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Melior Investment Management selects RBC I&TS for custody services

RBC Investor & Treasury Services (I&TS) has been selected by Melior Investment Management to provide its custody and fund administration services.

Melior is an impact manager, investing in Australian and New Zealand equities, seeking to deliver competitive market returns and positive social and environmental impact.

Melior has launched the Melior Australian Impact Fund, with an investment framework built around the UN Sustainable Development Goals.

Lucy Steed, CEO of Melior Investment Management, said: “We selected RBC I&TS as our custody partner because of its focused strategy for asset managers and its strong environmental, social and corporate governance credentials, including the diversity of its team, which we felt were a good fit for our new fund.”

David Brown, managing director for global client coverage for RBC I&TS Australia, commented: “RBC is a purpose-driven company. Creating a positive social impact to help clients thrive and communities prosper is absolutely integral to everything that we do.”

He added: “We have a strong connection with Melior’s impact investment approach. At RBC, we measure and report on a comprehensive environmental societal governance composite index every year, presenting our sustainability credentials in areas such as our risk conduct, percentage of women directors and executives, and the value of our socially responsible investments.”

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Northern Trust and Confluence collaborate on reporting solutions

Northern Trust has partnered with Confluence to provide financial and regulatory reporting assistance to European funds and asset managers.

The asset servicing and management solutions firm will collaborate with investment data management provider Confluence to leverage and streamline data technology for fund disclosures.

The new partnership will require individuals responsible for investment funds, such as asset managers, investors, directors and regulators, to create regulatory reports under the disclosure obligations.

Confluence's Unity Financial Reporting solution will help Northern Trust efficiently automate statements and holding reports, while its Unity NXT Regulatory Reporting platform allows the automation of data sourcing and aggregation.

Todd Moyer, president and COO at Confluence, commented: "We are excited about the partnership and work that we have been doing with Northern Trust to help support more streamlined financial documentation for funds. This is the start of a strong partnership and we look forward to working with Northern Trust to deliver first-class products and services."

Clive Bellows, head of global fund services, Europe, the Middle East and Africa, Northern Trust, added: "Northern Trust is committed to creating greater efficiencies for clients in how their reporting is prepared and delivered to the specifications required by regulators. Partnering with Confluence helps us deliver on that objective—automating inefficient reporting practices, improving accuracy and creating high-quality documentation to support our clients' diverse fund offerings and investment strategies."

Credit Suisse and Allfunds collaborate under InvestLab

Credit Suisse has partnered with Allfunds under its investment fund platform, Credit Suisse InvestLab.

The InvestLab platform will help develop a global fund distribution solution by combining assets under administration and distinct distribution competencies.

The partnership is designed to maximise Credit Suisse's global wealth management offering and Allfunds' digital innovation.

Under the collaboration, all shares in Credit Suisse InvestLab will be transferred to Allfunds from Credit Suisse.

The cooperative is still subject to customary closing conditions, such as antitrust and regulatory approvals. It is predicted to be completed in Q3 2019.

JST launches digital asset suite

JST Capital has debuted a range of digital asset offerings, including risk management, over-the-counter trading, crypto optimisation and consulting services.

The global digital asset financial services firm has also established financial structures and risk management strategies for its clients to enhance their portfolios.

Furthermore, JST Capital also provides solutions for its clients to manage their cryptocurrency exposures, optimise their balance sheets and access select liquidity digital assets.

Scott Freeman, founding partner at JST Capital, commented: "We are pleased to offer our suite of services to our institutional client base, with the goal of making this emerging asset class more accessible".

"Our decades worth of experience in trading and asset management uniquely positions us to support the needs of the market, enabling us to bridge the gap between traditional and crypto finance."

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Société Générale and MFEX set to collaborate in Luxembourg

Société Générale has partnered with MFEX to enhance its global fund trading services in Luxembourg.

In the collaboration, independent fund distributor MFEX will manage the entirety of Société Générale Luxembourg's post-trade fund services.

Matthieu Maurier, country manager for Société Générale Securities Services, Luxembourg, commented: "In a changing environment, this partnership enables Société Générale Securities Services to enrich its global offering for asset managers and financial institutions."

Olivier Huby, co-CEO at MFEX, added: "This partnership represents a natural continuation of the excellent collaboration we have had with the Société Générale group for several years. This transaction will strengthen MFEX's presence in Luxembourg and enable MFEX to continue to grow by consolidating its leading position in international funds distribution."

Todd Morakis, founding partner at JST Capital, added: "The growth of the crypto-asset market has led to increased participation from institutional investors. At JST Capital, we combine proprietary technology with speed of execution and high-touch service to bring greater reliability to cryptocurrency market participants."

Northern Trust to transfer blockchain platform to Broadridge

Northern Trust has selected Broadridge to transfer its distributed ledger technology (DLT) for private equity asset servicing.

This will allow Broadridge to expand the existing solution in a move towards developing an industry-spanning private equity blockchain platform for management, communication and engagement.

Modifications to the solution will be specialised in improving market efficiency and providing real business value.

The amended platform will allow private equity firms, initially only those residing in Guernsey and Delaware, to strengthen their capital and cash flow management.

Eric Bernstein, head of asset management solutions at Broadridge, commented: "The alternatives/private equity marketplace is expanding rapidly, and the technology needs of this evolving marketplace are underserved."

He continued: "Broadridge's unique position as a network enabler, and successful record in utilising blockchain technology, will allow us to help transform the private equity industry."

Pete Cherecwich, president of corporate and institutional services at Northern Trust, added: "Northern Trust pioneered the development of blockchain technology that supports the complex private equity lifecycle.

For the benefit of our clients and the industry as a whole, it's now time to hand over the reins to a technology provider with deep fintech expertise."

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J.P. Morgan's Ireland fund administration business fined €1.6m

J.P. Morgan Administration Services (JPMAS) (Ireland) has been formally reprimanded and fined €1.6 million by the Central Bank of Ireland (CBI) for "regulatory breaches" in relation to the outsourcing of fund administration services.

JPMAS admitted to three breaches of the outsourcing requirements as according to CBI's AIF Rulebook, and one breach of its Prudential Handbook for Investment Firms, between July 2013 and July 2016.

In its investigation, the CBI found that JPMAS' outsourcing structure lacked official CBI approval, and lacked "adequate control systems" to ensure the framework complied with outsourcing requirements, despite having already had CBI intervention on the matter.

A comment from a J.P. Morgan spokesperson said: "J.P. Morgan has cooperated fully with the CBI and has already made remedial adjustments to controls procedures in the associated legal entity in Ireland. At no point were our clients or the quality of the service we provide to them affected, and we continue to operate our fund administration business normally."

Seána Cunningham, director of enforcement and anti-money laundering at the CBI, said: "Outsourcing plays a key role in the provision of regulated financial services and it is vital that regulated firms can demonstrate a clear understanding of their outsourcing arrangements, the associated risks and the effectiveness of the governance and risk management measures in place in respect of those arrangements. This is the first enforcement action taken by CBI against a fund administration firm in relation to outsourcing failures."

She continued: "When firms outsource activities, they do not outsource their responsibilities. It is important for firms to have strong controls in place around the governance and oversight of all outsourcing arrangements to ensure that they comply with all legal and regulatory requirements."

Cunningham added: "J.P. Morgan Administration Services' failures, in this case, demonstrated unacceptable weaknesses in its outsourcing framework. These weaknesses were further evidenced by its repeated failures to satisfactorily remediate the issues identified by the CBI as part of its supervisory engagement with the firm. The fine imposed reflects JPMAS's failure to address the root causes of these weaknesses over several years."

DTCC subsidiary FICC achieves clearing milestone

DTCC's subsidiary Fixed Income Clearing Corporation (FICC) has achieved a milestone in the transformation of the US treasury market toward central clearing as Citadel executed and cleared both cash and repo trades via FICC's recently expanded Sponsored Service model.

The Sponsored Service was recently extended to cover a wider scope of market players who can act as sponsors.

The expansion also allowed sponsor member clients to facilitate clearing transactions with market participants other than their sponsors, labelled a "done away" activity. This enabled Palafox, a subsidiary of Citadel, to be the first sponsor to carry out centrally cleared "done away" cash and repo trades on behalf of Citadel's Global Fixed Income Master Fund.

Murray Pozmanter, managing director and head of clearing agency services at DTCC, commented: "The greatest benefit of allowing different types of firms to be sponsors is that FICC has now made it possible to bring a much larger percentage of the market into clearing, while maintaining our robust risk management standards."

Dan Dufresne, managing director and global treasurer at Citadel, added: "We continue to support FICC's efforts to expand the accessibility of central clearing for cash and repo trading, and are excited to be a part of this important milestone in the evolution of the US treasury markets."

Danske Bank selects Clearstream for fund processing solution

Danske Bank has partnered with Clearstream to strengthen its fund processing services.

Clearstream recently introduced fund desk distribution support services, including its investment fund processing solution Vestima, which centralises the processing of mutual, hedge, private equity and exchange-traded funds.

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The Vestima platform allows Clearstream to provide a one-stop-shop solution for its clients, offering direct access to local domiciled funds, efficient cash management and consolidated reporting.

Ainura Bizhanova, head of network management at Danske Bank, said: "Partnering with an organisation that places the same focus on operational integrity and distribution efficiency as Danske Bank was a critical requirement for us when conducting a review of our primary fund provider."

Bernard Tancré, head of investment fund services at Clearstream, commented: "We are delighted to be supporting Danske Bank which will create high operational synergies in investment fund processing for both sides."

He added: "Danske Bank will profit from our proven infrastructure known for asset safety and distribution efficiency. This will enable Danske to foster efficiencies for underlying clients and scale their investment fund businesses."

CACEIS launches platform to facilitate European fund distribution

CACEIS's Tailored Electronic Exchange Platform for Investors (TEEPI) platform is to adopt the 'Market Place' feature, a free of charge service for investors to facilitate European fund distribution.

Using the search engine, users can identify funds on the platform that match specific investment criteria and can buy or sell units or access further information.

The TEEPI library hosts the funds' marketing and legal documentation, such as the prospectus, Key Investor Information Document and annual report, as well as performance analyses and information on fund characteristics.

A unit aggregation function will give investors a consolidated view of fund units held at transfer agents while know your customer management will be fully digitalised.

The online filing of investor identification documents will allow the opening of as many accounts as necessary with transfer agents.

With TEEPI, asset management companies will benefit from an additional digital channel for account opening and subscriptions.

During the initial phase, users will consist of CACEIS's management company clients and their investors. The platform will gradually be extended to all market players.

TEEPI, launched in 2016, was originally designed to assist companies with Solvency II, the second Markets in Financial Instruments Directive, and The Packaged Retail and Insurance-based Investment Products reporting requirements.

Laurent Majchrzak, group product director of CACEIS, said: "TEEPI is further proof of CACEIS's expertise in fund distribution, digital innovation and the integration of disruptive technologies."

"TEEPI's fully open architecture and innovative unit aggregation view are already attracting strong interest from the market."

Joe Saliba, deputy CEO of CACEIS, commented: "TEEPI is a major breakthrough for the market and we are proud of this pioneering solution for direct fund distribution."

"Digital solutions are key to improving efficiency and business opportunities, and TEEPI's new features offer unparalleled advantages to the market."

AxiomSL collaborates with Refinitiv for data services

AxiomSL has partnered with Refinitiv to provide automatic data enrichment for clients.

The collaboration will see a combination of AxiomSL's Global Shareholding Disclosures (GSD) solution with Refinitiv's reference data, which includes issuer and class level shares, takeover panel data and voting rights.

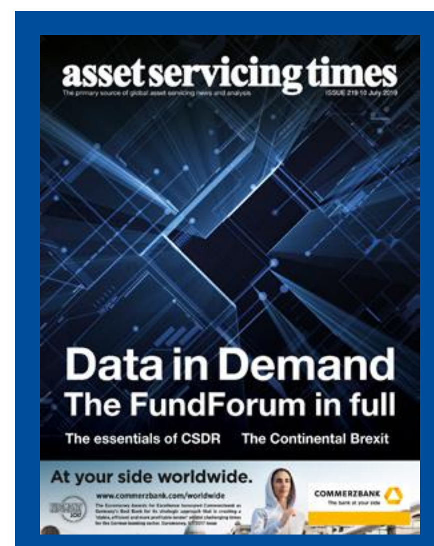
The partnership is designed to aid financial institutions as they face three key challenges in current financial markets: balancing regulatory and reporting requirements, accessing reliable market data, and automating GSD reporting to meet daily monitoring requirements.

AxiomSL's ControllerView platform also provides data services ranging from monitoring, automation and transparency, to allow market participants to efficiently comply with GSD requirements.

John Mason, head of pricing and reference data at Refinitiv, commented: "This partnership provides a simple solution by combining AxiomSL's state of the art technology with Refinitiv's comprehensive global data, enabling asset managers to quickly and easily assess their positions in different instruments."

Ed Royan, general manager, Europe, the Middle East and Asia, AxiomSL, added: "We are pleased to partner with Refinitiv in addressing the challenges of data transparency requirements set out by regulatory authorities across the globe when rules differs from country to country."

He continued: "This partnership unlocks many benefits from streamlining and automating complex rules to seamlessly ingesting and aggregating disparate data resulting in a rapid go-live process."



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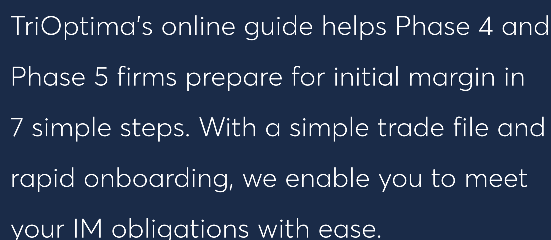

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Continental Brexit

What will be the lasting impact of Brexit for European financial services? Will Brexit act as a good opportunity for more growth on the continent, moving capital away from London?

Jenna Lomax reports

At the time of writing, the UK stands in the interim of deciding its next Prime Minister. By the time you read this, the Conservative Party will be down to two competitors and the eventual successor's first heavyweight priority will be the ongoing battle of Brexit.

Brexit news coverage tends to focus strongly on negotiations from the UK side, but how could Brexit affect continental European asset services and post-trade?

Much talk around Brexit considers the impact on UK financial services, but what of companies who have a stronger hold on the continent? Have they too been preparing for all possible eventualities? Are they more or less prepared than their British neighbours?

It's fair to say that many never thought Brexit would happen, as reflected by the referendum results released back in June 2016, which indicated a borderline result of 51.9 percent favouring to leave.

Since then, Nigel Green, the chief executive and founder of deVere Group, has voiced: "Brexit has cost Britain three lost years of opportunity. Brexit has almost entirely overtaken the public sphere in Britain. All of Parliament's time and energy is vested in Brexit. It appears nothing else is getting done. And so much needs to be done."

He adds: "The actual process of leaving the EU itself is now increasingly irrelevant. Indeed, even if the UK didn't leave, unprecedented damage to the UK's financial services industry has already been done."

And it is also fair to say that no one really knows what will happen post-Brexit. However, most European financial services institutions seem to have a framework for every eventuality.

Regulation

A recent panel at the Association for Financial Markets in Europe concentrated on how post-trade in a post-Brexit world would affect regulation and the possible changes that might arise, throughout Europe.

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 will 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".

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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.

Although, Daniel Carpenter, head of regulation at Meritsoft, indicates: "Both European Securities and Markets Authority (ESMA) and the Financial Conduct Authority have different philosophies towards regulating European markets post-Brexit."

"Market participants can only fully assess the potential long-term impact on their businesses when and if a definitive Brexit outcome materialises, which could have an impact on activity for central counterparty clearing houses and CSDs in the longer term."

Carpenter indicates: "Lots of different companies in different regions will be jostling for more business post-Brexit and will all have a different view of post-trade market infrastructure and what it should look like."

Another panel at AFME discussed 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.

Across the board

Steven Maijoor, chair of ESMA, has indicated a no-deal Brexit may have some significant effects of the second Markets in Financial Instruments Directive (MiFID II), a European-wide regulation.

In his speech at the European Financial Forum 2019 in Dublin, Maijoor said: "I appreciate that some of the MiFID II thresholds may need recalibration in the new EU27 environment."

Maijoor had also explained that the MiFID II transparency framework is founded on a number of thresholds to be specified at ESMA level, to introduce a transparent regime for trading all types of asset classes on a level playing field in the EU. But across the board, the sentiment is not quite the same and there are fears from others that London could lose business.

PwC released a report last year that indicated the city of Frankfurt as the likely recipient of London's relocated activity, particularly from Japanese and US banks, while Amsterdam was predicted to be the main location for trading venues. However on more of a positive note, at the ISITC conference in London earlier this year, a European Central Bank representative affirmed the bank's aim to include and present everyone in collateral and corporate actions discussions after Brexit.

In addition a panellist at this year's TSAM London, who is the legal head of her company, revealed that most EU countries are taking it upon themselves to create agreements with the UK, or are creating domestic laws in preparation for a no-deal Brexit.

The panellist said countries that have put forward or are drafting domestic laws and/or agreements with the UK in the case of a no-deal Brexit include Sweden, Austria, Malta, Finland, Spain, Belgium and Luxembourg, among others.

In addition, Guernsey's financial services regulator has signed a memorandum of understanding (MoU) with the UK's Financial Conduct Authority to ensure market access for Guernsey investment funds into the UK after Brexit.

The MoU will come into effect if EU law no longer applies in the UK, either through a no-deal Brexit or at the end of any transitional arrangements once the UK leaves the EU.

This will mean that Guernsey funds will still be able to be marketed into the UK.

A chance to change and consolidate?

Aside from Brexit, the financial services industry has other things to worry about, such as keeping up with changes to technology, data compliance, Securities Financing Transactions Regulation (SFTR) and the Central Securities Depositories Regulation (CSDR), to name a few.

As Carpenter cites: "From client conversations, we know houses are planning for all possible Brexit options. Preparations for Brexit are only part of the story, though, as there are a plethora of post-trade global regulatory requirements which houses have to plan for, such as CSDR which is causing substantial overhaul in firm's operations and now requires just as much attention as Brexit."

Anders Kirkeby, vice president of enterprise architecture at SimCorp, indicates: "While geopolitical developments like Brexit seem contrary to the notion of a shared society, it will not stop the buy-side from evolving and innovating."

"As an industry, it has been moving towards a global way of operating for many years. We can see this in the sheer number of global products, instruments and even the electronification of markets, all born out of cross-border collaboration."

Kirkeby says: "What is interesting is that Brexit is yet another example of the need for operational readiness in a changing landscape. We've seen this over the last few years with cross-territory regulations like the markets in financial instruments directive and SFTR, which is increasingly being mirrored around the world, and the continuation of this is a likely eventuality. The same can be said for geopolitical developments too. The delay can be seen as an opportunity, not just for firms in the EU, but for the global buy-side to review their operations." AST

Data in demand

As delegates gathered for this year's FundForum in a very sunny Copenhagen, discussions concentrated heavily on data, blockchain and cost pressures of the back-office

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Missed opportunities in the back-office and increasing cost pressures were some of the main takeaways from this year's FundForum in Copenhagen.

As part of the 'operations' stream at the conference, one panellist explained that in the last 10 years, asset servicing has changed at an "unprecedented pace".

He said: "There are far more complex regulation types and transaction processes now, that are being carried out in a real-time and accurate basis, at a much lower cost. The level of complexity has gone up and will continue to go up."

Another panellist disagreed with this notion and said: "Other parts of the industry see us, the back-office, as dinosaurs when we talk about technology".

He added: "People want customisation and their own services and we have to adapt; the one size fits all notion is over. It's been difficult in recent years to differentiate from competitors. We have seen a true structural innovation and complete disruption in some areas of the industry, but it's fair to say that maybe in asset servicing we, as an industry, have not had that yet."

"The question is around operational efficiency. When it comes down to it, we have to boost our sales, using artificial algorithms to predict failed trades on certain patterns is a start."

The panel explained that the industry needs to use "these tremendous opportunities in technology for insight. Using these technologies, we can automate traditionally manual tasks."

When advising on how the back-office can innovate further, one speaker said: "Costs are significant. Also, many banks are starting to behave more like technology firms. I would advise to experiment, fail fast—if you're not doing that it's not good for the long-term of your business."

A similar sentiment was expressed in another operations panel discussing the pressures driving operating model transformation, in which one panellist affirmed: "The industry is facing so much cost pressure and the back-office is absorbing it."

Another panellist went on to agree that the back-office faces the most cost pressures.

He said: "Asset owners need to understand they cannot have it all, some asset classes do require higher fees. We [the back-office] are under lots of pressure. Everyone wants real-time data. We have the pressure of both cost and time."

Later, on another panel, one speaker claimed that operations departments are "missing some opportunities" within asset servicing.

The panellist explained that there needs to be more efficiency in operations roles to free up the capacity of people available, who could be doing more in other areas.

Meanwhile, other speakers suggested that in order to explore these opportunities, there needs to be a collaborative notion within a firm that every transition requires "a mindset change, and sometimes it's not an issue to experiment and fail".

The panellist indicated that experiments are needed and are required to make a successful pace in production of asset servicing models.

He advised that a business should have the traditional management side of its business running parallel with the data/technology and operations side.

He stated: "If you want to see smart analytics and collaboration, leave the operations people to work on their own solutions."

Another panellist advised firms to share decisions globally "depending on the scale of your organisation. Look for scale–a global vision".

Also weighing in, one speaker said: "You don't pay for your back-office, ultimately your customer does, you have to demonstrate and evidence your choices. You also have to work out the costs for those choices and services and make sure they are appropriate in terms of value. That's ultimately what operations need to figure out over time."

ESG was a large topic across the conference, given large coverage across panels for every stream, from operations to fund distribution.

One operations panel discussed environmental, social and governance at length, with one panellist affirming: "ESG is here to stay."

"It's more and more a question of sustainability, not just around our business, say the carbon footprint of your CEO and executive board, for example. It's also about where you're outsourcing to."

He added: "If you're outsourcing to a low-cost centre, perhaps somewhere in the developing world, and it's not powered sustainably, that's also a question to consider."

In a panel discussing fund distribution in private and retail banking networks in Europe, a representative from Swiss Life Bank, explained the serious action needed, especially on the 'E'–the environmental side of ESG.

She indicated: "We're totally aware that with ESG there is a generational gap, but each individual has a responsibility for it. ESG compliance is not going away. We should care about the planet and our impact."

"It is our duty to take in to account the kinds of risk management linked to ESG. It's not just a marketing thing. The ESG criteria will and should become more and more a part of our investment processes in the future."

Another topic that featured heavily on the FundForum agenda was blockchain. In one particular panel, exploring the impact digitisation and tokenisation has on the future shape of investment management, a panellist explained that the dust is beginning to settle on blockchain and the industry is starting to see how it's transforming the market in a practical way.

Expanding on that, the speaker revealed that globally, 90 percent of blockchain is a scam, while 20 percent of the money raised for blockchain around the world has been hacked at some point. Because of these numbers, the industry is "correct to be sceptical when playing in this field".

Another panellist certified: "Education is still key, there's still not a lot of distinction between cryptocurrency and blockchain, clear definitions need to be understood. What's holding us back is culture and human intuition."

The moderator added: "Data is the backbone, while understanding data is the next move. The next horizon is not tokenisation of cryptocurrency, it's to unify the data concerned with that and it has to be at a pace our clients can take it. To me, that understanding and consideration still feel a long way off."

The panel also spoke about blockchain on a regional level and cited China as the 'Wild West' for blockchain and digitisation, comparing it to Europe, which he said was "traditionally very restrained with a high level of regulations guidance".

Another panellist, based in Asia, said: "In China, we adopt blockchain because we have to. Is it scalable? I would say it's still in its infancy. Everything you see with blockchain right now will not be recognised in five years time, it will totally change."

He concluded: "China holds 27 percent of the world's cryptocurrencies. Blockchain enables anything you can digitise to move. Technology and blockchain will evolve, it will evolve because of governance, globalisation and data."

Another panel explored the necessity of treating data as an asset, not a liability. In the panel, which looked at data as a differentiator, a representative from Ernst and Young discussed strategies for supporting business growth through the use of data.

He said: "Data and analytics underpin the new technologies that are transforming global businesses. Wealth and asset managers are investing heavily in technology to meet increased client and regulatory expectations which are predicted through the effective management, ownership and governance of data."

He also explained that the industry is beginning to realise that there's a "hygiene factor" concerning data. He said: "It's worth spending money on data to help bring down other costs". The speaker further indicated that the right culture is needed to achieve this.

"We need to have a culture where people realise the value of data and how it can change the business and formats. You need to bring managers and CEOs with the right mindset, together with the right people in operations and technology who have a similar mindset. However, those people are difficult to find."

Concluding, the speaker commented: "Question what analytics you can provide which differentiates your business. If you've got valued data as an organisation, that's the basis. Right now, operationally, you may not be perfect, but data will help your operations to reach that level of improvement. And if your customer data is bang on, it'll be the most valuable asset of your organisation." **AST**

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Despite the challenges facing the German banking industry, there are bright spots, notably in serving the local and international needs of Mittelstand clients, and in the ability to provide more efficient and better service to retail and corporate clients through online channels. Germany's best bank, Commerzbank, is focusing on both these opportunities.

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The essentials of CSDR

Daniel Carpenter, head of regulation at Meritsoft, discusses the challenges of CSDR and how Meritsoft is helping its clients to prepare for it

Jenna Lomax Reports

What does your role as head of regulation involve, and how has it helped you understand the ruling around CSDR?

At Meritsoft, we are very focused on two key elements of The Central Securities Depositories Regulation (CSDR) Settlement Discipline rules - penalties and fines. We're currently talking to our clients and the industry as a whole about the CSDR requirements and demonstrating that we understand the intricacies involved in complying with the regulation.

In my role as head of regulation, the key is understanding which regulations are equally applicable to our clients and ourselves. For example, impending financial transaction tax changes in Europe and globally will impact our clients and therefore will need to be incorporated into our product roadmap.

CSDR is a great example of this, as eighteen months ago we identified the need for a solution and that we should provide it. We've been talking to clients, reading the press, and engaging with service providers such as PwC, EY and Deloitte, as it's important to continually review and understand what's going on, and what the impact will be. We are doing this in a very timely manner to make sure that we're not sitting here with a week to go waiting for CSDR to come into force. With any new regulation, such as CSDR, we typically look two to three years down the road, knowing that the regulation is coming. Even if we are not yet sure of the specifics we will monitor and maintain our development roadmap.

As CSDR is going to impact our clients, it's something we needed to address. We needed to engage with financial houses as early on as possible, much as we did for the introduction of the IRS 871m taxation rules. It was important to increase awareness of CSDR while appreciating that firms have been focused on other regulatory projects such as Brexit and, to a lesser extent, the aftermath of the second Markets in Financial instruments Directive (MiFID II).

spend a lot of time learning about and then sharing our understanding of the impact legislation has, as much as we do addressing problems and providing solutions.

A benefit of being independent is that we can talk to several banks to gain different perspectives from the teams that are engaging with us

Our background of experience has put Meritsoft in a good place regarding CSDR. It is scheduled to come into operation next September, but flexibility is key from a solution providers perspective.

Understandably, banks take a while to figure out the impact of any new regulation or changes. As you can imagine, assessing the impact can be extremely complicated. First and second tier global banks have multiple divisions and business lines within their organisations that need to assess the different impacts across asset classes before assessing the options and costs and applying this to their budget and resources. This includes considering the extra-territorial aspect across entities.

There's a positive quantity and a value point here, because fails and penalties are derived from a basis point. If you incur a $1 penalty, then that's not a problem. However, a $100,000 penalty is very important. Our teams are looking at automation and working with banks to really understand the impact and negate the risk and cost where possible, because it's not just a back-office operational issue; it's also a front-office financial issue that could have huge ramifications on client profitability and contractual arrangements.

What would you advise to investment banks and asset managers if they do not yet understand the ruling around CSDR standards? What are the consequences of non-compliance?

The obvious and immediate consequence is receiving a penalty. By definition, that is an impact and a cost and will impact your profit and margin.

Obviously, companies are trying to avoid the penalty fees incurred from fails and the buy-in costs. The time a penalty is outstanding determines the value of the penalty (a daily calculation, payable monthly). Penalties are a substantial issue from an identification, tracking, validation and fault allocation basis for houses, whereas the buy-ins, while fewer in volume, attract a large element of risk and value. This is in addition to potentially substantial processing costs (previously managed manually as volumes typically are very low).

As an example, if you are a custodian and a CSD brings a penalty against you, you have to potentially allocate that penalty accountability to your counterparty if they failed to perform the correct actions within the right timeframes. With this in mind, the consequences of fails are financial and cost administration.

There's also a reputational risk associated with non-compliance and consistent fails which could paint you in a negative light within the market.

There will always be fails from an operational perspective, but what people are looking to do is reduce that number of fails and, where appropriate, accurately resolve and account for fails.

How are you assisting your clients with CSDR?

The majority of our work has been focused around education and improving the understanding among our clients in terms of what impact to expect in different areas of their business. There's also the education of showing them the software and how to use software solutions to address CSDR, as opposed to using manual efforts.

Everyone is well aware that these activities are relatively manual but this process will now have to become automated because the volume will increase.

A benefit of being independent is that we can talk to several banks to gain different perspectives from the teams that are engaging with us and as a result we're also getting feedback from our clients during the preparation and assisting process. There is usually a general consensus between the banks, even if they don't know the other's opinions, and we can use this to complete the picture on our side and incorporate into our work with houses.

Now that we are part of a substantial global organisation, Cognizant, we have the technology and people to enable us to become a key business process outsourcing (BPO) provider, while leveraging our software. This type of engagement is becoming more common and is something that corporations are interested in looking at strategically; as opposed to buying software in-house.

The market infrastructure offering is becoming especially relevant for addressing buy-in processing as one of the things that comes off the back of this regulation is the "netting off" on a chain of buy-ins, which still needs to be agreed as an industry. In a chain of transactions, one fail can lead to a chain of multiple buy-ins with associated costs. If the houses in this chain are using our market infrastructure offering

then they can theoretically loop the ends of the chain so there is only one buy-in. This will substantially reduce the underlying cost of doing business. This is a strategic ecosystem that we are targeting delivery of in the next 24 months.

What are the essential points of CSDR?

What CSDR is essentially trying to do is regulate and improve settlement processing, by penalising the houses that persistently fail to settle their transactions on time, which impacts a house's profitability. There is always a cost associated with a system change, but the industry standard penalty structure is designed to demonstrate that non-compliance and buy-ins for profit is no longer an acceptable practice because it disadvantages the counterparty, even if it's easier, cheaper and more convenient for you to fail.

What the regulation is doing in this instance is saying that, actually, everyone should be treated in the same way, and because it's awkward for a small house to complain to a big house, now there will be a standard approach with associated standardsed fees/penalties.

People will examine their fails processing in a big way to work out why they occurred, with a view to reducing – but not eradicating – the overall number of fails to a more manageable size, as there is now a financial imperative and incentive to do so.

The problem everyone will have is attempting improvements across multiple systems, and tracking information and activities to manage it centrally. However, we do expect to see a reduction in the number of fails, which will be a benefit to everyone.

How does CSDR differ from other regulations that the industry has been preparing for in recent years, especially from an investment bank and asset management perspective?

They all have slightly different impacts as they try to address different issues. MiFID II, as a case in point, fundamentally aimed to improve transparency in areas such as research and trading. MiFID II determined that it was unacceptable to obfuscate and pass on costs. For example, if you're looking at a research billing invoice, under MiFID II you must tell clients what each piece of research was and the associated fees.

CSDR differs from MiFID II and SFTR because it is focused around internal best practices rather than improving outcomes for external customers. It focuses on how to improve the whole industry's approach to settlement and trading from an internal back-office perspective, rather than just the buy-side.

The regulations that are coming into force link back to territorial transparency because many of them, particularly FTTs and CSDR, take a global stance by considering international discrepancies among industry standards. This in turn should encourage national reciprocity and a recognition of where there are loopholes that should be improved or closed.

What are your predictions for regulation within asset servicing for 2020? Do you think regulations such as CSDR and MiFID II have refreshed or will reset industry standards?

Our background is historically very much on the sell-side, but there is a plethora of different things happening on the buy-side, depending on which asset classes you are in. For example, European Market Infrastructure Regulation legislation is predominantly focused on derivatives.

Asset servicing legislation also affects tax reclaim, so over the coming years, we will see more transaction taxes, as we've seen recently in Europe with equities and derivatives. There have been press announcements in Germany about what they are going to do, while Spain has already got permission to move ahead with their transaction tax, and the UK has stamp duty. There is also the real likelihood of an EU-wide FTT while Democrats in the US are talking about introducing one as part of their electoral platform in 2020.

The tax regulations are set to have the biggest, and most intrusive, longer term financial impact when you start to look at the money that is involved, especially when you consider double taxation treaties (withholding tax regimes and tax reclaim processing). There are definitely going to be more taxes – it's a way of generating revenue for governments and is directly attributable to trade transactions.

In summary, there's a lot of tax and a drive to increase transparency right now.

Outside of CSDR we are aware of other items, but I think it's safe to say that the bulk of a financial house's budget tends to go towards regulatory change requirements and compliance that will impact their business in the near future. This is where they have to put their money and their priority.

Daniel Carpenter
Head of regulation
Meritsoft

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Comings and goings at BNP Paribas, EuroCCP, Capco and more

BNP Paribas Securities Services has appointed Tom Gardner as head of asset managers, asset owners and alternative investors sales for the UK, Middle East and South Africa (UKMESA).

In his new role, Gardner will assume responsibility for strengthening sales and strategic opportunities among institutional investors within the UKMESA region. He brings to the firm a range of experience in technology solutions, fund administration and trading, having previously held positions at eFront and FIS as chief sales officer and head of European sales respectively.

Based in London, Gardner will report to Emma Crabtree, head of asset managers, asset owners and alternative investors sales for Europe, the Middle East and Africa.

Crabtree commented: “I am delighted to welcome Tom Gardner to BNP Paribas. Institutional investors in UKMESA are a strategic growth market for our Securities Services business. Gardner’s long-standing financial services technology expertise will be key in promoting our offering to clients at a time of fast regulatory, operational and technological change.”

EuroCCP has appointed Tim Beckwith as head of commercial development.

Beckwith joins the equities clearing house with broad experience in financial markets, particularly senior client relationships and business development.

In his new role, Beckwith will assume responsibility for sales, relationship management, client services, marketing and product development as head of a team of eight. He will report directly to CEO, Cécile Nagel.

Beckwith previously held senior positions at LCH and Bank of America Merrill Lynch, where he served as director and head of sales and relationship management for equities, and vice president network manager respectively.

Nagel commented: “EuroCCP is a client centric organisation and we are proud of our strong engagement and partnership with our clients. I am delighted that we have been able to recruit someone with Beckwith’s industry knowledge and experience to help us develop the business and address clients’ needs in a continuously changing environment.”

Capco has appointed Olaf Clemens as partner.

Based in the firm’s Frankfurt office, Clemens joins the financial services technology and management consultancy with 15 years’ expertise in a range of financial services, including the restructure of a major global investment bank and the delivery of sustainable solutions.

Bodo Schaefer, managing director, Capco Germany, commented: “With Olaf Clemens’ appointment, we are pleased to welcome another proven financial professional to our team.”

He added: “Clemens brings significant expertise and a strong network in banking, capital markets, risk management, regulatory and IT expertise, and he will play an important role in helping to expand Capco’s presence in the industry and drive further business opportunities.”

The board of ASX Limited has appointed Peter Nash as a non-executive director, effective immediately.

Nash is the chairman of Johns Lyng Group Limited, and a non-executive director of the Westpac Group and Mirvac Group.

Nash was previously a senior partner with KPMG and served as its national chairman from 2011 to 2017.

Nash also served as a member of the global board of KPMG and was the chair of KPMG’s global investment committee.

Rick Holliday-Smith, chairman of ASX, said: “The board and I are very pleased that Peter Nash has agreed to join the ASX board. Nash has more than 30 years’ experience in financial management, reporting, risk management and auditing in complex operating environments.”

“Nash has strong leadership, governance and audit skills which are valuable to and will complement the skills of the ASX board.”

Upcoming Events

11-13 September 2019

TradeTech FX

Barcelona, Spain

tradetechfx.com

17-19 September 2019

Invest Ops Europe

London, UK

finance.knect365.com

23-26 September 2019

SIBOS 2019

London, UK

sibos.com

26-27 September 2019

International Collateral Management Forum

Vienna, Austria

ict-solutions-hu.com