asset servicing times
The primary source of global asset servicing news and analysis
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In harmony

Stephen Scharf of DTCC explains the industry effort to harmonise the cybersecurity lexicon

Euroclear wins settlement service mandate

Smith & Williamson Fund Administration Limited (SWAFAL) has gone live with Euroclear UK and Ireland's (EUI's) investment fund service.

According to Euroclear, EUI's investment fund service delivers end-to-end automation from order placement to settlement and asset servicing.

It also reduces operational and counterparty risks, improves liquidity management, and gives certainty of settlement.

As well as this, the investment fund service improves liquidity management and gives certainty of settlement, which makes the back office function safe and reliable, Euroclear revealed.

Additionally, clients will benefit from clearer visibility of their settlement obligations and are able to manage cash flows better, according to Euroclear.

SWAFAL has provided standalone fund administration services since 1983 and now acts as an authorised fund operator providing the regulatory framework for 170 funds for investment managers, family offices, and private individuals.

Brian McLean, director of SWFAL, commented: "This is a great step forward for us as we look to provide new and alternative automated routes, for investors to trade and settle SWFAL funds. We are delighted to partner with EUI in this venture and see this as a major milestone in the growth potential and service offering of our business."

John Trundle, CEO, Euroclear UK and Ireland, added: "We are extremely pleased that Smith & Williamson has chosen our service. We are committed to providing clients with a simple, reliable and fully-automated solution for fund order routing and settlement. The resulting operational efficiencies reduce risk and save costs for clients."

Contents

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Cyber Risk
An industry effort is underway to harmonise the cybersecurity lexicon. Stephen Scharf of DTCC explains more
p12

China Insight
Find out what BNP Paribas market players discussed at a recent briefing focusing on China's economy
p15

Enterprise Blockchain
David Rutter of R3 explains that 2018 will be remembered as the year enterprise blockchain technology came of age
p18

Transaction Banking
Andrew England of IGTB explains that for banks to nuture the innovation pipeline, the tone will need to be set from the top
p21

SIX Interview
Thomas Zeeb of SIX explains what separates the company's new digital platform from other exchanges
p24

Industry Appointments
Comings and goings at Duco, Saxo Bank, Citi and more
p27

Fenergo launches CLM solution for Natixis

Fenergo has launched a client lifecycle management (CLM) solution for Natixis, and will deploy its platform, Fenergo CLM, across Natixis's corporate and investment bank division globally.

The platform delivers a standard know-your-customer (KYC) policy and procedure, and the robust out-of-the-box regulatory framework spans anti-money laundering KYC and other KYC classifications.

According to Fenergo, client and counterparty data and documentation are centralised, facilitating global regulatory rules, and increasing the transparency of information across the KYC processes.

This creates a single view of the client, which enables available client information to be reused, reducing the need for superfluous client outreaches, Fenergo revealed.

Marc Vincent, global head of corporate and investment banking at Natixis, said: "Our strategy is based around serving our clients' needs, and our internal agility is central in this respect. By enhancing our processes through digital systems such as Fenergo's CLM platform, we aim to provide the best possible experience, and ultimately the best possible financial solutions to our clients."

Marc Murphy, CEO of Fenergo, commented: "With increasing regulatory change and the expectation to deliver an optimum customer experience, we are seeing accelerated demand for CLM amongst financial institutions. Leveraging our platform clients like Natixis can enhance the end-client experience while fast-tracking opportunities for revenue."

Greg Casey, vice president, Europe, the Middle East and Africa, Fenergo, added: "By joining the Fenergo global CLM platform, Natixis has become an active member of our client engagement community and will join our regulatory, design and CTO forums."

"Natixis will directly contribute to the Fenergo regulatory and product roadmaps, enhancing our solution set even further. I personally look forward to working closely with Natixis professionals to deliver the next generation of CLM solutions."

RBC I&TS appointed custodian for First Block Capital's ETFs

RBC Investor & Treasury Services (RBC I&TS) has been appointed custodian by First Block Capital Inc (First Block) on its new actively managed FBC distributed ledger technology adopters exchanged-traded funds (ETF).

RBC I&TS will also provide fund valuation, ETF administration, and tax reporting services. According to RBC I&TS, this is the fourth ETF mandate the bank has had this year and it reflects their focus on delivering strong client service while providing best-in-class products and experiences.

RBS I&TS can enhance the value of client data, creating insight-based solutions for clients in Canada and around the world.

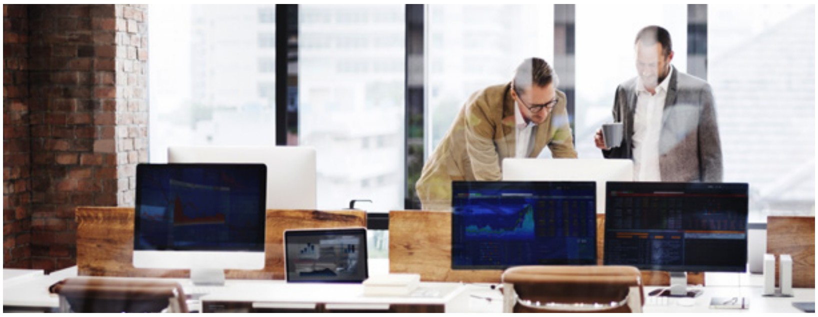
Bill Stormont, COO, First Block, said: "As newcomers to ETFs, it was essential for First Block to partner with a team whose collaborative, professional culture and strong technology platform complemented our ETF ambitions."

"RBC IT&S' client-centric approach was a key success factor for our launch and we look forward to working with them in the future as we grow our presence in this space."

David Linds, head of asset servicing Canada, RBC I&TS, said: "Our new mandate with First Block demonstrates that RBC I&TS possesses the skills, technology and client service capabilities to benefit the ETF sector. We are pleased to assist First Block with its custody, fund valuation, ETF administration and tax reporting services and remain confident we can continue to respond to First Block's, and the ETF market's, evolving needs."

Clearstream and SSCC strengthen direct link for China-domiciled funds

Clearstream Banking and Schenzhen Securities Communication Co (SSCC) have opened a direct connectivity for fund order routing of Mainland China-domiciled funds. The link is established under the Mainland China-Hong Kong Mutual



Voltron launches open platform on Corda blockchain

Voltron has launched an open platform on Corda blockchain.

The new platform covers documentary trade, targeting production, and R3's Corda Enterprise blockchain platform in 2019.

Voltron's initial aim is to use blockchain technology in order to bring significant efficiencies to transacting letters of credit.

Additionally, it will enable banks to speed up financing decisions and enhance the customer experience, while the bank's corporate clients can reduce internal operational procedures. This can be done through less reconciliation with their trading partners and banks, Voltron said.

Meanwhile, corporate customers will be able to connect with their banks and trading partners via a single, simplified channel, for both issuance of letters of credit and presentation/exchange of documents across an open network.

Trade documents produced on external networks by corporate supply chain partners can be digitally sent, verified, and processed in Voltron.

According to Voltron, this new model provides legal enforceability of title documents and greater digitisation across business networks on Corda, addressing the challenge of today's digital islands bridged by paper-based processes.

The Bolero network and electronic Bill of Lading (eBL) functionality is included at launch. The essDocs network and eBL solution will start the initial design and integration with the Voltron solution, with others to be added on a rolling basis, Voltron revealed.

Founding members of Voltron include Bangkok Bank, BNP Paribas, CTBC Holding, HSBC, ING, NatWest, SEB, and Standard Chartered.

David E. Rutter, CEO of R3, commented: "Today's trade finance solutions were built in siloes, adding significant risk, operational inefficiencies and costs into the process. Previous trades conducted on Voltron have demonstrated banks can offer a commercially and operationally viable blockchain solution with significant customer benefit."

"It is critical for banks and corporates to have the option to work with the technology partner of their choice, as this lowers barriers to adoption and helps drive widespread deployment of Voltron via our partners. In addition, our focus on industry collaboration and open networks uniquely positions Voltron to scale by leveraging the Corda Network to ensure interoperability with other global trade initiatives and other networks including supply chain, cash, insurance and identity."

Recognition of Funds (MRF) programme and allows Hong Kong and Chinese asset managers to distribute recognised funds in both jurisdictions.

Additionally, the link facilitates the direct processing of cross-border investment fund transactions between Mainland China, Hong Kong, and international market participants.

According to Clearstream, their customers can now send orders to Mainland China funds under the MRF scheme.

As well as this, fund orders can be routed directly to SSCC for transmission to the fund register held by China Securities Depository and CSDC.

In return, China-based asset managers are able to reach eligible Hong Kong institutional investors, Clearstream revealed.

Xue Ke, vice-general manager of SSCC, said: "Mutual recognition of funds is an important step towards the opening-up and innovation of China's capital market in recent years. It accelerates the two-way capital flow between domestic and overseas markets, and promotes the competitiveness and transformation of the asset management industry."

"In order to meet the growing market demand of MRF, SSCC continues to work with international counterparts such as Clearstream to serve clients in Mainland China and Hong Kong, providing an electronic one-stop solution for the operations of mutual recognition of funds."

Philippe Seyll, co-CEO of Clearstream Banking, commented: "We welcome the eligibility of the first China-domiciled funds in Vestima under the MRF programme. It is a notable step towards opening the Chinese market for investments into domestic mutual funds and towards a further internationalisation of the Renminbi."

"The cooperation with SSCC supports our key objective to meet our customers' increasing demand to invest in Asia and to facilitate their business in those markets."

Sale of the core banking operations of RBI subsidiary closes

The sale of the core banking operations of Raiffeisen Bank Polska, agreed in April this year, by way of demerger to Bank BGZ BNP Paribas, a subsidiary of BNP Paribas, was successfully closed on 31 October.

The sale prices are approximately PLN 3,250 million (around €760 million), equating to a tangible book value multiple of around 0.95 times, Raiffeisen Bank revealed.

This is based on core banking operations equity of approximately €877 million at the time of closing.

According to Raiffeisen Bank, the sale results in a positive impact of approximately 85 basis points on Raiffeisen Bank International (RBI) Group's CET1 ratio (fully loaded).

Under the terms of the agreement with the buyer, total assets of approximately €9.3 billion and total risk-weighted assets of approximately €4.9 billion have been allocated to the core banking operations.

The direct impact of the sale on RBI Group's consolidated profit is expected to amount to minus €121 million, which is already recognised in the income statement in Q2.

The amount may change following the audited closing statement of financial position, according to the bank.

Meanwhile, additional equity neutral effects from the disposal after closing amount to around minus €38 million and are primarily due to already realised currency effects.

Immediately after the demerger, RBI will transfer the remaining Raiffeisen Bank Polska operations, mainly compromising the foreign currency retail mortgage loan portfolio, to a Polish branch of RBI AG.

Another good month for ASX

The Australia Stock Exchange (ASX) revealed that total capital raised was $12.4 billion in October, up 96 percent from October 2017, the previous corresponding period (pcp).

The statistic was released as part of the ASX Group's Monthly Activity Report.

In October, average daily futures and options on futures volumes were up 12 percent on the pcp.

Average daily futures volume were up 13 percent and average daily options volume were down 16 percent on the pcp.

In October 2018, the average daily number of trades was 22 percent higher than the pcp.

The average daily value traded on-market of $4.6 billion was up 25 percent on the pcp.

Volatility, which is measured by the average daily movement in the All Ordinaries Index, was 0.7 percent in October, up on the previous month by 0.4 percent.

Expected future volatility in October was an average of 16.4 percent, compared to 12.4 percent in September.

October also saw the notional value of over-the-counter interest rate derivative contracts centrally cleared was $215 billion, compared to $449 billion in the pcp.

Single stock options average daily contracts traded were down 8 percent and index options average daily contracts traded were up 13 percent on the pcp.

The value of securities held in Clearing House Electronic Sub-register System (CHESS) was 1 percent higher than the pcp.

The number of dominant settlement messages in October 2018 was 26 percent higher than the pcp.

ASX plans to replace CHESS with a distributed ledger technology solution as the post-trade infrastructure for Australia's equity market.

The new system is estimated to go-live between Q4 2020 and Q1 2021.

Standard Chartered granted custody licence in China

Standard Chartered Bank (China) has become the first foreign bank to be granted a domestic fund custody licence by the China Securities Regulatory Commission.

With this licence, Standard Chartered China will be able to directly participate in and provide custody-related services to investment products offered by domestic funds and asset managers in China.

With the continued expansion of China's economy and its corresponding growth in personal wealth, there is a growing demand for more sophisticated investment products and professional services, according to Standard Chartered.

The news comes after Standard Chartered completed a pension plan reform and introduced unified asset management industry guidelines. It is also expected to introduce bond futures and other derivatives products in the future.

China is the third largest equity and bond market in the world, with the total market size close to $20 trillion.

Bill Winters, group chief executive of Standard Chartered, commented: "China is of strategic importance to Standard Chartered. We are honoured to be the first international bank to be granted this licence, which coincides with the Bank celebrating its uninterrupted operations in China for the past 160 years."

He added: "With the inclusion of Chinese shares by major world indices, China is already being recognised as a major financial market. We are excited to be part of this process as we work closely to support our clients in their custody needs."

Margaret Harwood-Jones, global head of securities services and transaction banking at Standard Chartered, said: "As a leading international custodian and an active market participant, it is our commitment to bring our integrated solutions, risk control framework and best market practices into one of the world's fastest growing capital markets."

She added: "With this licence, we are well-positioned to help investors navigate and capitalise on the opportunities in China's rapidly growing capital market."

Jerry Zhang, CEO and executive vice-chairwoman of Standard Chartered China, commented: "This is a big step forward in the further opening up of China's domestic financial markets and a testament to our commitment to supporting China's financial reform and innovation."

He added: "We belonged to the first batch of banks in China providing onshore B-share custodian services in 1992 and, since then, we have been actively involved in the opening up of China's capital markets, providing one-stop custody services for Chinese financial institutions and making continuous contributions to the sustainable development of China's economy."

Arcesium Technology boosts third party administration offering

Arcesium, a post-trade technology and professional services firm, has boosted its third party administration offering through its partnership with J.P. Morgan Alternative Investment Services.

In its partnership with Arcesium as a technology provider, a substantial portion of J.P. Morgan's Alternative Investment Services business has been converted to the new technology platform powered by Arcesium.

According to Arcesium, end users are now able to have their own technology, their own data model, and integration to inbound and outbound services.

They will have access to this while connecting to their administrator for net asset value (NAV) calculation and all investor-related services and communications.

Meanwhile, Arcesium's solutions are delivered independently to J.P. Morgan hedge fund clients as a tightly integrated and synchronised extension of J.P. Morgan's fund administration business.

David Nable, Arcesium's head of commercial strategy, commented: "We are putting best-in-class technology in the hands of clients without the operational burden of keeping those systems in synch with those of the administrator."

"Clients benefit from flexible, modern tools to run their business, while still maintaining the independence of the fund administrator."

"We are excited to continue growing Arcesium through our partnership with J.P. Morgan Alternative Investment Services."

Joan Kehoe, global head of J.P. Morgan Alternative Investment Services, said: "Sophisticated managers have long maintained internal systems, typically in support of front office activities, but more recently, to shadow the activities of their administrator."

"We have seen opportunities to streamline and automate this two-way information transfer between those records we keep as an administrator and our clients' systems, a task that has historically been complex due to different applications, data models, sources of information, and timing."

Kehoe added: "We are investing massively in our business, particularly by working with leading technology providers, to offer our clients solutions to their most complex operational and data management challenges."

"Our goal is to have all clients live on this new technology platform by year-end 2019, with our global team of professionals operating from a single, unified platform."

IHS Markit introduces new cloud-based platform

Information services provider IHS Markit has introduced a new cloud-based technology for post-trade processing of over-the-counter derivatives trades.

The new platform, TradeServ, was launched in September for matching, confirming, and clearing trades of non-deliverable forwards (NDFs).

Currently, 32 banks and asset managers are live with TradeServ, and more than one million cleared NDF trades have been processed using MarkitSERV this year.

TradeServ is a modern platform as a service (PaaS). It uses microservices architecture and cloud infrastructure to make the platform highly flexible, scalable and reliable, IHS Markit revealed.

According to IHS Markit, it provides customers with better access to trade data, easier integration, and more continuous service upgrades in response to changing regulation and industry needs.

As well as this, TradeServ also provides a framework to accelerate enhancements to MarkitWire, the MarkitSERV platform for interest rate swaps and equity derivatives.

In the first half of next year, IHS Markit will migrate foreign exchange (FX) options, spots and forwards to TradeServ.

Bill Stenning, managing director for clearing, regulatory and strategic affairs at Société Générale corporate and investment banking, said: "The broad connectivity and standardised workflow from MarkitSERV are integral to efficient derivatives operations and compliance."

"With the introduction of TradeServ, the clearing of NDFs to multiple CCPs has moved to a modern PaaS which is an important step forward for the industry."

Brad Levy, CEO of MarkitSERV, commented: "MarkitSERV has always been the innovator that brings progress to the OTC derivatives markets. Our success shows how markets embrace new technology when it is deployed through a trusted network. Beginning in FX, TradeServ will enable us to be even more responsive to customer needs and make it easier for users to interact with their data and customise workflows." AST

In harmony

An industry effort is underway to harmonise the cybersecurity lexicon. Stephen Scharf, chief security officer at DTCC, explains more

Becky Butcher reports

How has the cyber risk landscape evolved over the past year? What new threats have emerged?

We have not really seen any 'new' types of threats emerging—the majority tend to be phishing and spear phishing efforts that have been around for years. However, malicious actors continue to develop their capabilities, both in terms of their knowledge and in their sources of funding. At the same time, firms' internal environments and infrastructures have become more complex, with more potential entry points and interconnections.

It remains a cat and mouse game, and as an industry, we must ensure that we continue to evolve our capabilities to counter this ever-present, ever-growing threat.

Can new fintech solutions help address cyber risks?

Certain forms of fintech have been used by cybersecurity management teams to combat cyber risks. Solutions underpinning

Moving forward, it will be interesting to see if the industry will successfully leverage AI and ML in a greater capacity, so as to be more predictive around cyber threats

Stephen Scharf, chief security officer, DTCC

artificial intelligence (AI) and machine learning (ML), for example, are proving to be effective tools in cyber defence and response.

How can AI and ML bolster firms' cybersecurity capabilities?

Specifically, AI and ML have enabled firms to create data leaks and query vast amounts of data, looking for anomalies and suspicious behaviour in order to respond to issues.

In addition, AI and ML have enabled teams to more accurately assess and respond to cyber threats in real time.

It is important to note that the process today often remains a reactive approach, for example, scanning data, looking for problems and mitigating them.

Moving forward, it will be interesting to see if the industry will successfully leverage AI and ML in a greater capacity, so as to be more predictive around cyber threats, like detecting patterns and behaviours to head off an issue before it manifests.

Are there any risks associated with an overreliance on fintech tools?

Fintech offers an exciting opportunity to shape the way that the financial markets operate, but we must balance these capabilities with any implementation risks, including cybersecurity. As highlighted in DTCC's recent research—fintech and financial stability: exploring how technological innovations could impact the safety and security of global markets, October 2017—cybersecurity risks have been reported as top concerns by firms setting up fintech partnerships.

These concerns are already being addressed on an industry level. For example, the World Economic Forum (WFE) recently created an industry consortium focused on improving the cybersecurity of fintech companies, as a collaboration between fintechs and established financial institutions and infrastructures grows. DTCC is one of the founding members of this initiative and together with WFE's new global centre of cybersecurity, the consortium is developing a set of common principles for cybersecurity assessments, guidance for implementation, a point-based scoring framework, as well as guidance on improving an organisation's score.

Is there a need for a greater regulatory intervention to ensure the industry's ability to respond to cyber attacks?

Regulators around the world have been active in the cybersecurity discussion for quite some time, and have been proactive in introducing mandates and best practices to promote increased safety across financial markets. Unfortunately, these mandates and best practices have often been introduced at the local level, with different requirements, terminology and approaches.

That said regulators are having conversations across jurisdictions on how to best harmonise mandates and best practices. For example, regulators are assessing whether they can harmonise around the two-hour detection and recovery timeframe, as specified in the US. Harmonisation around cybersecurity regulatory guidance and rules would be a welcome development by industry participants and vendors alike.

What is more, an industry effort is underway to harmonise the cybersecurity lexicon, with the goal of creating a standardised list of terms that can be leveraged by regulators, providers and market participants.

DTCC is an active participant and contributor to these discussions, with the project overseen by the securities industry and Financial Markets Association and the former BITS organisation, a division of the financial services roundtable. AST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Tilting towards China

Find out what BNP Paribas market players discussed at a recent briefing focusing on China's economy and new opportunities emerging from the London Shanghai Stock Connect

Maddie Saghir reports

BNP Paribas recently hosted a briefing on exploring the Chinese economic and market outlook, and the new opportunities emerging from the London Shanghai Stock Connect. The event was hosted by Xingdong (Xd) Chen, chief China economist at BNP Paribas, Jason Lui, head of equity and derivative strategy for Asia Pacific and Gary O'Brien, regional head of custody product for Asia Pacific.

As the trade war continues between the US and China, Chen suggested that China "may have to play tai chi with the US".

Chen explained that like tai chi, there are principles to follow. "In regards to the trade war, China will try to avoid the US heat, in other words the US is going to pressure China and China is not going to directly respond. Second, China is waiting for opportunities because the trade war and the pressure will not only hurt China, it will, in turn, hurt the US," he said.

Chen suggested that the keyword is pressure: "The US wants to put extreme pressure on China, and they want China to bend under the pressure."

"This is because China is currently seen to challenge the US in regional and global interests, China is also becoming able to undermine the US. China is not interested in conflict against the US, however, as it has its own political issues to deal with."

During the briefing, it was noted that the escalation of trade tensions would pressure China's growth, which has been on a downward trend for cyclical and structural reasons, but negative impacts of the trade war have in fact pushed growth, as both exports and imports rose faster than expectations as a result of trade delivery intensifying in July, August and September.

In the custody and settlement area, China investment is unique in that there are a lot of schemes to assist in the settlement flow, all tailored in specific ways

Gary O'Brien, head of custody product, APAC, BNP Paribas

China's growth rate is likely to continue to decelerate and, although this will increase concerns, overall financial risks will remain under control.

According to BNP Paribas, China sees the trade imbalance as a result of globalisation, structural difference, supplementary trade, and base of cooperation, while manufacturing, real estate investment, and retail sales remain strong.

Meanwhile, China is ready to compromise on trade, domestic marketing opening, and intellectual protection, but not its growth model.

Lui discussed whether the structural change will be good for China in the long run.

He suggested: "From an investor's or market's standpoint, at this stage, given the size of China, it is actually a lot more US-like than before, especially in the context of an emerging market."

"Today, the most interesting thing about China is that interaction between the structural shift in China's current account, because of dual drivers of trade wars (lower exports), and domestic demand (higher imports) on the capital account side, we may see some replenishment of foreign capital, in conjunction with the index inclusion of Chinese assets, to provide buffer against the account deficit."

"We also see a stable rise of 'market share' of RMB within global central bank's currency reserve balance", he added.

Discussing the topic of gaining market access, O'Brien said: "In the custody and settlement area, China investment is unique in that there are a lot of schemes to assist in the settlement flow, all tailored in specific ways."

He suggested that some of the key models that people are using include the Hong Kong Stock Connect solution, CIBM Direct onshore and the Bond Connect.

According to O'Brien, "policymakers are not saying that Bond Connect is the way forward, they want these solutions to continue to exist, and for different investors, different types of solutions will make sense".

O'Brien also noted that it is important for people to consider the London Shanghai Stock Connect, which has not yet launched.

He said: "It is clear, that this will be an interesting solution to British, European and US investors as it looks like it will be further aligned to the norms they are used to when it launches later this year.

It is therefore important that we are ready from day one to support this need; even if it looks to have a somewhat 'soft' launch."

The challenge for custodians such as BNP Paribas, O'Brien explained, is that schemes have continued to evolve, and evolutions happen very quickly.

He said: "For example, the decision to move to delivery versus payment was announced on a Thursday and went live the following day, so we had to be able to facilitate that in a very short space of time."

He added: "Even in the asset management space, if we look at the bond schemes, we are still seeing global asset managers on CIBM when most were of the view that Bond Connect was the right one for them going forward."

O'Brien concluded: "The reality is that the schemes are continuing to evolve, so it doesn't make sense to throw all your eggs in one basket right now." AST

The rubber has met the road

David Rutter CEO and founder of R3 explains that 2018 will be remembered as the year enterprise blockchain technology came of age

The adoption of blockchain technology to rewire the way the world does business is now an inevitability.

This year will be remembered as the year enterprise blockchain technology came of age. While the timing for adoption will depend on the market and sector, the trajectory is clear.

Businesses of all sizes across the world, in sectors as diverse as financial services, healthcare and logistics, are now actively using blockchain in live deployment as you read these words.

The speed and scale of blockchain adoption has been remarkable. The level of interest, airtime and pace of growth it has experienced is usually reserved for primetime consumer-facing technologies and platforms such as the iPhone or Instagram.

The history of enterprise technology has shown it can be as game-changing as consumer technology in the long run, but more often than not it remains behind the scenes and adoption rates are far more conservative.

This is not the case for blockchain. Deloitte's survey of 1,000 companies across seven countries found that 34 percent already had a blockchain system in production today, with another 41 percent expected to deploy a blockchain application within the next 12 months. Nearly 40 percent of the surveyed companies reported they would invest $5 million or more in blockchain in the coming year.

The potential for this technology to improve the efficiency, transparency, speed and security of the way money and goods

When we started this journey three years ago to take the potential of blockchain technology and apply its benefits to real business, we knew there would be challenges ahead

David Rutter, CEO and founder, R3

flow around the globe is vast and virtually unparalleled, but it was clear from the outset to R3 and the thousands of coders, business leaders and cross-industry professionals that make up our ecosystem.

We are immensely proud to have played a role in the enterprise blockchain revolution since day one, and to have delivered the vision we've shared with our ecosystem from the beginning: to build a robust, new blockchain-based system that enhances the way global business is conducted.

We are now seeing widespread community adoption of Corda, our open source blockchain platform, and its enterprise version for commercial distribution.

The open source version of Corda is a unique, inclusive platform designed for production from the very start. Companies with a relatively simple IT structure and network can go live on it today.

Each week we're seeing new and innovative CorDapps being released into different industries.

Corda Enterprise offers a range of additional features that make it the most resilient, secure and efficient enterprise blockchain platform available, including the blockchain application firewall, so it can be deployed inside corporate data centres, while retaining the ability to communicate securely with other nodes anywhere else in the world.

This is a critical feature requested directly by institutions with complex IT infrastructures.

With the choice between Corda and Corda Enterprise, a wider range of institutions can now realise the full potential of blockchain regardless of their industry, size, budget and stage of development.

R3's Marketplace is a directory of over 200 organisations focused on harnessing the power of Corda, and helps firms to discover, build and deploy solutions on our platform.

At launch, marketplace had over 50 applications solving specific problems across several industries, including trading precious metals, streamlining property valuation, trading high quality liquid assets more efficiently, self-sovereign identity and much more.

When we started this journey three years ago to take the potential of blockchain technology and apply its benefits to real business, we knew there would be challenges ahead.

Then, and to a lesser extent now, the industry's imagination was captured by public blockchains like Bitcoin and Ethereum.

We chose a different path, and the tough choices we made around critical issues such as privacy, security, scalability, integration and others led us to design Corda by taking the best of early blockchain technology and improving upon it to suit the needs of global business.

And the dividends are paying off. Corda is now seen as the blockchain platform that gets the job done.

The right model and the right technology, built collaboratively by the right people. This is blockchain machine-tooled for business.

As more institutions put their resources behind blockchain technology, the network effect will continue to grow and businesses across the globe will become connected in a more streamlined, secure and efficient manner than ever before.

Corda is now firmly rooted at the heart of this revolution, and our work has only just begun. AST

Digital takeover or digital makeover?

Andrew England, director and head of strategy at IGTB explains that for banks to nurture the innovation pipeline, the tone will need to be set from the top

The question has often been asked: why were banks caught so badly wrong-footed in transforming themselves in the face of the plethora of new entrant challenger banks and financial technology firms?

Writing here, some 10 years plus after a near financial industry melt down, yet with the Dow Jones Index at an all time high, and with unprecedented levels of excess liquidity, one may forgive the short-term memories of many readers.

However, for many operating across retail and corporate banking businesses, the longer term context will not be forgotten. The sheer scale and number of projects that followed the crisis put an immediate brake on client-led product development, with the imperatives of complying with a regime of regulatory initiatives becoming the single axis of all change resource (and monies) in the bank. But as we all know, change resource is more than money and accompanying people—how it is allocated heavily drives the level of innovative intensity and creativity across the whole company. Little surprise then that banks could and would understand the language only of constraint, risk aversion and consensus-driven decision making. Those pressing for innovation and any entrepreneurial activity quickly became behavioural pariahs and ostracised from the mainstream bank.

Fast forward to a time when the sheer velocity of change is getting faster and faster and where activity delays of weeks or maximum months sends shivers down most people's spines. How do we need to look at a period of many years when progress was frozen? Well, with real regret. Regret because it really put the banks on the back foot and left the door fully open for competition to step in. And so the invitation was accepted and, as they say, the rest is history.

A second, less-anticipated development has been what can only be described as the Jekyll-and-Hyde behaviour of a handful of regulators in the developed world: agitated by the lack of progressive decision making by consumers and small- and medium-sized enterprises (SMEs), they launched into a full dismantling of the cosy club of domestic banking by driving a hard agenda of payments innovation and open banking. The key industry reference point was probably the damning report issued by the UK's Competitive Market Authority (CMA) unambiguously titled 'Making Banks Work Harder for You'. If, in the past, the regulatory pressure was conducted under a cloak-and-dagger approach, now the boxing gloves were clearly taken off. Siding with the proponents of new technology and business models, the regulators had their opportunity to crack open the monopoly chain over product development, pure play manufacturing and client distribution and 'ownership'. Now, on paper at least, this strong linkage would be broken forever, with banks needing to scramble to defend their beachheads.

But defending core business and elevating the level of commitment to digital transformation has in some respects paid off for a number of institutions. While popular opinion has wanted to write off banks, evidence to date shows that they are not capitulating. Overall, cost cutting and trimming business scope has arrested the decline in worsening return on equity (ROE) performance.

Up to relatively recently, market shares of major banks in the UK and US has showed little dilution. More recently, SME lending and mortgage business distribution has shown some signs that the larger banks are losing ground—but again this is not a seismic change.

What might be truly game-changing, however, is the advent of new data protection legislation General Data Protection Regulation (GDPR) across the UK, EU and, in future, to be followed by other regions—indeed, GDPR's scope already effectively stretches way beyond Europe's shores. GDPR came onto the statutory books at the end of May and draws much tighter parameters around how financial institutions and, importantly, the fintech industry at large, treat individual data. In recent years across banks, the term 'doing what is right for the customer' has been adopted as the best-practice role model vocabulary, translating into the right behaviours. Now such language will need to be adopted by the newcomers.

The usage of some of the more sophisticated new technologies will need to evidence that 'sales' or 'solutioning' advice is backed by the right level of client insight and expertise. So will 'certification' re-emerge as a growing theme in the future finance landscape? Quite likely, with the number of cases of mis-selling still very fresh and the already well-established hard lines drawn around investment and foreign exchange advice now industry norms. So it would not be a misplaced view to see the adoption of better data protection environments helping incumbent banks defend their patches. Own goal for the regulators perhaps?

Thirdly, and finally, there is perhaps a more genuine concern surrounding the continued health and success of banks. Design thinking has been a pivotal discipline rescuing many a household name (Procter & Gamble being a well documented case in point) across a number of industries. In banking, outside of the relatively small confines of digital circles, the term and what it means is not understood. Putting the 'customer at the centre' and 'driving innovation' are well-worn platitudes, but without a major shift in cultural ability realising true innovation around clients is unlikely to happen—and certainly not on a sustainable basis.

Digital transformation is not easy: McKinsey reports that 74 percent of such transformation programmes failed this year. Worse, employees are not committed to such programmes: only 55 percent of corporate employees devoted themselves to the new paradigm, as opposed to 68 percent in 2014.

The use of best practices such as senior-level ownership, prioritisation and transparency has also declined from 2014.

How, then, do we want to see banks to nurture the innovation pipeline? Well, in all honesty, the tone will need to be set from the top.

CEO's and group executives will need to look at their business problems very differently and begin to feel far more comfortable with abandoning logical historically driven insights.

Banking tomorrow will be driven by leaders who have a strong sense about what that future state will be refining mysteries into better honed heuristics that bank staff can begin to work on. Leaders themselves will need to be very finely-tuned listening agents with immense acumen in accurate diagnostic processing—clarifying what the external environment is saying and where the likely behavioural nuances and trends are settling.

This cultural challenge will demand empathetic leaders but with the uncompromising belief in their convictions. One can only be reminded of the three key tips that Steve Jobs gave Indra Noori when she requested a session with him before taking on her role as CEO of Pepsi Cola: stick to your guns, don't be too nice and own your own legacy.

In future, if banks really want to 'do what is right' for the customer they will need to truly walk in their shoes—design thinking 101. AST

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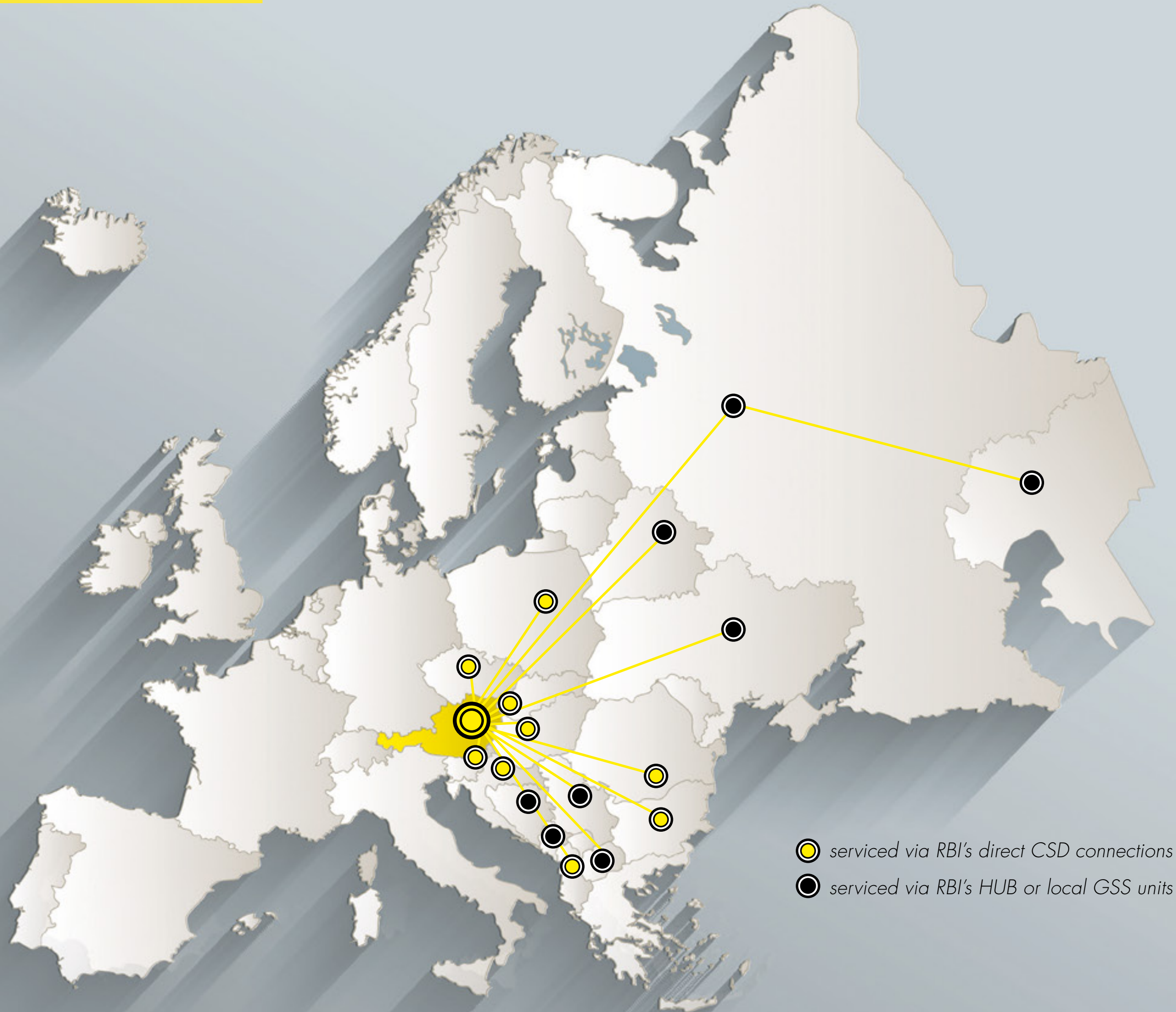

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Different from the rest

Thomas Zeeb of SIX explains what separates the company's new digital platform from other exchanges

What trends are you seeing in the asset servicing space, in terms of technology?

Most of the core platforms in the asset servicing space were developed many years ago and have been enhanced and expanded over time. The result is that there are many interfaces with other platforms within and outside of organisations, all of which need to be considered when reviewing the replacement of legacy platforms. There are two elements that are driving the current change process: firstly, as mentioned, numerous legacy platforms are now being looked at with a view to upgrading or replacing them. Secondly, there are some exciting new developments in technology, with quantum computing, artificial intelligence (AI), robotics, and blockchain reaching a level of maturity and practicality that we can now start looking at real-world applications of these technologies in the financial services space. The most hyped, and probably most advanced of these for asset servicing is probably the blockchain.

The industry is finally starting to see some implementations emerge from the blockchain hype of a couple of years ago. We're starting to see developments that might not make the big difference in the future but will help us to take a fairly abstract notion of the technology and find out what it can actually do to help address the legacy issues, but also what it cannot do.

At SIX, we have done a number of things with distributed ledger technology (DLT). When we launched SIX Digital Exchange (SDX), the idea was not to take existing processes and automate them with new technology but to look at the new technology and use the experience we have collected to realise real long-term benefits for ourselves and our clients. We didn't want to use an existing set of use cases, we wanted to look at how we could change the way the whole process works. In our view, the benefits of automating old processes with new technology are limited.

We're also seeing that there is not as much hype around DLT anymore because everyone is a little bit more reserved about the whole idea and more focused on using robotics and AI and transferring that to the financial services industry. People are asking how they can use it in intelligent ways. There isn't yet, a strong enough use—or business case—that makes AI something worthwhile to take the company forward substantially.

However, what we're going to see is substantially more work around cybersecurity issues as a community and how we link together listing, trading, clearing and settlement activity. These tasks can be done much more effectively and with less friction using AI. There is, however, still a great deal of work to do in this area to fully realise the potential benefits.

The industry is still a couple of years behind compared to the experimentation that's been going on over the past couple of years on blockchain. With AI, it's a wider field and it's harder to apply conceptually to what we do. The world is changing so quickly that we need to be pushing all of these potential technology implementation opportunities forward to see not just what processes they can potentially address, but critically, how we can make them interact with each other, and other market participants, to move our industry forward.

What is the SDX platform and how does it work?

SDX is different from what other exchanges have done. Other exchanges are taking the existing structure, which is usually three legal entities—a stock exchange, a central counterparty (CCP) and a central securities depository (CSD)—that all have a different role to play in the process, and they're automating them with new technology. However, at SDX we are replacing those three entities with a single entity covering all three functions. When using other exchanges you do a trade on the stock exchange and two days later you get the securities booked into your account. Before that booking takes place, there is the clearing part of the process where transactions are netted and the final payment goes into your account.

With SDX, you can do all of that in one step, the trade is complete immediately—you have the price, you have the transfer of cash, the settlement is done and the booking is done, all in one step. That is the big difference between SDX and other exchanges.

Firms can benefit because they need less collateral in the system consequently you need less capital and you have less risk because you don't have the extra two days of transacting—it's a fundamental difference in the operation of capital markets.

To be honest, I'm not sure bitcoin and other cryptocurrencies have a future, they have taken quite a hit. I think it's because there's nothing behind them, there is no asset there. So if you had to liquidate there's no book value. If you liquidate a company and you have to sell the shares there's a book value attached, but bitcoin doesn't have any assets, which is why I'm not convinced that it has a future. However, I do think that can change.

One of the benefits of tokenisation, whether applied to existing assets or digital native tokens, is that they can be fractionalised. That means that an investor is no longer locked into minimum trade sizes or portfolio values to achieve diversification, but can do so with a fraction of a token.

This completely changes how banks and asset managers can provide services for their customers. There are a lot of benefits and I think there's going to be all kinds of different models coming out of this, which will be very interesting going forward.

How was the announcement of the SDX platform received? Did it get a good response? Have you seen a lot of interest?

We experienced such a good response that I wish we could get it going faster. I have been surprised at how positive it has been—and not because I don't think it's a good idea—I thought we would be given the luxury of more time to get the regulatory environment sorted out, we're running at 100 mph right now and working very intensively with the regulators. There's no point in creating a token if you don't have exactly the same rights that you have with an underlying share. You have to change the laws to do that, which is why we're having a good, constructive conversation with regulators but it does take time.

The response to the announcement has been huge and we already have people coming to us and asking if we can license it across to them, asking to link with it and asking how to build out their ecosystem more efficiently.

I've also had discussions with auction houses around selling paintings that have been tokenised to protect against fraud, so you can only sell the original if it's with a token. Another discussion has been with a museum, around funding themselves by tokenising art collections that gives an investor the exposure to the value of the art going up and down so they can put it in their portfolio. Those are the kinds of things that currently don't exist but I think what we're doing here opens up real opportunities for new business partners.

Do you plan to expand the platform in the next 12 months?

Before expanding, I want to get the platform running efficiently. We'll deliver the first part in summer next year, and we're on track for that. After that, any expansion will depend on how quickly we get the legal framework agreed and how quickly we get a standard established. One of the things we're doing is to provide a platform for initial coin offerings (ICO), which currently has no industry-wide standards defined—it is currently similar to crowdfunding, making it hard to tell if it's real or fraudulent.

If you're doing an ICO on our digital exchange there will be standards attached to it where a similar due diligence will be ensured like in the case of an initial public offering that we do routinely on our existing exchange. We need to set standards otherwise we go further and further down a road where there are no regulations. The ones who take advantage of it most are a criminal element and at some point the whole model, which has huge potential risks becoming discredited.

It's our hope that by going in as an established infrastructure, which is already regulated, has a solid market position and a strong capital base, we can not only provide credibility, but also a base for standards for other markets.

What else are you working on at SIX? What do you have in the pipeline?

There are a number of plans and projects in the pipeline that are premature for commenting on at this stage. We are continuing to invest in the traditional business because we have plenty going on there. Even though I know if SDX takes off and grows exponentially in seven or eight years time, we may have a degree of cannibalisation. While we're still investing in the existing business, we're also looking at new collaborations both the traditional and digital sides. AST

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Comings and goings at Duco, Saxo Bank, Citi and more

Banking veteran Spencer Lake has joined the board of directors as a non-executive director at Duco, the global provider of enterprise data quality and reconciliation services.

Lake is currently an advisor and board member to several technology firms, including Fenergro nCino, Nivaura, Inforalgo, and Callsign. Prior to joining Duco, Lake spent 10 years at HSBC where he served as group general manager, vice chairman of global banking and markets, co-head of global markets, and global head of capital financing.

Before this, he also spent 17 years at Merrill Lynch in senior roles spanning investment banking, debt capital markets, and real estate finance. The company has also bolstered its senior management team with the appointments of Danielle Price as head of finance operations, Peyton Kay as vice president of strategic marketing, and Scott Glazer as head of sales, North America.

Commenting on his new appointment, Lake said: "Duco's data-agnostic, augmented machine learning-enabled technology, and commitment to innovation, means the company is uniquely placed to enable financial institutions to fully digitise and automate these processes. I am delighted to be joining Duco at this exciting time, and look forward to helping the company deliver its vision."

Christian Nentwich, CEO of Duco, commented: "I am very pleased to welcome Spencer Lake to Duco. He is a true innovator at heart. His expert industry knowledge and deep ties to the global banking industry will be great assets as we continue our hyper-growth, rapidly expanding our offering while adding new clients to our roster."

Saxo Bank has made two changes to its board of management.

Søren Kyhl has been promoted to deputy CEO while he continues in his role as COO.

Damian Bunce has been appointed as member of the board of management with the new title of chief commercial officer.

The board of management now consists of CEO Kim Fournais; deputy CEO and COO Søren Kyhl; chief financial and risk officer, Steen Blaafalk and chief client officer, Damian Bunce.

According to Saxo Bank, the changes strengthen its leadership and accountability in the board of management in relation to clients, shareholders, the board of directors, regulators and employees.

Members of the board of management are appointed by the board of directors. The executive team will continue to be the global executive leadership team in Saxo Bank.

The board of management also consists of chief information officer, Ashok Kalyanswamy and chief human resources officer, Stig Christensen.

Commenting on the board reshuffle, Fournais said: "I am proud and satisfied that Søren Kyhl has been appointed deputy CEO and that Damian Bunce will join our board of management. The appointments reflect their excellent skills, knowledge, attitude, motivation and high importance to the bank and our future growth journey."

He added: "Kyhl is a very natural and competent deputy CEO that I trust to run certain important strategic priorities. These changes will further strengthen and professionalise Saxo and I am proud to be leading such a unique team. I am more passionate and fired up than ever to ensure that Saxo will prevail and become the fastest growing financial institution within traders, investors and wholesale partners. This is therefore not a retirement plan for me but an upgrade of our leadership capabilities, better supporting our fiduciary duties as well as creating a natural deputy function for me and Saxo going forward."

Michael O'Neill, Citi's chairman of the board of directors, will retire on January 1, 2019.

John Dugan, Citi director, will succeed O'Neill as chairman on that same date. O'Neill joined the board in 2009 and has served as Citi's chairman since April 2012. Dugan joined the board in October 2017.

Before his current service as a Citi director, Dugan was a partner for nearly seven years at Covington & Burling LLP, where he had previously advised on financial institution regulatory matters from 1993 to 2005.

In his most recent role, Dugan chaired Covington's Financial Institutions Group, where he counselled financial services firms and provided independent advice to boards of directors, including Citi's Board, which he advised from 2015 until he retired from Covington in September 2017.

Following O'Neill's retirement, the Citi board of directors will consist of 16 directors.

Michael Corbat, Citi CEO, said, "Citi has undergone significant structural and cultural changes in recent years to become an indisputably strong and stable institution. Chairman O'Neill's leadership and counsel were invaluable throughout that transformation."

He added: "Michael O'Neill's tenure as chairman reflects the results of his unrelenting focus on improving shareholder returns, ethics and culture, strong governance, and enhancing both the expertise and the diversity of our board."

"Over the last several years, I have enjoyed working with John Dugan, whose deep knowledge of the banking industry has served us well, and I am looking forward to working with him in the years to come."

Commenting on his retirement, O'Neill said: "While it is hard to overstate the progress Citi has made since I joined the board in 2009, the true value of Citi's restructuring and enhanced focus is only just beginning to emerge. I'm confident John Dugan will do an exceptional job in advising management and leading our outstanding board."

"Under Michael Corbat's leadership, and through his partnership with John Dugan and the board, I'm confident Citi will continue to improve its returns and realise further benefits from its investments and much-improved execution."

Dugan commented: "Citi has made tremendous progress in recent years, both in terms of executing its strategy and generating sustainable growth".

"I am confident in Michael Corbat and his team's ability to continue to improve returns for its shareholders while maintaining Citi's commitment to safety and soundness. I look forward to working closely with Michael Corbat and his team to ensure Citi succeeds in this highly dynamic time for the banking industry."

Cobalt has appointed foreign exchange (FX) specialist Anoushka Rayner as new global head of sales and business development.

In her new role, Rayner will be responsible for managing Cobalt's commercial relationships and she will play a key role in scaling up the business as it gets ready for its launch later this year.

Rayner has over 20 years of experience in the FX industry and has held a number of high-profile roles.

Most recently, Rayner served as a business manager and global FX specialist at Traiana.

Prior to this, she worked as a sales director at smartTrade Technologies and as global head of FX option sales at FXCPro, the institutional arm of Forex Capital Markets.

Darren Coote, managing director of Cobalt, commented: "We are very pleased to welcome Anoushka Rayner to our ranks as we work towards re-engineering the largest and most liquid financial market in the world."

"She brings a wealth of experience and contacts to Cobalt and is a key part of our plans as we prepare to launch later this year."

Commenting on her new role, Rayner said: "Current post-trade FX service providers and infrastructure are shackled by legacy technology and inefficient processes which are unfit for purpose."

"This increases costs for market participants and poses significant operational and systemic risk to the FX market."

Rayner added: "I'm excited to be working for Cobalt as I believe it poses the single biggest innovation to post-trade FX in the last 15 years and look forward to playing my part in creating a shared infrastructure which will benefit the entire market."

Saxo Bank has appointed Lars Kufall Beck as global CFO, effective no later than 1 May next year.

In his new role, Kufall Beck will be part of the global management team in Group Finance and Risk (GFR) and Saxo Group's Senior Management Team (SMT).

Additionally, Kufall Beck will be responsible for all of the important functions within group finance overseeing regional financial operations, business planning and analysis, facility management, and group procurement.

Kufall Beck will report directly to Steen Blaafalk, head of GFR and group CFRO, and he will succeed Rasmus Lund.

During his career, which spans over 15 years, Kufall Beck has had several finance leadership roles, and he joins Saxo Bank from ISS Group where he spent almost 10 years in various executive positions.

Most recently, he served as the group's regional CFO for continental Europe and prior to this, he spent more than three years as CFO for ISS Facility Services Sweden.

He also served as the group's regional CFO for the Nordic Region and headed ISSG Group's risk management for two years.

Prior to ISS, Kufall Beck served as a senior manager for three years for the Actuarial and Insurance solutions at Deloitte Consulting and was chief actuary for Danish Re Underwriting Agencies before then.

Commenting on the appointment, Steen Blaafalk, group CFRO, said: "Kufall Beck has a broad and deep international experience with a good understanding of regulation, risk management, treasury, and financial instruments, which ideally positions him to take the company to the next level."

Kufall Beck commented: "I am delighted and proud to join Saxo Bank and feel strongly about the high level of ambition and the dynamic environment that Saxo Bank is operating in. The prospects for Saxo Bank are highly positive and I very much look forward to contributing to Saxo Bank's ambitious journey ahead." AST