring how we can link real-time payments systems together in regions such as Asia Pacific, building upon our successful design and construction of the infrastructure behind the new payments platform in Australia. **AST**

**Harry Newman**
Head of banking
SWIFT

# One group, one post-trade solution

## KDPW Group explains how its services covering clearing, trade repositories and approved reporting, can provide a post-trade solution in Central Europe

Looking at the financial market and its infrastructure it is really worth noticing how the KDPW Group built Central Europe's leading clearing and settlement infrastructure.

Thanks to services offered in KDPW, the central securities depository (CSD) of Poland, and KDPW central clearing house (CCP) the quality and safety of the Polish financial market and its attractiveness to international investors were strongly improved.

KDPW Group offers the services of an authorised CCP, including OTC clearing, a registered trade repository, a global numbering agency (ISIN, CFI, FISN) as well as legal entity identifier (LEI) assignment and is in the process of CSD authorisation.

But the post-trade solutions are offered not only for domestic financial market. With the European authorisations and registrations KDPW Group is open to foreign clients.

Raiffeisen Bank International has opened an omnibus account direct in KDPW. ABN AMRO Clearing Bank N.V., KDPW_CCP's first foreign participant, has started to clear transactions on GPW's cash and derivatives market in June 2016.

As a general clearing member of the KDPW_CCP, ABN AMRO opens access to the Polish capital market for investors using the bank's global post-trade services. KDPW Trade Repository has participants from UK, Italy, Czech Republic, Bulgaria and Romania.

### Clearing services

KDPW_CCP is authorised under the European Market Infrastructure Regulation (EMIR) (Polish Zloty and Euro) and has a broad experience in extending the scope of its services.

In view of its current levels of trade clearing and taking into account future volume growth and the potential to offer its services in the Central and Eastern European (CEE) Region, KDPW_CCP holds the necessary level of own capital, which currently stands at €55 million.

CCP's own capital is the last line of defence in the face of member insolvency and the higher the capital of the CCP, the lower the risk exposure of the remaining members. The clearing house performs a broad range of services in the financial market.

For the regulated market, KDPW_CCP clears equities, fixed income and other cash market instruments, as well as derivatives such as futures and options based on indices, equities, bonds, currencies and interest rates. It also offers clearing of securities lending and borrowing and derivatives from interbank market (forward rate agreements, interest rate swap, overnight indexed swap, basis swaps and repos).

KDPW_CCP has started to provide a service: the clearing and guarantee of OTC derivatives and repo trades as of December 2012. KDPW_CCP began in this way to process interbank trades, mainly aiming to reduce the risk of default by trading counterparties and, consequently, to generate growth in this market sector.

KDPW_CCP added new types of acceptable collateral to the collateral management service including collateral posted as margins or contributions to funds, both in organised and non-organised trade.

The new functionalities added to the existing collateral management structure include contributing cash in Euro as well as bonds denominated in EUR as collateral.

The Polish clearing house offers netting mechanism which allows KDPW_CCP to generate one settlement instruction sent to KDPW or another settlement institution (for securities and/or cash settlement) for all operations which credit and/or debit a designated settlement account.

The implementation of netting and aggregation (directional netting) of debits and credits in securities arising from cleared transactions concluded on the regulated market or in an alternative trading system implies improved operating standards of the clearing process resulting in a significant reduction of the number of instructions sent for settlement while reducing the cost of trade settlement.

### Trade repository services

KDPW_TR was one of the first trade repositories in Europe to be registered by the European Securities and Markets Authority (ESMA) in confirmation of compliance with all international standards which guarantee the highest quality of service.

KDPW_TR has participated in the implementation of EMIR from the very beginning and is engaged in active dialogue with all market participants: regulators, other trade repositories, as well as reporting participants. KDPW_TR aligns its services with the legal requirements and the ESMA guidelines and follows the needs of market players covered by the reporting obligation.

The strengths of KDPW_TR are:

- Secure certified access to the application
- User-friendly intuitive website interface with reporting functionalities and direct access to maintained data
- Global communication standards: XML messages, dedicated message queues MQ
- Easy access to support of our highly qualified experts
- Existing procedures applicable in the event of contingencies, solutions ensuring the highest security standards and business continuity in data collection and maintenance (including a back-up site)

KDPW_TR offers the reporting of derivative trades via a user-friendly secure website interface or over automatic direct connections. Derivatives trades are reported in messages developed in line with the scope of information required under the EMIR Technical Standards.

They include all data necessary for the trade repository to identify trades and process reports as required by The European Securities and Markets Authority (ESMA).

## The ARM service

On 3 January 2018, KDPW launched its approved reporting mechanism (ARM) service. The ARM service consists of sending trade data to the relevant supervisory authority on transactions executed as part of trading in financial instruments on behalf of entities obliged to report such data under the Markets in Financial Instruments Regulation (MiFIR). Owing to delays in the implementation of the second Markets in Financial Instruments Directive (MIFID II), KDPW will be offering ARM services on the basis of provisions of national law incorporated in legislation on the distribution of insurance services, until KDPW obtains official authorisation from the Polish Financial Supervision Authority.

An ARM is authorised to provide services throughout the whole EU. Reports are sent by the ARM to the relevant supervisory authority, depending on the domicile of the entity with the obligation to submit reports.

KDPW currently performs the role of intermediary in sending reports to the following supervisory authorities:

- The Polish Financial Supervision Authority
- The Malta Financial Services Authority
- The Portuguese Securities Market Commission
- The Financial Conduct Authority (UK)

KDPW will enter into agreements with other supervisory authorities, depending on client demand.

## LEI assigning

According to the Regulatory Oversight Committee's decision of 27 December 2013, KDPW became an local operating unit (LOU) authorised to issue LEIs.

Since then, KDPW has issued approximately 14.8 thousand codes to entities.

From 1 July 2018, KDPW reduce the LEI issuance and renewal fee by approximately 20 percent.

The main advantages of the KDPW LEI service include:

- Customer service in English and Polish
- Very competitive fees for the issuance and renewal of LEIs
- Prompt processing of orders;
- Individually dedicated account manager for each order, available to the client at every step of the application verification process;
- Automatic communicating of all events in the processing of orders;
- Highly competent staff dedicated to customer service and an excellent understanding of the specificity of the Polish capital market including local legal requirements.

Access to LEI management services:

- Filing applications for the issuance or transfer of an LEI with KDPW
- Review and processing of issued LEIs, including data updates and corporate actions
- Review of order history including payment details
- Downloading invoices
- User account management

## Numbering agency services

The Central Securities Depository of Poland is the only institution in Poland and one of few institutions in Europe to offer such a broad range of numbering services for financial market entities and instruments. KDPW assigns: ISIN, CFI, FISN codes. Since 1994 KDPW is the member of The Association of National Numbering Agencies, and since 1996 plays the role of the national numbering agency. AST

# Don't miss your copy of Asset Servicing Times

| The Network Forum Annual Meeting<br>Austria | GAIM ops<br>London |
|---|---|
| June<br>25-27<br>thenetworkforum.net/annual-meeting2018 | June<br>26-27<br>finance.knect365.com |

| FundForum Asia 2018<br>Hong Kong | 4th Annual Post-Trade Forum<br>Berlin |
|---|---|
| Sep<br>03-05<br>goo.gl/6uR3U9 | Sep<br>13-14<br>glceurope.com |

# Comings and goings at Northern Trust, CoInvestor, Ocarian and more

**Northern Trust has appointed David Kim as head of sales for its corporate and institutional business across the Asia Pacific (APAC) region.**

Kim will lead a team of sales managers located across the region, offering Northern Trust's asset servicing solutions to institutional investors and investment managers.

Located in Singapore, Kim will report to Jon Dunham, head of global sales for Northern Trust and William Mak, head of the APAC region at Northern Trust.

Kim succeeds Angelo Calvitto who is to lead Northern Trust's business in Australasia.

Kim has more than twenty years of experience working in financial services. Prior to Northern Trust, Kim served at BNY Mellon in Boston where he was most recently service executive and managing director, overseeing a team of US asset servicing directors.

In addition to working in cities across the US, Kim spent a number of years based in Asia, including two years in Singapore and six years in Seoul where he was head of asset servicing for BNY Mellon, South Korea.

Commenting on Kim's appointment, Mak said: "We are delighted to appoint David Kim to continue to drive the momentum of Northern Trust's business across the region."

He added: "We continue to see demand from institutional investors and asset managers for our bespoke, leading-edge solutions. Kim's invaluable experience will ensure we remain well-positioned to best support our clients' requirements."

**CoInvestor has appointed Rob Ferguson as its COO.**

According to CoInvestor, the role will strengthen the focus on innovation and help the firm deliver the best service to its customers.

Ferguson has more than 20 years experience working within software, financial and legal firms.

Ferguson is already a member of CoInvestor's board, giving him an insight into the firm's offerings and its mission to digitise access to, and management of, alternative assets.

In his last executive role, Rob Ferguson was chief commercial officer of IG Investments at IG Group.

At IG, Ferguson helped develop the IG Smart Portfolio service in partnership with BlackRock.

Prior to that he was a partner at Weil, Gotshal & Manges, an international law firm, where he advised private equity and corporate clients on high yield bond offerings, initial public offering and other capital raising transactions, as well as corporate governance and compliance matters.

Sam Plumptre, chief executive of CoInvestor, said: "Rob Ferguson brings with him the exact expertise and industry knowledge to help us grow the business and continue to innovate".

"His experience of driving new business initiatives and technology will complement CoInvestor's vision to fully digitise access and management of alternative assets."

He added: "As the alternative asset industry is developing and becoming more attractive to investors, our client base is expanding and expecting more. We are continually looking for ways to strengthen our offering and have recently added private equity funds in response to investor demand."

Commenting on his new role, Ferguson, said: "I am delighted to take on the role of COO. CoInvestor's commitment to delivering compelling solutions to connect investors and advisers to alternative asset fund managers makes it an exciting firm to work with."

He added: "My priority will be to help the firm achieve its ambitious growth strategy and realise its goal of bringing alternative assets to the mainstream."

**Ocorian has launched its new corporate trust offering with the appointment of three senior-level professionals from the banking sector.**

The three new professionals joining Ocorian, the provider of corporate and fiduciary services, are Sally Gilding, Chris Wilson, and Sinead McIntosh.

Gilding joins as senior consultant and non-executive director tasked with driving the strategic direction and rollout of the new product range.

Prior to Ocorian, Gilding was co-chief executive of Deutsche Trustee Company Limited in the UK. Most recently, Gilding has sat on numerous Trustee Boards across the Middle East, Africa, and Asia.

Wilson, who has been appointed as director of transaction management, joins from Citi.

McIntosh, who previously served at HSBC, joins Ocorian as associate director of product development.


At your side worldwide.
Leverage our worldwide presence to increase your corporate success.
EUROMONEY
AWARDS FOR EXCELLENCE
2017
www.commerzbank.com/worldwide
The Euromoney Awards for Excellence honoured Commerzbank as Germany's Best Bank for its strategic approach that is creating a 'stable, efficient and more profitable lender' amidst challenging times for the German banking sector. Euromoney, 07/2017 issue
COMMERZBANK
The bank at your side

Commenting on the new appointments, Nick Cawley, CEO of Ocorian, said: "This is an exciting time for Ocorian. We continue to invest heavily in all areas of our business but the development of our corporate trust offering, both in terms of bringing on-board high-quality people with superior skills and know-how and providing the right process and systems to support them, underpins our long-term growth strategy."

**Finastra has appointed Jim Fiesel to managing director of capital markets and lending sales for the Americas.**

Based in New York, Fiesel will drive sales momentum for these business lines across the US, Canada, and Latin America.

Fiesel joins Finastra from Calypso, where he was managing director for the Americas.

Chris Zingo, general manager, Americas at Finastra, said: "With the addition of Fiesel, Finastra has gained a seasoned industry expert to expand our market penetration throughout the Americas. His decision to join us shows recognition of and appreciation for Finastra's unparalleled breadth and depth of product set and belief in our open banking vision as a driving force behind the next wave in financial services innovation."

Commenting on his new appointment, Fiesel said: "Finastra's cloud solutions and its FusionFabric.cloud open innovation platform both offer significant advantages to the banking and investment management markets."

He added: "The breadth of capabilities that are available via the open strategy provide tremendous opportunity to access innovation for any buy-side or sell-side firm, and help deliver on their desire to improve usability, consolidate systems, and drive down costs."

**Wolters Kluwer has appointed Rainer Fuchsluger as managing director of its finance, risk and reporting business in the Asia Pacific (APAC) region, based in Singapore.**

Fuchsluger replaces James Stewart who is leaving Wolters Kluwer after five years with the firm, returning to his native Australia for family reasons.

At Wolters Kluwer, Fuchsluger will be responsible for further building on Wolters Kluwer's growth in APAC.

Fuchsluger has more than 15 years of experience in financial services. He joins Wolters Kluwer from SS&C Technologies where he was regional managing director of the institutional and investment management business in Asia.

Prior to this, Fuchsluger was head of real-time services, APAC for ICE Data Services. He also worked at Thomson Reuters, as head of sales for Asia.

According to Wolters Kluwer, its APAC business has grown on the back of high-paced regulatory changes in the region.

Commenting on his new role, Fuchsluger said: "I am excited to be joining Wolters Kluwer—a firm well known in the region for its market-leading technology across finance, risk and reporting solutions."

He added: "I look forward to setting the strategic agenda as the leading provider of integrated regulatory compliance and reporting solutions in Asia, working with our talented team to further increase our market share."

**HSBC Securities Services Americas has appointed Bill Muia to its asset managers/owners sales and business development team in New York.**

Muia will report to Scott Markowitz, head of sales and business development.

In his new role, Muia will be responsible for overseeing a portfolio of Americas-based asset manager/owner sales prospects in line with the team's mandate to drive outbound sales revenue growth to Europe, Asia, the Middle East, North Africa and Turkey.

Muia has more than 30 years of securities servicing experience.

He most recently served as a senior sales executive at RBC Investor & Treasury Services. Prior to that, Muia worked at J.P. Morgan Investor Services, Bisys, Federated Investors, and SEI.

Muia has also served on the Investment Company Institute's International Operations Advisory Committee and is also a member of the National Investment Company Service Association.

In an internal memo, HSBC Securities Services Americas, said: "Muia has a very strong track record of collaborating with his global banking and markets colleagues to deliver the outbound business model to Americas-based clients and prospects."

**Amber Baldet, a blockchain programme lead at JPMorgan Chase, is due to leave the firm.**

Baldet has been blockchain programme lead since 2012. She will be replaced by Christine Moy, a senior product manager.

In her role at JPMorgan Chase, Baldet led product development for Quorum, setting up the corporate and investment bank's blockchain programme.

Prior to JPMorgan Chase, Baldet was senior consultant at Capco, a global business and technology consultancy.

Baldet has also held other roles at Blackwire, Old Lane and Avalon Research Group. **AST**


NEX
STREAMLINED COLLATERAL MANAGEMENT
Experience unrivalled automation and exception management with triResolve Margin's web-based service.
So you can focus on the risk, not the process.
Book a demo today by emailing triresolve-enquiry@nex.com.
triResolve MARGIN