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## Post trade in a post-Brexit world

**Delegates gathered in London for the 12th AFME Post Trade Conference, which concentrated on life post-Brexit**

## China's technology boom

**Financial innovation in the custody space is gaining momentum**

## ALFI London Conference

**Although the asset management industry has a great future ahead it will be a rough road**


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## Fund managers to launch blockchain ecosystem

FNZ has partnered with several global fund managers to launch a production blockchain-powered market infrastructure for the asset management industry.

The global fund managers include Aberdeen Standard, Equity Trustees Fund Services, Kames Capital, Legg Mason, and Merian Global Investors.

According to FNZ solution, the ‘FNZ ChainLink’ leverages blockchain technology to replace the thousands of copies of transaction and holdings in the managed funds industry.

It will do this with a single, secure verifiable source of ‘the truth’, universally accessible by all parties, FNZ noted.

FNZ explained that this vastly reduces cost, complexity, and risk in back-office operations that is ultimately borne by retail.

Phil Goffin, head of innovation at FNZ, commented: “The global fund industry today relies on a plethora of peer-to-peer connections between investors, managers and platforms to effect basic fund activities such as trading, settlement, transfers, distributions and reconciliations.”

“None of these transactions are synchronised in real-time. Everyone has a different view of ‘the truth’, that often persists for days and months, leading to errors and exceptions, high back-office costs and risk for all participants.”

Goffin continued: “In initially bringing this to market, particularly in the early stages of production operation, we have worked with FNZ-powered platforms and those asset managers for whom FNZ is the transfer agent.”

“However, FNZ ChainLink is an open-market solution, based on open-source Hyperledger Fabric. We are working with a number of transfer agents, asset managers, and platforms that aren’t FNZ-powered to ensure the benefits are shared by the whole industry.”

FNZ’s CEO and founder, Adrian Durham added: “FNZ processes on average, half a billion pounds sterling in mutual fund orders every day in the UK, and over a billion pounds on peak trading days.”

“We are committed to lowering cost and risk, not just for FNZ, but for the entire industry. We also plan to evolve the nature of managed funds themselves, enabling innovation in how asset managers deliver solutions for retail investors.”


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## Legae Peresec selects Standard Bank for custody services

South African broker, Legae Peresec has selected Standard Bank to provide domestic custody and derivatives clearing business services.

Standard Bank is a provider of investor services across the African continent and provides product suites in custody, derivatives clearing, securities lending, trustee services and investment administration.

Legae Peresec provides brokerage services to South African institutional and private client asset managers, insurance and savings funds, hedge funds, investment banks, corporates, broker-dealers, and liquidity providers.

Lester Bailey, director of prime services and settlements at Legae Peresec, said: “We have a long-standing relationship with Standard Bank and given their leadership in the custody and clearing market we saw them as a natural partner to support our market leading brokerage business.”

Rajesh Ramsundhar, head of investor services South Africa for Standard Bank, commented: “We are absolutely delighted to be appointed as the custodian and clearing provider for Legae Peresec.”

## ASX opens CDE for equities clearing and settlement

Australian Securities Exchange has opened the customer development environment (CDE) for its new equities clearing and settlement system to replace the clearing house electronic subregister system (CHESS), which is based on distributed ledger technology.

Additional functionality will be released at approximately eight-week intervals, culminating in full functionality in the CDE by mid-2020.

ASX is also providing other options to access clearing and settlement services–these being the ISO 20022 global messaging standard via advanced message queuing protocol and SWIFT, and a web browser option for low volume, infrequent usage.

According to ASX, these options will help minimise costs for those who need traditional connectivity options.

The development of CHESS by ASX more than 25 years ago enabled the dematerialisation of the cash equity market, a move to T+5 settlement—which was lowered to T+2 in March 2016—and improved the efficiency and effectiveness of post-trade processing in Australia.

## Volante expands VolPay-as-a-Service for payments

Volante Technologies has expanded VolPay-as-a-Service, its cloud-based ecosystem of business services, to combine corporate to bank connectivity, corporate on-boarding and end-to-end processing of all US domestic and cross-border payment types.

The service simplifies the handling of corporate enterprise resource planning and acknowledgement formats and automates the process of connecting corporate customers to their institutional payment service providers through an application programming interface library.

The service handles all US payment types including Fedwire, automated clearing


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## SuMiTB selects Login's Acumen net for treasury operations

Sumitomo Mitsui Trust Bank (SuMiTB) has selected Profile Software's Login's Acumen net to support its treasury operations across six overseas offices in the UK, US, China, Singapore, Hong Kong, and Thailand.

Through Login's Acumen net, valuation of complex instruments can be shared with the back-end for proper accountancy.

The programme will also support flexibility and efficiency of operations by integrating several dealing platforms currently used by SuMiTB and will interface with the system to set up real-time imports, ensuring minimum user intervention throughout the deals' life-cycle.

Financial instruments managed by Login's Acumen net cover foreign exchange, securities, over-the-counter derivatives and exchange-traded derivatives.

SuMiTB offers financial services such as syndicated loans, real estate finance, project finance and other finances. It also provides asset management and real estate management service, as well as consulting services, including advisory and consulting for corporate clients.

house (ACH)/same day ACH, Zelle, and The Clearing House real-time payments clearing and settlement, as well as SWIFT cross-border payments.

Vijay Oddiraju, CEO of Volante Technologies, said: "At Volante, we are committed to providing the most advanced payments solutions to our customers so that they can stay ahead of emerging trends, and make the most of the growing opportunity in payments."

He added: "With the increasing popularity of software-as-a-service models in financial services, this is an ideal time for US institutions to take a close look at their payments infrastructures, and explore managed-service models to generate superior business outcomes."

## Horizon chooses BNY Mellon for custody services

Horizon Healthcare Services has selected BNY Mellon to be its sole provider of global custody services, accounting and reporting, benefit disbursements, performance measurement and analytics.

BNY Mellon's New York and Pittsburgh offices will jointly support Horizon.

Horizon is a non-profit health services corporation, providing medical, dental, vision and prescription insurance products and services.

Frank Melaccio, vice president and treasurer at Horizon, said: "Besides being a proven leader in global asset servicing, BNY Mellon was selected due to its focus on client service and its continued investment in asset servicing technology."

Emily Portney, head of asset servicing for the Americas at BNY Mellon, commented: "We are thrilled to have been selected by Horizon."

She added: "Their selection validates our continued commitment to innovative technology, investment in our client relationships, and our global custody offering."

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## Institutional Advisory Services Group forms new fund service

Institutional Advisory Services Group (IASG) has formed a new company, IASG – Fund Services (IASG-FS), offering fund services to investment managers.

IASG-FS will sell fund administration services and products to managers.

These services include back-office, shadow accounting, investor services, cash management, cloud technology, document storage, and cybersecurity.

IASG-FS currently provides administrative solutions to commodity trading advisors and commodity pool operators but is looking to expand offerings to hedge funds, private equity sponsors, real estate investment companies, family offices and mutual funds.

JonPaul Jonkheer, executive vice president of IASG and principal of IASG-FS, said: "We are excited about this opportunity to deliver this disruptive technology to the marketplace. This is a pivotal time of accelerated change in middle- and back-office solutions for investment managers.

He added: "With IASG-FS, everything we do is about making fund managers run faster on better infrastructure with more informative analytics on the back end. This makes sense for IASG because we have deep-seeded connections with fund managers already."

## Rise in digital asset interest set to continue

The number of institutional investors interested in digital assets has increased with more set to invest over the next five years, according to Fidelity Investments.

Fidelity's research, where more than 400 US institutional investors were surveyed, showed that 22 percent of institutional investors already have some exposure to digital assets, with most investments having been made within the past three years.

Meanwhile, four in 10 respondents suggested that they are open to future investments in digital assets over the next five years.

The research explained that many institutions showing interest in this space either own digital assets and need a custodian or they want to invest in digital assets, but first, need a custodian.

It showed that some 18 percent of US financial institutions are using third-party custodians and another 13 percent are carrying out self-custody.

The survey found a further 6 percent are using a non-custodial exchange.

Across all institutional segments, when considering a custodian for digital assets, 76 percent of institutions surveyed placed security and safety as their most important considerations.

When gaining exposure to digital assets, investors said they prefer to deal with a traditional financial firm (37 percent) followed by dedicated crypto-focused financial firms (24 percent).

Commenting on the findings, Tom Jessop, president of Fidelity Digital AssetsSM, said: "We've seen a maturation of interest in digital assets from early adopters, like crypto hedge funds, to traditional institutional investors like family offices and endowments."

He added: "More institutional investors are engaging with digital assets, either directly

or through service providers, as the potential impact of blockchain technology on financial markets—new and old—becomes more readily apparent."

### SETL delivers on administration plan

SETL, the London-based institutional payment and settlement infrastructure provider using blockchain technology, has completed a corporate restructuring programme.

In March, the previous entity SETL Development announced that it has appointed Quantuma as its administrators.

The newly-formed SETL has acquired the operating assets, the staff and intellectual property rights of SETL Development.

SETL has reached an agreement with all its major clients to continue its support and development activities and expects to push ahead now with a number of core initiatives.

SETL has restructured its balance sheet and simplified its business model. As part of the restructure, SETL will now offer blockchain-based solutions across a broad range of commercial cases in partnership with existing financial service providers and will continue to support infrastructures powered by SETL blockchain.

Under the direction of its CEO, Philippe Morel, who joined in 2018, SETL has restructured its cost-base, refocused its operations in its London and Ipswich development centre and now expects "to deliver robust financial performance for its shareholders".

Sir David Walker, ex-chairman of Barclays, has been appointed chairman of SETL, while Christian Noyer, honorary governor of the Banque de France, has been appointed as lead independent director.

The newly restructured firm also welcomes Professor Philip Bond to the board, who previously headed SETL's cryptography and cybersecurity committee and will now lead those activities from the board.

SETL shareholders and executive directors are Anthony Culligan (chief engineer), Peter Randall (president), Nick Pennington (CTO) and Katherine Kennedy (general counsel).

Commenting on the restructure, Walker said: "The objectives of the appointment of Quantuma by the Board were twofold. Firstly, to act as a neutral party to represent the interests of all its creditors and stakeholders. Secondly, to help shape the future structure to enable the firm to balance its strategic infrastructure holdings and continue its software development activities. I am delighted to report that both objectives have been achieved and well within the target timeframe."

Morel added: "We wanted to act quickly, decisively and to reorganise with the best guidance and support possible. Our administrators, board members, management and teams have all pulled together to get us in the best possible shape as quickly as possible."

### Chawton picks Northern Trust for brokerage and custody services

Chawton Global Investors, a newly-launched global equity fund manager, has chosen Northern Trust to provide its brokerage and global custody services.

Chawton Global Investors will have access to Northern Trust's Integrated Trading Solutions capability, offered through institutional brokerage, which delivers a range of services from trade execution to matching and settlement.

Integrated Trading Solutions and Institutional Brokerage, part of Northern Trust Capital Markets, provide foreign exchange, securities lending and transition management services.

Founded by Michael Crawford, Chawton Global Investors provides long-term returns, with an emphasis on cash flow generation and dividend growth.

Crawford commented: "We selected Northern Trust to support this investment approach and meet our brokerage and dealing requirements primarily because of its innovative technology platform, demonstrable expertise and trusted approach in this area, plus significant global reach."

Guy Gibson, global head of institutional brokerage at Northern Trust, said: "Northern Trust's outsourced Integrated Trading Solutions is an ideal fit for companies such as Chawton Global Investors."

He added: "By outsourcing the entire trade lifecycle, investment managers like our client can drive cost efficiencies, facilitate regulatory compliance, reduce risk and remain competitive in today's challenging post-the second Markets in Financial Instrument Directive environment, helping future-proof their strategy for tomorrow."

### Banca IMI joins LCH CDSClear

Banca IMI, the investment bank of Intesa Sanpaolo Group, has joined LCH's CDSClear services, marking the first Italian clearing member of the global clearinghouse.

By joining the service, Banca IMI now has access to the clearing of credit derivatives referencing both single names and indices.

Additionally, it will act as a clearing broker, offering credit default swap (CDS) clearing services to its client base.

Banca IMI is already a member of LCH SA's EquityClear and RepoClear clearing services. The extension of the membership means the bank will benefit from CDSClear's product offering.

The investment bank will also be able to benefit from CDSClear's risk management expertise and achieve margin efficiencies through the portfolio margining of offsetting positions cleared at LCH SA.

Frank Soussan, global head of CDSClear, said: "I'm delighted to welcome Banca IMI as CDSClear's first Italian clearing member, marking an important stage in our growth."

"During 2018, we significantly grew our client clearing business in Europe, as well as

processing record volumes of cleared notional, and we look forward to continuing to extend our clearing membership and activity during the course of 2019."

Massimo Mocio, general manager of Banca IMI, commented: "Joining CDSClear means that Banca IMI and our clients can benefit from LCH's robust risk management across a wide range of credit derivatives."

Mocio added: "Clearing enables us to mitigate counterparty risk as well as benefit from the capital and operational efficiencies associated with clearing."

## Citi launches project for risk analytics

Citi has launched NextGen, an initiative using artificial intelligence to develop a risk analytics scoring engine.

Combining EY's business, risk, and technology consulting experience with SAS' analytics platform, Citi will use the new service to further digitise its trade compliance process. This project will help to eliminate time-intensive, manual processes and provide a streamlined view of risk activity and insights.

The new NextGen platform is intended to provide analysis of global trade transactions to help align bank resources and advanced analytics and natural language processing.

It will also process automation that combines analytic results and trade-related bank policies to help focus on trade transactions activities that may need further investigation in accordance with Citi's escalation process for them.

John Ahearn, global head of trade for Citi treasury and trade solutions, said: "By leveraging innovation, we continue our strategic journey to drive digitisation throughout our worldwide operations."

Valeria Sica, global head of trade services for Citi treasury and trade solutions, commented: "This real-time solution will help us to be able to more efficiently detect transactions with potential compliance concerns up front."

She added: "This solution assists in managing and comparing a large number of data points across current and prior transactions, which will provide more context and usable data to aid the decision maker in reviewing global trade transactions, which has traditionally been a very manual process across the industry."

## Commerzbank and Deutsche Bank discontinue merger plans

Commerzbank and Deutsche Bank have discontinued discussions in relation to combining their businesses.

The two banks said that "after careful analysis it became apparent that such a combination would not be in the interests of either bank's shareholders or other stakeholders".

Christian Sewing, CEO of Deutsche Bank, commented: "After thorough analysis, we have concluded that this transaction would not have created sufficient benefits to offset the additional execution risks, restructuring costs and capital requirements associated with such a large-scale integration."

Martin Zielke, CEO of Commerzbank, explained: "It made sense to evaluate this option for domestic consolidation in Germany. However, we were always clear: we needed to be convinced that any potential combination would generate higher and more sustainable returns for shareholders and allow us to enhance our value proposition to clients."

## Microsoft's Treasury Group selects BNY Mellon as custodian

BNY Mellon Asset Servicing has been picked by Microsoft's Treasury Group to serve as its global custodian.

As custodian, BNY Mellon will offer a cross-business bundle of services, including custody, collateral management, performance measurement and liquidity services.

Using BNY Mellon's platform, Microsoft will be able to optimise its resources and continue to leverage industry best practices.

The new deal marks the first change in custodian for Microsoft in over 10 years.

Commenting on the deal, Hani Kablawi, CEO of asset servicing at BNY Mellon, said: "We are very excited to begin a new chapter in our relationship with Microsoft and are confident that we will be able to help its treasury business continue to simplify its processes. Our fully integrated global client technology ecosystem will deliver a sophisticated solution that is both flexible and reliable to meet Microsoft's needs."

George Zinn, corporate vice president and treasurer of Microsoft, added: "As we considered a new strategic provider, we looked for a single operating platform which could automate key processes and help us be more efficient."

## NEST and KAS Bank team up on transaction transparency tool

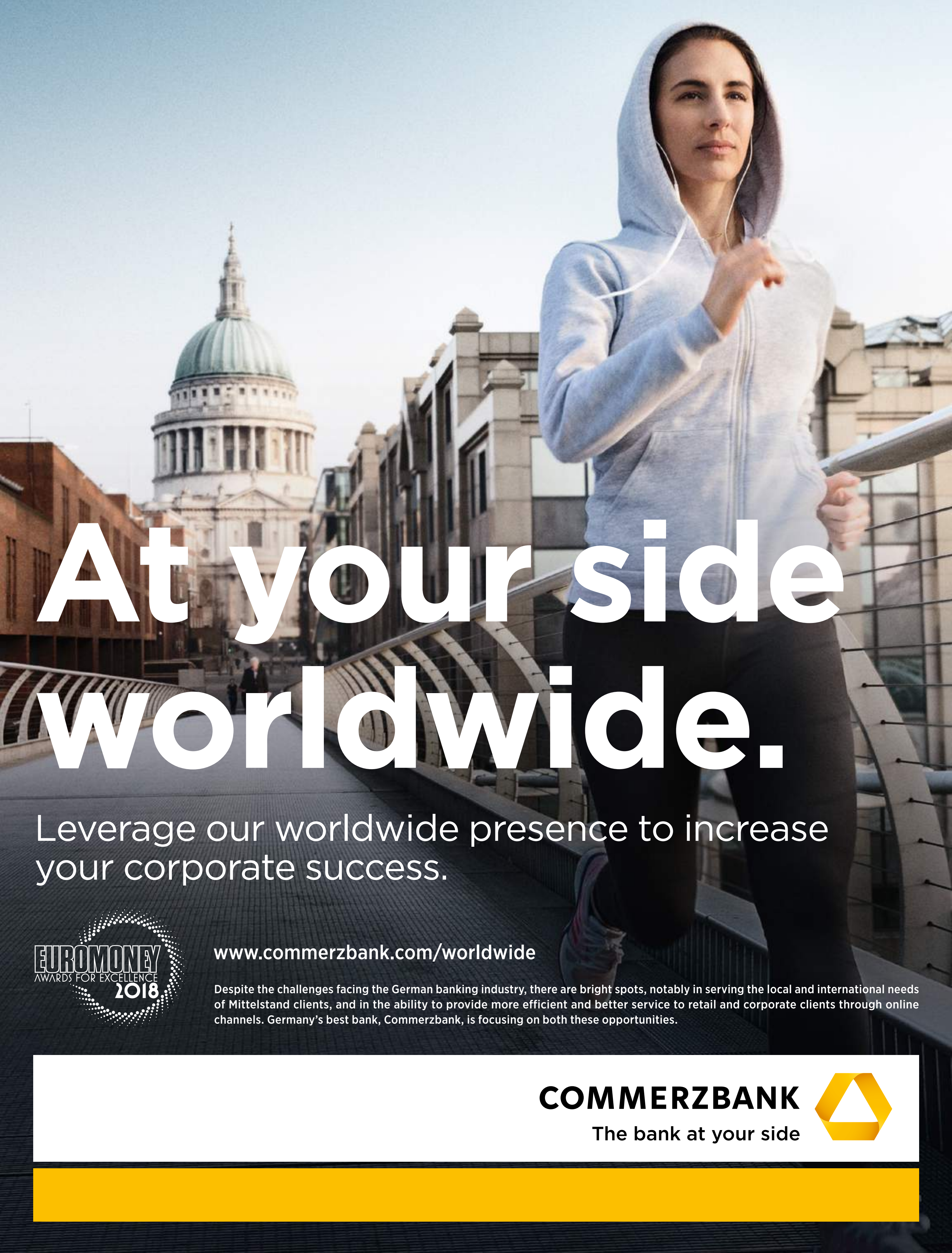
The National Employment Savings Trust (NEST) has teamed up with Kas Bank to assist with cost transparency reporting for its range of target date and specialist funds.

KAS Bank's cost transparency solution could improve the visualisation of NEST's transaction costs across its range of managers and funds. The cost transparency solution that Kas Bank provides pension scheme trustees with an overview of their scheme's associated charges.

Henk Michels, director of fund administration at NEST, commented: "Pensions schemes like NEST have been asked by the government to find ways to help outline transaction costs to our members, something we fully support."

"We're therefore looking forward to working with KAS Bank, providing transaction data from our fund managers into their cost transparency tool and see what solutions it can offer the wider industry."

Pat Sharman, managing director for the UK branch of KAS Bank, said: "We are delighted to be partnering with NEST, to assist them with cost transparency reporting and the visualisation of transaction costs."



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# Post trade in a post-Brexit world

## Delegates gathered for the 12th AFME Post Trade Conference in London, which concentrated on post-trade life post-Brexit. Delegates also discussed upcoming regulations and what post-trade technology has achieved to date

*Jenna Lomax reports*

The post-trade landscape in a post-Brexit world was the main topic at this year's Association for Financial Markets in Europe (AFME) Post Trade Conference in London.

The morning keynote address was given by a representative from the Bank of England who indicated that economies are growing at a fast rate, as are post-trade services.

He cited the post trade system is currently made up of a collection of systems, infrastructures, and workflows that differ across firms, with low levels of interoperability.

He explained that the financial services market has a responsibility "to be as good as the economy demands".

He said: "Current financial service's priorities are resilience and innovation. Financial services plumbing is always vulnerable. If firms are going to withstand wider changes in the economy, banks need to have strategic goals and maintain a certain resilience."

The first panel of the day concentrated on how post-trade in a post-Brexit world would affect regulation and the possible changes that might arise.

One panellist said financial services markets are built on law and a regulatory environment but the current uncertainty surrounding Brexit may mean in the future, the industry may see a different set of rules for different markets as there will be a significant split between the UK and European law.

Another panellist said after Brexit he thought the "general outlook for post-trade would be rather pessimistic as one regulatory space will become two regulatory spaces. And in terms of the law, it is difficult to gather contractual continuity".

One panellist welcomed the European Commission's adoption of conditional equivalence for central clearing counterparties (CCPs) and central security depositories (CSDs) post-Brexit, as part of its no deal contingency action plan.

He said: "During the first 24 months of Brexit, European CSDs will be guaranteed to have access to UK CSDs, but that equivalence is only temporary. The question is what more do we want? In the current Brexit withdrawal deal, trading goods are protected, but trading services are much less protected. In addition, the political scene develops hard borders which go against the shared notion that technology is developing in a global way."

A member of the audience then asked the panellists if the industry should encourage politicians to learn more about post-trade.

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To which one panellist emphasised: "Outside this room and this industry, not many people actually know what post-trade is, we need to sell it to politicians and explain all the benefits."

On another panel discussing post-trade reform agendas, one speaker said that as the current Brexit withdrawal deal stands, there is no good to come from Brexit, either for the UK or Europe. She also predicted that Europe and Asia will probably benefit the most.

Another panellist indicated Brexit is a losing game for post-trade within the UK and the EU in terms of infrastructure.

He said: "Brexit has brought work and cost without any benefit. I'm not entirely sure what impact it will have. But there seems to be a lethal threat by being unprepared for it."

Staying on the topic of post-trade, the panellists mostly agreed that a lot of progress has been made within the industry in recent years but it was important to ensure public entities have control of this space and one highlighted that the European Central Bank could do a "little more".

The panel also discussed T2S and how its costs have increased. One panellist affirmed he was at first sceptical at the introduction of T2S but had witnessed more "pros" than "cons".

He said: "T2S did a lot of great things, but still needs to push through some changes", but he said he understood "total changes take time and money resources".

"We need to give time for T2S to work. By 2025, we will see if we need to make more changes, based on new technologies, key questions and additional services available."

Meanwhile, another panellist said: "If I look at the typical European way of dealing with actions, it's inevitably a reluctance to deal with legacy and a wrong assumption that competition will somehow change what happened at the start of the process. But if that happens, people will move away from our industry space because they won't be able to make ends meet."

He added: "The US model is good. I'm not proposing we introduce it here [in the UK], but there's this hope that competition will sort it all out, but it won't. No one is going to vote to put themselves out of business."

A representative from CCLA gave an outlook of Brexit and a personal view of current global trends, especially the impact of ethical and governance factors within the industry, as well as environmental challenges, most notably climate change.

In his presentation, he discussed the history of economics and the introduction of world trade and the strong correlation between technology and global wealth. He said from the industrial revolution until now, technology has been the visible catalyst for change and enabler for growth.

Later in the day, the panel discussed market evolution through technology in post trade. In the session, a panellist examined the post-trade industry's responsibility to change technology and also how to adapt data within that technology.

The moderator asked the panellist their opinion on how technology has disrupted post-trade over the last 15 years.

One panellist cited that the results were "disappointing in retrospect when looking at all those things we tried to achieve. We recognise our own mess, we were not as efficient and productive as we could have been. But when we fast forward to now and witness the regulators high-level scrutiny, we have been forced to innovate as an industry."

Another said: "Through artificial intelligence (AI) and blockchain, we're opening up a lot of doors. We're learning a lot from other industries. It used to be the same handful of big companies introducing us to everything new."

"Now the door is open to fintechs, technology companies and all kinds of different people and businesses, which is exciting."

The moderator then asked panellist what could be learned from the past. One panellist said: "Legacy technology is a major issue in the sense that many trading applications were built in the 1980s and 1990s, so there is a lot to rejuvenate there."

Another said: "I am not a fan of data as a service, services around data are much more important, it is crucial to capture data, rather than creating something around the data you capture."

The moderator turned the topic to how regulation could and should evolve in the years to come.

One panellist said: "We need to use lessons of the past and apply that to how we look at our processes and strategies, consultative development is less costly and more efficient."

He added: "There should be more regulation on how we use technology, rather than regulating technology itself—it's about creating the right kind of legacy culture. What technology is capable of and how you use it is key. The main challenge is how to feed data and that starts with the basics—clean it up."

The session ended with an audience member asking to what extent woud AI benefit the functions of post-trade?

To which a panellist answered: "Post-trade is all about efficiency, why wouldn't you use AI across the board?" **AST**

# The beginning of another boom

## In the 1970s, China experienced its first financial industry boom, now as a new decade approaches, a new technology boom is on its way

***Jenna Lomax reports***

China experienced its first 'modern' industrial boom forty years ago when an influx of urban workers moved into higher-paying jobs in cities. Eventually, the Shanghai stock exchange was reopened in December 1990, which in turn led to the nation's accession to the World Trade Organisation.

Skip forward to 2019 and the China/US trade deal spat is still ongoing and making headlines, as is the British Prime Minister's decision to dismiss her Defence Secretary, Gavin Williamson, for allegedly disclosing plans to allow Chinese telecoms giant, Huawei, to help build the UK's 5G network.

However, less talked about is China's second industrial boom, underpinned by innovation.

As it opens its doors to foreign investors, China's current Chinese president, Xi Jinping, is attempting to improve the country's economic prospects with an on-going five-year anti-corruption campaign.

China still faces issues with its financial regulation but, under Jinping's guidance, seems to be slowly finding its own ways of responsibly improving regulation, while it also tries to mitigate risk for economic stability.

Within the sphere of asset management and servicing, specifically, China is making steady progress, creating innovative financial technology to lead to economic stability.

Over the past 10 years, John Murphy, head of securities services for the Asia Pacific at J.P. Morgan, explains that China has demonstrated "a clear track record of continuous enhancement and improvement, and the door to China markets has continued to open with every development".

Robert Tabet, head of Asia, Middle East and Africa at Clearstream, suggests that the government has "all the intention to make the entry and exit to the onshore market an easy experience for an investor and this is why we are confident that in the years ahead, Chinese markets will be on par with other markets in Asia and the most advanced markets in the world".

Clearstream Banking and Schenzhen Securities Communication Co (SSCC) have opened direct connectivity for fund order routing of Mainland China-domiciled funds.

The link is established under the Mainland China-Hong Kong Mutual Recognition of Funds 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.

In addition, Standard Chartered Bank China has become the first foreign bank to be granted a domestic fund custody license by the China Securities Regulatory Commission.

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With this license, 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.

Elsewhere, Nomura has received approval from the China Securities Regulatory Commission (CSRC) to establish a joint venture in China.

According to Nomura, they will now make the necessary arrangements to set up the company once the procedural requirements have been completed.

The new company will initially focus on the wealth management business to provide high-net-worth individuals in China with services leveraging Nomura's expertise in face-to-face consulting.

## Custody

Sophia Chung, head of securities services at HSBC China, predicts that the future of Chinese custody involves an increased focus on investor protection and risk mitigation.

Chung also highlights that with the further enhancements of China's financial markets and the continued economic cooperation with other markets, there will be "significant growth and opportunities on the cross-border custody business such as the mutual recognition of funds, stock connect and exchange-traded funds connect".

Similarly, Murphy affirms: "As a global custodian supporting clients from many markets invest into China, the clearest trend we see is a thirst for knowledge and understanding around the differences and nuances of the channels that a client may use to gain access to China equities."

He adds: "Financial innovation in the custody space is going at a very high speed and we expect in the years to come more sophistication to follow with the introduction of products like securities lending, repo, foreign exchange and rates hedging, collateral management and short selling."

## 'The Big Bang'

Indications of technological innovation trickle through every aspect of China's financial services right now, as Murphy highlights: "China is, at its heart, an entrepreneurial culture and many organisations are embracing fintech and the opportunities it brings."

"As China continues to adapt and evolve, it will utilise technologies such as distributed ledger technologies, artificial intelligence and application programme interfaces, though these will most likely appear as a gradual evolution rather than an overnight revolution. While the opportunities fintech offers may not yet be fully utilised, we believe they will come."

One such opportunity J.P. Morgan China has taken is to launch an integrated payment solution to support corporates as they migrate their commerce activities onto digital platforms.

The payment solution offers J.P. Morgan China's clients a single integrated interface that supports both online and offline transactions as well as facilitating payments from mobile channels such as ewallets.

According to J.P. Morgan, the solution also provides clients with consolidated reports on all transactions as well as insights on payment trends through analysis of data.

Like the rest of the world, China took advantage of the leading cryptocurrency, bitcoin. But in late 2017, in a sudden move, the government banned it.

China's central bank ordered an immediate ban on initial coin offerings, the unregulated alternative to initial public offerings for tech-forward startups.

And shortly after that, Chinese cryptocurrency exchanges were ordered to stop trading, which Japan and South Korea took advantage of.

But despite this, Chung emphasises that the Chinese market will continue to open up to foreign investors. According to HSBC Research, foreign ownership will be increased from around 2 percent to 10 to 15 percent of the total fixed income market in the coming years.

Murphy indicates: "China will need to maintain its pace of change to meet the needs of local investors and market participants, international investors and international organisations setting up and operating in China."

He adds: "The breadth of investment opportunities, the scale and importance of the markets and index inclusion will drive continued investment by institutional investors globally."

Tabet states: "As for the opportunities, in the next couple of years new technologies like blockchain and artificial intelligence will be big differentiators for those who adopt them first and in a market like China, which is still in its infancy with foreign investors, this can be a big differentiator for the market leaders in the next five to 10 years."

"We are at the beginning of a highway when it comes to the roles of the Chinese market development and sophistication." AST

# Rough road ahead

## At this year’s forward-looking ALFI conference, it was noted that the asset management industry has a great future ahead but it will be a rough road and not smooth sailing

***Maddie Saghir reports***

This year’s Association of the Luxembourg Fund Industry (ALFI) conference in London had a forward-looking approach and panels focused on structural shifts and disruption. During the welcome address, Denise Voss, chair of ALFI, said that the asset management industry has a great future ahead but it will be a rough road and not smooth sailing. When describing the state of the asset management industry in terms of growth under pressure in a volatile environment, from the perspective of the Luxembourg fund centre, Voss indicated that there are signs we are moving in a positive direction continue.

She commented: “Last year, we saw 105 billion euro of net new money into Luxembourg funds, which was actually 45 percent of all net new money into European funds in 2018 so that is quite positive.”

Voss also explained that at the end of March, Luxembourg reached a new record of assets under management, which stood at €4,350 billion. She said: “Exchange-traded funds (ETF) assets under management in Luxembourg increased by 56 percent in 2018, and that is starting to become a significant figure.”

“Alternative investment funds in Luxembourg continue to experience robust growth as in the rest of Europe including a 17 percent increase in private equity funds asset under management in 2018. So, Luxembourg and European fund centre seem to be holding a steady course.”

The ALFI chair noted that last years markets were “swinging up and down as much as they did during the global financial crisis 10 years ago”. Voss commented: “Severe swings create uncertainty for businesses, economic growth and for investors. Investors, in particular, do not like volatility, they can lose confidence.”

“Volatility these days is often driven by geopolitical factors such as major trade disputes which we are in the middle of, currently. Geopolitical factors will continue to be a challenge for the asset management industry but some challenging trends though are opportunities.”

During the CEO panel discussion, speakers discussed how the asset management industry should respond to a world of disruptions by technology and politics.

The panellists noted that value for money is being questioned as never before, customers’ willingness to buy products through digital channels is increasing, investors are more and more focused on the non-financial returns, the asset management industry`s stewardship over investment decisions is continually being challenged, and in addition, there is significant pressure on fee and margin levels.

Michael Ferguson, wealth and asset management leader, EY Luxembourg, highlighted: “We simply have not moved on or evolved at the same pace as other sectors whether its travel, transport, entertainment or healthcare. We are primarily operating within the same old frameworks of the 1940s act and the UCITS directive of 1985. We must now question many of the things that we have lived with for years, such as is the concept of the fund outdated? Should we be moving with the help of technology to personalised accounts, should outcomes rather than financial performance be the key driver? What are the new alliances that we need to consider to achieve these outcomes? Can machines replace fund managers?"

He asked: "And how will all of this new world be regulated? Or is that the point, is over and outdated regulation is holding us back?"

One panellist noted that a lot of the changes around regulation have come from the UK or from Luxembourg but have a habit of spreading across the world.

The panellist cited: "Therefore, you cannot look at your UK business in isolation; the whole wad is interconnected so you have to make sure that what you take today will stand up to scrutiny on a global basis."

During the panel, Jonathan Willcocks, global head of distribution M&G Investments, explained: "Since 2008, something changed fundamentally for all of us in the industry, not only are people questioning volatility post-2008, at the same time, deposit rates collapsed from 4 or 5 percent to half a percent or zero."

"Historically, we as an industry have engaged with investors, the difference this time around is that the collapse with the deposit rates has meant that savers have come into the industry in a way that they have never done before. In addition to this, historically, people who engaged with us as an industry had an appetite for risk, and most savers have zero or very low tolerance to risk because essentially it is a replacement and a substitute for cash. The issue for most asset managers who don't have balance sheets is that when we use products or solutions, we essentially give people access to return and risk combined. The trick we have to learn, is how to match the banks' issue today right across Europe."

In terms of technology for the asset management industry, one speaker pointed out that if you look across the whole value chain, there is still a vast amount of inefficiency that digitisation tools and engagement can help with.

The panellist said: "There is still a huge amount of advice and financial services that it is about consolidating people's information from various places across life companies, asset managers, banks, and so on—in a digital world, that is ludacris."

The panel also discussed environmental, social and governance (ESG), and according to James Broderick, Impact Investing advocate and activist, initiatives and the broad understanding of ESG will not leave the agenda of financial services firms anytime soon.

Broderick explained that the millennial preference for ESG-oriented investing is well known and established, and that backstop is not going to go away.

He encouraged the audience not to think of ESG as "the latest trend but a pivot into a permanent state".

He also highlighted that we are questioning some of the things we have lived with for years and that at the conference there was talk about technology replacing fund managers.

Willcocks added: "Looking as to where we go next, the reality is that I think we are at a stage where it is not just about the risk-adjusted returns but what your investments do to society and how it makes the world a better place."

"Measurability for ESG is very important but I think within five years we won't be talking about ESG as a debate it will be a given."

"The question is how do we differentiate ourselves either as an industry or as asset managers. Therefore, the world then becomes focused on impact investing and the impact you make on the climate, on society and on the world."

ESG was also a hot topic in the panel entitled, 'The Luxembourg sustainable finance toolkit', and during this panel, one speaker outlined that we [the industry] adapt our criteria based on the trends in the market.

The speaker explained: "For ESG, it doesn't really matter what type of asset class you invest in but how you apply certain ESG principals in the investing process."

Another panellist argued that there is a lack of understanding around ESG and highlighted the importance of defining a common language of what a sustainable investment is and what falls under that.

The speaker continued: "ESG used to be a niche but is becoming mainstream but some still do not quite understand the meaning behind it." **AST**

# Comings and goings at BNY Mellon, Link Asset Services, and more

**BNY Mellon has named James Crowley as CEO of BNY Mellon's Pershing, effective 1 July.**

Crowley, currently COO at Pershing, succeeds Lisa Dolly, who will serve as chairman of Pershing through year-end. As chairman, Dolly will act as an advisor to Crowley, assist in onboarding new business, and continue to work with Pershing's client relationships.

In his new role, Crowley will report to Todd Gibbons, vice chairman and CEO of clearing, markets and client management. He will also join BNY Mellon's executive committee.

Commenting on the new appointment, Gibbons said: "A Pershing veteran of more than 35 years, James Crowley brings to the role unrivalled knowledge of our clients, systems and operations. This is an exciting time for Pershing as the company continues its investment to accelerate growth in the wealth management and financial advisory industry."

He added: "We respect Dolly's desire to do something different after over 30 years at one firm, and we are grateful to her for her leadership and many contributions."

"Dolly and Crowley have worked closely together for several years in both running the firm and in setting the strategic direction."

"Given this history and partnership, our clients can expect a seamless transition between now and the end of the year."

**Link Asset Services has appointed Karl Midl as managing director of Link Fund Solutions and Andrew Lelliott as managing director of Link Fund Administration Limited and Link Financial Investments**

Reporting to Chris Addenbrooke, Midl will be responsible for the authorised fund manager business which provides independent authorised corporate director, authorised contractual scheme operator and authorised unit trust manager services for investment managers who are looking to manage client assets within UK regulated funds.

Based in London, Midl joined Link Asset Services in 1995 and has held a position on the board of Link Fund Solutions since 2002.

Midl is currently the board director responsible for all product, change, and relationship management activities. He has previously held a number of executive roles including operations director and programme director at Link Fund Solutions.

Midl replaces Peter Hugh-Smith, who had held the position of managing director of Link Fund Solutions since 2014.

Lelliott, also reporting to Addenbrooke, will be responsible for the UK investor administration services supporting fund vehicles, distribution models and investor servicing arrangements for investment managers and asset owners.

He joined Link Group last year having spent more than 30 years in financial services.

Commenting on the new appointments, Addenbrooke, said: "Karl Midl and Andrew Lelliott have both played key roles in helping Link Asset Services achieve significant market share over the last ten years. Their experience and insight will be extremely valuable as we take the next step in our journey. I would like to thank Peter Hugh-Smith for his excellent work over the last five years, most recently helping the business integrate with Link following the acquisition. We wish him well for the future."

**Intertrust has appointed Patrick O'Brien as global head of funds.**

O'Brien will be responsible for leading Intertrust's global fund strategy and expanding its client base among private capital fund managers and investors in Europe, North America and the Asia Pacific.

He will also continue to develop Intertrust's tailored and holistic funds offering and focus on delivering a market leading solution. Based in Dublin, O'Brien will report to Ian Lynch, chief commercial officer.

O'Brien joins Intertrust from Citigroup where he was head of fund services, Ireland, and head of offshore sales.

Prior to Citi, he spent eight years at J.P. Morgan where he held several roles, including executive director and global head of fund services client strategy.

Stephanie Miller, CEO of Intertrust, said: "Patrick O'Brien brings a wealth of experience to our global funds team at a time when the industry is looking to market leaders such as Intertrust to address their administrative and regulatory challenges through cutting-edge technology and specialist expertise."

**Fund administration services JTC has appointed Michael Halsey as managing director for the Cayman Islands.**

Halsey joins JTC with more than two decades of experience in the international financial services industry.

Most recently, he was managing director of Sackville Bank & Trust Company in the Cayman Islands where he oversaw the delivery of fiduciary, banking and corporate services to clients.

JTC has had a presence in the Cayman Islands since 2013 offering global fund administration services. In 2015 it acquired GAM's Cayman Islands fund administration business.

Commenting on his new role, Michael Halsey, said: "Over the past six years, JTC has earned a solid reputation in the Cayman Islands as a top tier fund service provider."

**GlobeTax has appointed Hugo Rocha as head of European sales.**

Previously, Rocha served as an external consultant in Madrid.

Rocha has also served on the board of Interbolsa and has held senior roles at BNY Mellon and BNP Paribas Securities Services.

Prior to that, Rocha worked at Clearstream and Banco Santander.

**HSBC has appointed Enzo Cotroneo as head of securities services for Australia and New Zealand.**

Cotroneo will be responsible for driving the next phase of development in HSBC's securities services business in both Australia and New Zealand, which includes leveraging HSBC's share of the local custody market.

Previously, he served as managing director, head of custody and fund services at Citi and has also held senior roles at J.P. Morgan.

Guy Dickinson, head of global markets for HSBC Australia, said: "Cotroneo's deep industry knowledge will help underpin HSBC's plans to extend the depth and reach of our offering, including to the increasing number of clients who conduct business offshore." **AST**