asset servicing times

The primary source of global asset servicing news and analysis

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CSDR Delay

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Canada Focus

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BNY Mellon reshuffles asset servicing leadership team

BNY Mellon has made several key changes within its asset servicing team in order to accelerate the development and delivery of its products and services.

This will be predominantly focused on growth opportunities outside of the US, to 'sharpen' BNY Mellon's focus on sales across its largest clients, according to Todd Gibbons, interim CEO at BNY Mellon.

As part of the reshuffle, Hani Kablawi will become head of international, which includes BNY Mellon's regional management teams across Europe the Middle East and Africa (EMEA), Asia Pacific, and Latin America.

Commenting on this move, Gibbons explained that with almost 40 percent of BNY Mellon's revenues outside the US, this will intensify emphasis on international growth markets.

Kablawi will retain oversight of client coverage for asset servicing and will also remain as chairperson of EMEA. He will continue to report directly to Gibbons. Kablawi will partner with BNY Mellon's senior executive vice president and head of digital, Roman Regelman.

Regelman will assume responsibility for asset servicing with a focus on product strategy and development and on driving the end-to-end delivery of the bank's solutions.

According to Gibbons, this change will help accelerate asset servicing's transformation into a more data- and analytics-led business.

Regelman will continue to lead digital on behalf of the company and will also continue to report to Gibbons.

Meanwhile, Akash Shah, BNY Mellon's head of strategy, will assume leadership of global client management.

Along with his responsibilities as head of strategy, Shah will work to bring all of BNY Mellon's capabilities to its largest clients.

Gibbons explained that Shah will also focus on building a set of uniform sales practices, training and metrics for our relationship management, distribution and sales functions.

Finally, Gibbons confirmed that Brian Ruane will continue in his role leading credit services and clearance and collateral management.

Gibbons commented: "We are accelerating our company's sense of urgency to drive organic growth across our businesses, build an efficient and resilient operating model and instil a performance culture that demands excellence."

J.P. Morgan expands custodian partnership with Xplore Wealth

Xplore Wealth, a Sydney-based investment management company, has appointed J.P. Morgan as its custody provider.

Following Xplore Wealth's business acquisitions, the company sought to consolidate custody activities to a single provider for their entire range of products including superannuation, discretionary and managed discretionary account offerings, according to a J.P. Morgan spokesperson. J.P. Morgan has been the custodian for one of these products since 2014.

Back in 2019, a request for proposal was issued to the market and after a due diligence process, J.P. Morgan was mandated in October 2019.

The key reason for selecting J.P. Morgan, according to Xplore Wealth, includes operational scale and efficiencies, combined with strong international capabilities.

Additionally, J.P. Morgan's flexibility to integrate with Xplore Wealth's strategic technology and ability to operate within a diverse business model was highlighted as a contributing factor.

Nadia Schiavon, head of securities services for Australia and New Zealand at J.P. Morgan, commented: "We are delighted to be expanding our partnership with Xplore Wealth. The breadth of our asset servicing capabilities, complemented by J.P. Morgan's leadership position in other disciplines, means we are well-positioned to provide holistic support to wealth management platform providers in the Australian market. J.P. Morgan recognises the unique needs associated with delivering efficient, scalable and technology-driven access to a diverse range of assets that platforms such as Xplore Wealth are seeking to provide to their customers."

Xplore Wealth's CEO, Mike Wright, added: "Following a thorough market review of potential custodial partners, Xplore Wealth selected J.P. Morgan. The decision reflects the product breadth and international expertise of J.P. Morgan. Xplore Wealth is pleased to be extending its relationship with J.P. Morgan and in doing so is delivering a key element of our One Platform programme in the appointment of a single custodian across all the Xplore Wealth products," Wright added.

Adapa Advisory teams up with HornbyChapman

Adapa Advisory in Africa has entered into a joint venture with HornbyChapman to focus on senior-level recruitment to financial services companies.

The venture will initially focus on South Africa and will be used as a base for demand in other markets in the region.

The announcement comes shortly after Adapa Advisory launched in the UK and South Africa to provide strategic insights and pragmatic advice for financial institutions.

Adapa Advisory's chief executive, Mark Kerns, explained that the joint venture will leverage Adapa Advisory's background in post trade and securities services in Africa with that of HornbyChapman's expertise in executive recruitment.

He said: "We bring many years of in-country knowledge, connections and profile and HornbyChapman complements that with a global reputation and market knowledge."

"The continued developmental growth in Africa is driving demand for skilled resources in the region and HornbyChapman in partnership with Adapa Advisory creates an insightful and relevant provider in the market," Kerns added.

Paul Chapman, co-founder and managing director of HornbyChapman, commented: "I have known Mark Kerns and the team for many years and believe combining our forces makes for a highly compelling proposition. We very much look forward to working together for the benefit of our mutual clients, wherever in Africa they may be based."

HornbyChapman is a recruitment firm focused on senior permanent and contract and interim hiring in the post-trade world covering banks, asset managers, fintech firms and infrastructure providers.

Meanwhile, Adapa Advisory provides insight and pragmatic advice to help financial institutions enhance their business performance in the post-trade and securities services arena.

Aztec Group to provide fund admin services to Luxgrove

Luxgrove, a specialist real estate investment manager, has selected Aztec Group to provide administration, accounting and governance services to its residential value add fund. The fund invests in the development and refurbishment of residential assets in London and the South-East.

Incorporated as a Jersey private fund, the Luxgrove UK real estate fund will be administered by the Aztec's Jersey office.

Meanwhile, Aztec Group specialises in alternative investments, including real estate, infrastructure, private equity and private debt.

Lachlan Ross, co-founder, Luxgrove Capital Partners, commented: "We appointed the Aztec Group because it has an outstanding reputation as an industry leader in fund services."

Ross continued: "Our stakeholders and operations will benefit from the extensive range of administration services and high level of in-house specialists. We look forward to a long and successful relationship."

Ed Bellew, associate director of real assets, Jersey, Aztec Group, said: "We have long-standing expertise and experience in the UK real estate sector, supported by a well- established administration offering and underpinned by industry-leading systems and controls. We've been really impressed with Luxgrove's track record in delivering consistently attractive returns for their investors and we are confident we can add significant value to Luxgrove's operations. We look forward to supporting them with their flagship fund," Bellow added.

HSBC China facilitates first IRS trade by overseas investors

HSBC China has facilitated the first interest rate swap (IRS) trade by overseas institutional investor (OII) through the central counterparty clearing model in the China Interbank Market (CIBM). The new channel allows HSBC international clients to tap into China's bond market while also adding to their risk mitigation capabilities, HSBC revealed.

The bank has acted as the counterparty and bond settlement agent for the IRS conducted by the investment firm in Asia, Dymon Asia, and also on behalf of the funds it manages.

Sophia Chung, head of HSBC securities services in China, noted that the trade by Dymon Asia showcases that foreign investors are tapping deeper into the Chinese market and believes it could lead to more similar trades in future by investors to mitigate their investment risks.

"With the potential inclusion of Chinese bonds into more global indices, we expect the momentum of foreign entry to further continue and diversified derivatives will make it easier and safer for them to invest," Chung explained.

Across China and Singapore, HSBC worked closely with Dymon Asia and 'actively engaged' regulators including Shanghai Clearing House (SCH) to design and implement the product through a new process.

According to HSBC, this allows OIIs to use the onshore interest rate derivatives for hedging purposes to enhance their portfolio and risk management.

Meanwhile, the bank of communications has provided clearing services to Dymon Asia as one of the central counterparty clearing members appointed by the clearing house.

According to HSBC Singapore's CEO Tony Cripps, with its established ecosystem of issuers and market making capabilities, Singapore has grown to become a key asset management hub, connecting global investors to the region and facilitating financing opportunities in Asian investable asset classes.

"This trade sets the bar for an accelerated trend of foreign investors based in Singapore to tap the deep pool of opportunity in the Chinese bond market," Cripps noted.

Mark Wong, COO of Dymon Asia, commented: "Dymon Asia is proud to be a part of a milestone – the first successful IRS trade under central counterparty clearing model by an OII in the CIBM. This reiterates our commitment and focus in the Asia region, giving us opportunities to further our growth as well as deepen our insights and participation in local onshore markets."

"Through our continued efforts to facilitate the opening up of the bond market, and vis-à-vis our Dymon Asia China Absolute Return Bond Fund, Dymon Asia is pleased to be able to help overseas investors access the China bond market," Shawn Yuan, CIO of Dymon Asia China Absolute Return Bond Fund, Dymon Asia, added.

Hawaii proposes law to allow banks to act as crypto custodians

Lawmakers in Hawaii have introduced a bill that would allow commercial banks to provide custody for cryptocurrencies. The bill, SB2594, which was introduced on 17 January by five senators, will allow banks to hold digital assets in their custody.

The proposed legislation highlighted the provisions that banks must follow in order to provide custodial services for digital assets. It defined custodial services as "the safekeeping and management of customer currency and digital assets through the exercise of fiduciary and trust powers under this section as a custodian and includes fund administration and the execution of customer instructions".

Some of the provisions that banks should comply with, according to the bill, include the implementation of "all accounting, account statement, internal control, notice, and other standards specified by applicable state or federal law and rules for custodial services".

It also listed that banks should "maintain information technology best practices relating to digital assets held in custody" as well as fully complying "with applicable federal anti money laundering, customer identification, and beneficial ownership requirements".

The proposed bill noted that this may include "exercising fiduciary powers similar to those permitted to national banks and ensuring compliance with federal law governing digital assets classified as commodities".

The bill passed its first reading on 21 January and was referred to the Committee on Consumer Protection and Health and Judiciary and Commerce Committee on 23 January.

The legislation still awaits full approval.

State Street partners with iCapital Network

State Street has partnered with the technology platform iCapital Network to enhance the offering and servicing of US registered funds.

The partnership will see State Street combine its registered transfer agency and private market fund administration capabilities with iCapital's platform, technology and distribution network.

Additionally, the collaboration will allow State Street's alternative fund manager clients to 'simplify and accelerate the launch of registered private market products, and establish scaled access to the wealth management channels'.

Additionally, the collaboration will allow clients to monitor fund raising activities, and utilise a comprehensive, fully searchable database of all their investor documents across all funds.

State Street noted that historically, private market funds have been available primarily to institutional investors.

High-net-worth investors and family offices, however, are increasingly seeking access and exposure to these alternative asset classes to achieve portfolio goals and diversification and income, according to State Street.

This partnership aims to support State Street's clients as they navigate this 'complex market', State Street highlighted.

Paul Fleming, global head of State Street's alternative investment solutions group, commented: "If the private markets were to capture just 5 to 10 percent of the affluent and mass affluent market in the US alone, it would represent between $800 billion and $1.6 trillion in assets under management."

"A strong partner with a solution that addresses the needs of the investor, fund manager and investment advisors and distributors is critical. That's why we're partnering with iCapital," Flemming said.

Lawrence Calcano, CEO at iCapital Network, noted: "The opportunities of the private market have traditionally been unattainable for those that lack the scale of an institutional investor."

"However, our technology is rapidly changing that with access, efficiency and transparency. This partnership with State Street aims to create new opportunities for fund managers, advisors and high-net-worth investors by facilitating the offering of registered funds, providing managers access to fresh capital and giving investors an opportunity to add new asset classes to their portfolios," Calcano added.

Investor consortium to acquire Duff & Phelps for $4.2 billion

Global financial advisor Duff & Phelps is set to be acquired for $4.2 billion by a global investor consortium led by funds managed by Stone Point Capital and Further Global. The equity sellers include the Permira funds, who has held an investment in Duff & Phelps since 2018 and will continue to hold a 'significant stake' in the firm.

As part of the transaction, Duff & Phelps' management team will maintain a 'meaningful equity stake' in the firm and continue to lead the company.

According to Duff and Phelps' CEO Noah Gottdiener, the partnership marks a vote of confidence in the long-term growth of the firm. Gottdiener said: "We are grateful to Permira and are thrilled that they will continue to be investors. We are also excited to have the backing of Stone Point Capital, Further Global and a world-class group of investors. Most importantly, I, along with company President Jacob Silverman, wish to thank our 3,500 Duff & Phelps colleagues who have worked tirelessly to make this company a success."

Nic Volpi, partner at Permira, commented: "Since the Permira funds' 2018 investment in Duff & Phelps, the company has meaningfully expanded its capabilities through the strategic acquisitions of Kroll and Prime Clerk."

Daniel Brenhouse, a Permira principal, added: "There are still tremendous opportunities ahead and we are pleased to support Duff & Phelps' continued global expansion as part of the investor group."

Meanwhile, Stone Point Capital's CEO, Chuck Davis, cited: "The firm maintains a strong brand position and an outstanding entrepreneurial culture that will drive its continued success."

Olivier Sarkozy, founder and managing partner of Further Global, said: "I am delighted to be reunited with Stone Point and the Duff & Phelps management team as we work to continue to build upon the incredible global franchise that Duff & Phelps has become."

Duff & Phelps advises clients in areas of valuation, corporate finance, investigations, disputes, cybersecurity, compliance and regulatory matters, as well as other governance-related issues.

With the acquisitions of Kroll in 2018 and Prime Clerk in 2019, the firm has approximately 3,500 professionals located throughout offices in the Americas, Europe and Asia, Duff & Phelps noted.

The investor consortium has received committed financing, which will be led by Goldman Sachs & Co and Weil, Gotshal & Manges acted as legal advisor to the lenders.

Clearstream's CSD gains CSDR licence

Clearstream Banking, the German central securities depository, has been granted a licence to operate under the Central Securities Depositories Regulation (CSDR) by the German market regulator. The German Federal Financial Services Authority (BaFin) authorised the licence to the Deutsche Boerse subsidiary, which came into effect on 21 January, pursuant to article 16 of CSDR, which covers EU-based CSDs.

Mathias Papenfuss, head of regulatory implementation at Clearstream, commented: "Receiving this licence is an important achievement; it is proof of our continuous efforts to ensure that we are in the best position to support the safety and stability of financial markets and offer services aligned with European standards to all market participants."

CSDR aims to increase the safety and efficiency of securities settlement across the EU and to establish an enhanced level playing field among CSDs.

The regulation primarily aims to improve settlement rates via the implementation of mandatory buy-in rules and cash penalties for fails.

CSDR's settlement discipline rules are currently officially slated to come into force in September but ESMA has acknowledged a delay is likely as

Clearstream to acquire majority stake in UBS's fund distribution platform

Clearstream, Deutsche Boerse Group's post-trade services provider, is set to acquire a majority stake in UBS's fund distribution platform Fondcenter AG/UBS.

The companies have reached a joint agreement by which Clearstream acquires 51 percent of Fondcenter AG from UBS for £308 million (CHF 389 million), while UBS will retain a minority of 49 percent.

UBS is set to remain a shareholder in the future business combination. The partnership will create a 'leading' fund servicing provider with significant benefits for UBS and Clearstream clients, according to UBS.

Clearstream suggested that the newly-combined company will become the centre of excellence for fund distribution services with Deutsche Börse Group and will 'significantly enhance' Clearstream's existing fund desk business.

Stephan Leithner, member of the executive board of Deutsche Boerse AG and chairperson of Clearstream, commented: "Our leading position in the fund servicing area will be critically strengthened by Fondcenter and the UBS partnership."

"It complements our product offering in the investment funds distribution space."

Leithner continued: "Our distributor customers will benefit from extended global fund provider coverage, while asset manager clients will have direct access to UBS GWM premier distribution network as well as access to Clearstream distribution reach. We expect to generate significant synergies from combining our fund distribution businesses."

Sergio Ermotti, CEO UBS Group AG, said: "We are delighted to reach this agreement with Clearstream, building on the successful relationship we have had with them and Deutsche Boerse Group for many years. Through this transaction and our long-term cooperation arrangements, we can achieve greater scale and breadth of offering for our clients and create significant value for our shareholders."

The transaction is expected to be completed in the H2 2020, and subsequent to the transaction, Clearstream will fully consolidate Fondcenter.

According to UBS, the newly-combined distribution services will have over $230 billion in assets under administration.

there are fundamental technical issues with its implementation that won't be addressed until SWIFT's annual November update.

The lead-up to the regulation's go-live has been marred by controversy including market research that suggests that the buy-in provisions will, in reality, work contrary to their intended aim and negatively impact market efficiency and liquidity.

The results of a survey by the International Capital Market Association, released in November 2019, showed that more than three-quarters of respondents thought the rules would hinder, not help the market.

Further research by Pirum Systems estimates that CSDR will cost its clients €300 million annually in fines and fails management costs.

Industry stakeholders are now calling for the EU regulators to go back to the drawing board to fix fundamental errors that have caused the buy-in rules to now not be fit-for-purpose.

Elsewhere, another Deutsche Boerse subsidiary, Eurex, is working on launching a buy-in agent to help mitigate the challenges posed by mandatory buy-ins and the threat of cash penalities.

Eurex Securities Transaction Services is the first of its kind to be created as a direct response to CSDR's settlement discipline provisions and is set to launch in September ahead of the regulation.

The company, which will exist as a subsidiary of Eurex Frankfurt, was founded by Marcel Naas, formerly of Eurex Repo, and Marcus Addison, who shifted over from Eurex Clearing.

Phoenix American to provide Forum Partners fund admin

Forum Partners, a global real estate investment and asset management firm, has partnered with Phoenix American Financial Services, a provider of back-office outsourcing, fund administration services, and sales and marketing reporting to companies in the alternative industry.

Phoenix will support Forum with its full fund administration services suite including fund accounting as well as its investor services platform.

In turn, Forum will benefit from Phoenix America's combination of advanced technology, focus on customer services and experience in operational requirements of specialised alternative investment funds.

Based in Connecticut, Forum invests in and alongside specialised middle-market real estate companies with a 'demonstrated ability to add value'.

According to Phoenix, as the sophistication of alternative real estate funds increases along with regulatory requirements, more funds turn to Phoenix's suite of advanced operational solutions.

Russell Platt, CEO of Forum Partners, commented: "We look forward to working with Phoenix American Financial Services as we launch Forum Global Investments. We have worked with Phoenix previously and received superior customer service for our investors."

Andrew Constantin, senior vice president, operations for Phoenix American, added: "Forum Partners is a world-class fund sponsor with an impressive ability to unlock asset value for investors. It has been our pleasure to work with Forum in the past and we look forward to supporting this next phase in the firm's history of investment success."

Anchorage makes first acquisition alongside new trading platform launch

Anchorage, a San Francisco-based cryptocurrency custodian, has launched a new crypto-brokerage service for institutional investors, Anchorage Trading, and has also made its first acquisition.

Anchorage was founded in 2017 to meet the 'growing need' for institutional custody that promises to offer investors a venue where they can safely hold and use digital assets.

It has now acquired the technology and team of Merkle Data, a provider of risk and data solutions for crypto institutions.

Merkle Data, according to Anchorage Trading, has earned a reputation for deep knowledge of crypto markets, 'unparalleled assessment' of crypto liquidity and 'rigorous asset pricing'.

Commenting on the partnership, Merkle Data's CEO Louis Baudoin said: "We are joining forces to further our shared mission of serving institutional crypto investors and strengthening the crypto financial system."

"For the past 18 months, Merkle Data has been building the most advanced risk and data solution on the market, while Anchorage has built the most advanced and user-friendly custody solution. We've long admired Anchorage's team and product, and we couldn't be more proud to be joining them," Baudoin added.

Meanwhile, Anchorage's new trading service, Anchorage Trading, is set to allow its clients to buy and sell digital assets directly from custody. New assets will be continuously added to the platform going forward, Anchorage revealed, including by client request.

Anchorage has observed that institutional investors want to buy assets directly into custody, and sell assets directly from custody 'without the pains of dealing with multiple venues or moving assets between third-party addresses'.

According to Anchorage, its new trading service enables its clients to do exactly that and offers efficient execution across multiple venues and routing orders to get clients the 'optimal' price.

Discussing the digital asset markets, P. Bart Stephens, co-founder and managing partner of Blockchain Capital, said: "As active participants in the digital asset markets, we derive great value from being able to trade from our custodian's integrated brokerage platform — an ability that Anchorage uniquely offers."

Stephens added: "Trading directly from custody has been a critical need of institutional crypto investors for years. Anchorage gives us a level of safety, trust, and ease of use that streamlines the current brokerage/custody workflow. This allows us to both secure our digital assets and trade with confidence."

Additionally, Anchorage identified that trading fee structure is something that is equally as important to its clients and would like a transparent fee structure that enables them to see whether they're getting a good deal or not.

Anchorage Trading charges fees as an agent rather than a principal and charges a transparent per-trade commission starting at 10 basis points.

Delayed: CSDR settlement discipline regime

ESMA has recommended a delay to the Central Securities Depositories Regulation (CSDR) settlement discipline regime until 1 February 2021, following a deluge of warnings from those in-scope that the rules would damage market stability. The settlement discipline regime was originally due to come into force on 13 Septemeber and includes mandatory buy-ins and cash penalties of failed trades.

Industry bodies representing a huge swathe of European financial markets have consistently been sounding alarm bells that both these features – especially the buy-in rules – will, in fact, do the opposite of their intended aim of protecting buy-side participants from losses by improving settlement rates.

Most notably, 14 trade associations recently sent a joint letter to ESMA and the EC requesting a delay to the settlement regime due to a range of concerns highlighted in research by the International Capital Market Association and elsewhere.

Today, following weeks of market speculation, the European Securities and Markets Authority (ESMA) has acknowledged the industry's concerns. It has submitted a report to the European Commission (EC) requesting a postponement until next year in order to efficiently manage amendments to CSDR's regulatory technical standards (RTS).

Following the endorsement of the EC, the related Commission Delegated Act will be sent to the European Parliament and Council for final scrutiny.

No estimated timeline for this process was given by ESMA.

Why was the delay granted?

ESMA's rationale for the delay acknowledges concerns raised by stakeholders but focuses mainly on the ISO-related technical issues first reported in November 2019.

The EU watchdog explains that due to the far-reaching impact of the regime, a pushback would be needed to accommodate the estimated time needed for vital IT system changes and the development and the updating of ISO messages as well as market testing and adjustments to legal arrangements between the parties concerned.

These issues must take into account the 22 November 2020 go-live date for the ISO messages annual release, as well as the need to have a "reasonable buffer to cover for operational complexities after the go-live, and in order to avoid an overlap with the end of the year/ beginning of the year system freeze," ESMA adds.

The authority also cites "new developments, such as the envisaged go-live date of the Target2-Securities penalty mechanism," as a driver behind the decision.

"Given the extensive IT developments which are needed for the implementation of the new settlement discipline requirements, stakeholders have highlighted the need for more time before the entry into force of the already published RTS on settlement discipline," ESMA states.

The International Securities Lending Association, which was one of the 14 trade bodies to write to European regulators last month, says it welcomes the decision and that it will continue to work with fellow associations to gain further clarity on how CSDR will impact the securities lending industry.

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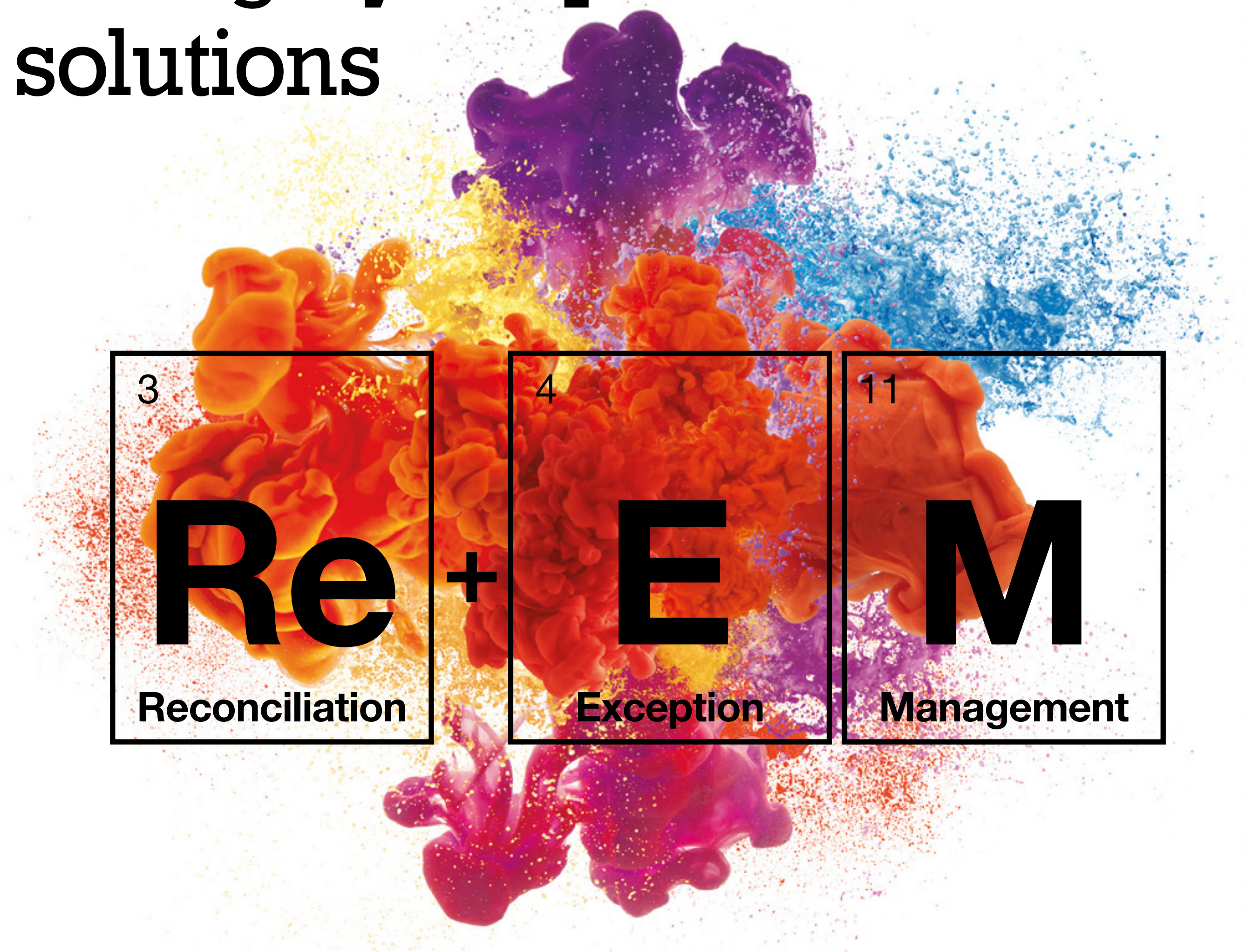

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No longer a niche

Feature

Maddie Saghir reports

Industry experts discuss how ESG is becoming more prominent and has moved from niche to mainstream in recent years, however, challenges lurk ahead and there is still much work to be done to create a standardised approach

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Known for its luscious beaches, the Great Barrier Reef and the Sydney Opera House, Australia is one of the largest countries in the world.

The country is also well-known for its wildlife, including koalas, crocodiles and kangaroos, but recently it has captured the world's attention with haunting footage of ferocious and deadly bushfires, which at the time of writing has killed an estimated one billion animals and 23 people, with more still missing .

Vast numbers of mammals, birds, reptiles, insects and other species have been lost to these fires, with some experts suggesting that it may take up to 100 years for the ecosystems the animals depend on to bounce back.

Globally, climate change and other environmental factors are a major issue, and conversations on this topic are leaking into every industry, including financial services.

In the asset servicing industry, market participants are stepping up and are considering – and working on – how to incorporate environmental, social and governance (ESG) into the investment process.

Speaking to Asset Servicing Times' sister publication last year, Andrew Dyson, ISLA's CEO, described ESG as an umbrella term for investments that seek positive returns and long-term impact on society, environment and the performance of the business.

Industry experts have observed that the asset servicing industry has become an increasing enabler of ESG but there are many challenges that exist around standardisation and data. For example, while one company may see tobacco as unethical and may choose not to invest in it, another may see guns and weaponry as unethical – but would instead invest in tobacco products – thus making aspects of ESG complex to navigate.

However, the attention that ESG is receiving from the industry means that people are actively working towards improving practices.

Reinforcing this point, Jan Erik Saugestads, CEO of Storebrand Asset Management, says: "Integrating ESG in your investment process means that you look at your investments through a sustainability lens. As an investor, you strive to understand all risks and opportunities in a potential investment also incorporating ESG data. The asset servicing

industry plays an important role in this by providing data, technology and legal advice. Clearly this is both the right thing to do and the smart thing to do. Together we play a key role in moving capital in the right direction."

No longer a niche

Simultaneous with the rest of the world, the concern around the environment is echoed in the asset servicing industry, and it is increasingly becoming a hot topic at conferences, for example. Michael Peters, member of the Eurex executive board, observes that sustainable investing is no longer a niche area; it is going mainstream. In fact, years ago, investors and clients had to be heavily convinced that the integration of ESG in the investment process did not hinder return.

Saugestads explains: "Many believed that any restriction to the investment universe would be negative. Years of experience and several academic studies have proven the myth unfounded. Today, most investors and clients believe that a well-executed integration of ESG data in the investment process can generate excess return. Sustainability provides us with better information on risks and opportunities and makes us better as asset managers."

ESG can be broken into three different groupings of factors that can be used to measure sustainability and the ethical impact of an investment in a company.

HSBC Securities Services' senior product manager, market data, Chris Johnson, says that for asset servicing "it is possible to include ESG reporting of investments according to ESG ratings and scores and carbon emission, the validation of negative screening criteria and supporting clients' engagement and voting".

Eurex's Peters identifies that ESG helps when undertaking a comprehensive evaluation or a short- to medium-term prognosis of a company's success.

He comments: "For this reason, investors are increasingly considering qualitative criteria, alongside the classic quantitative investment criteria such as rate of return, risk and liquidity. In short, this means that capital is being invested to ensure that today's investment needs are met without endangering future generations."

Peters also further dispels the claim that ESG can have a negative impact on performance, and says that the development of Eurex's ESG derivatives proves the opposite.

Eurex reached half a million traded contracts on 12 December 2019, with a nominal value of €7 billion, with 55 percent of the flow coming from end-clients and asset owners, and they have the same performance as their benchmarks; some have even outperformed them, according to Peters.

"These figures not only further demonstrate Eurex's leading role in this segment, but they also show that the above claim was just a myth," Peters notes.

A lack of standardisation

While the industry has made progress in tackling the main myths and stigma around ESG, technical challenges still remain.

One of the difficulties with ESG is that different people have different ideas of what ethical investing is, which is just one of the many technical issues that needs to be resolved.

BNY Mellon's Fraser Priestley, managing director of global risk solutions in Europe, the Middle East and Africa, emphasises that analysing investments against sustainability factors is a key challenge for institutional investors.

"As asset servicers, we hold the information on assets that we can link to ESG rating data, providing a single lens to allow comparison for investors, showing performance alongside ESG scores, and we can monitor for and support post trade ESG compliance and reporting," Priestley says. Explaining this further, he notes that there are variations in ESG methodologies, frameworks and reporting which can be scarce or inconsistent.

"The lack of standardisation creates difficulties in measuring and comparing non-financial performance, and remains a major hurdle," Priestley adds.

Additionally, ESG data quality needs to be improved. Saugestads emphasises that there is "significant room to improve the quality of data and make it more forward looking".

HSBC Securities Services' Johnson, highlights that one misconception is that ESG data can be used in the same way as financial data.

He comments: "This is not the case. We have established that ESG scores and ratings can vary significantly between providers for the same company."

According to Johnson, the interpretation of ESG-related information, and the relative importance of items within the broad field of ESG, can be very subjective.

"Rather than being factual measures, the scores and ratings should generally be viewed more as opinion-based evaluations. Therefore ESG data needs to be analysed carefully and understood fully before it is relied upon for investment and reporting purposes", Johnson explains.

Reshaping the structure

Looking at the future landscape, BNY Mellon's Priestley observes that the asset servicing industry will "increasingly become an enabler of ESG investment, providing investors with the data, monitoring and post-trade services essential for implementing successful ESG strategies. This includes restriction monitoring, ESG scoring and ESG benchmarking, and potentially ESG performance attribution and measuring the impact of ESG on volatility and risk".

Similarly, Johnson states: "It is likely that ESG will be integrated across mainstream post-trade reporting once regulatory reporting requirements become prescriptive, and ESG data becomes more standardised".

"Asset servicers could be expected to offer independent reporting of ESG over that time period."

Amidst the optimism, however, Erik Saugestads reminds us that to avoid greenwashing we need strong tools to improve transparency and measure the impact of portfolios.

"We already see regulations put pressure on asset managers to document the ESG content and impact of their portfolios," Staugestads says.

Meanwhile, evidence showing that the industry is responding to ESG demands is outlined by Eurex, for example, which, in response to increasing customer enquiries, listed futures on STOXX® ESG-X, Low Carbon and Climate Impact Indices in February 2019.

Peters notes: "Since our ESG segment has traded more than half a million contracts in a little less than a year, we are very confident that ESG investing will grow further. We are ready to mark the next step in our ESG strategy by expanding our ESG equity index-linked product suite during the first quarter of 2020. With the introduction of derivatives on sustainable versions of various regional and global benchmarks, we will achieve global coverage with our ESG offering."

"But there are other factors that make us optimistic about the development of sustainable investing. These are driven by societal and demographic changes, increased regulation and government focus, and greater investment conviction. Investor demographics show that the millennials, the generation that is providing new and upcoming investors, have very strong views on sustainability," Peters adds.

So as we head deeper into 2020, ESG will be at the forefront of mind for many in the industry.

This move from niche to mainstream is expected to become even more prominent in the asset servicing industry over the next five years.

But while there has been much success in this area, industry participants will continue work to overcome the hurdles and work towards a standardised approach and tackle the issues surrounding ESG data.

A rapid pace of change

Feature

Maddie Saghir reports

Technology, regulation and changing investor expectations have made a big splash in the asset servicing industry, experts discuss how Canada is working to keep pace with the rapid speed of change

The Niagara Falls Rapids, located in Canada, consists of huge volumes of water rushing from the falls, which eventually create the Whirlpool Rapids, the rushing waters can reach impressive speeds as fast as 30 miles per hour. This rapid pace of movement is similarly reflected in Canada's asset servicing industry, which has changed at lightning speed in recent years.

These changes can be seen around the increasing demand for alternatives, which is becoming one of the fastest growing asset classes. Further changes encompass evolving investor expectations, new regulations, and impressive technologies such as artificial intelligence (AI) and machine learning (ML), which can put pressure on performance, pricing and cost structures.

Keeping up with the swift pace of change can present its difficulties, and asset servicing providers have to ensure that they keep up to date and adapt with their clients.

Despite currents of challenges there are emerging opportunities that are steering the ship towards efficiency and transparency, which can help improve the market. As such, Canada continues to boast a robust and mature market with high levels of transparency and stability, including one of the few remaining triple-A ratings for sovereign debt, industry experts say.

As we head deeper into 2020, Canada's asset servicing industry, in line with global trends, will have to work to keep afloat in the big water of the finance world. Industry experts from CIBC Mellon, RBC I&TS and Broadridge discuss the challenges and opportunities downriver, as well as trends that we can expect to see as we dive further into the year.

CIBC Mellon's vice president, head of pension and custody services, Abdul Sheikh says that providers are moving towards a model that "focuses on standardising customisation in order to meet the varying needs of an array of clients individually and at scale".

Sheikh suggested that asset servicing providers are introducing new services and capabilities as existing products mature and become commoditised. However, he explains that today's challenges "are on another order of magnitude, and custody can no longer simply evolve but must see significant upgrades to remain relevant to nature and genres of investments presently and over the long term".

Keeping afloat

Canada's asset servicing industry has to work hard to keep abreast of changes to regulation and technology, as well as the evolving expectations from investors.

According to David Linds, managing director and head of asset servicing, Canada, global client coverage, at RBC I&TS, there are four key players in Canada, including RBC I&TS.

The primary focus of these players is to support asset managers and owners in managing regulatory change, mitigating operational risk, improving efficiency and supporting domestic and global distribution.

In terms of technology changes, institutional investors are having to revisit their operational models to ensure they are placed in good stead for the future, and conversations tend to focus on technology and how to approach the market in this evolving landscape, industry experts highlight.

As an example, Linds notes that clients are asking for help in the alternative space, and there is no one standard of accounting for these assets.

He says: "The pressure to keep pace with the technology on the street and provide the best value to our clients is tremendous. We have responded by deploying tools such as data analytics and robotic technology in order to meet these demands."

Looking at technologies such as AI, Lisa Howes, managing director at Broadridge, Canada, maintains that this has unearthed new opportunities in government and corporate sponsored initiatives.

Howes comments: "While many believe that AI puts jobs at risk, it facilitates a systemic shift in skills from lower level manual work to scalable technical work. We believe that technology will continue to transform the asset servicing industry in Canada allowing firms to create more efficiencies."

Outside of private placements, CIBC Mellon's Sheikh notes that "issuers have moved away from physical certificate settlements and onto electronic settlement via the Canadian Depository of Securities (CDS)".

"As an alternative to physical certificates, many issuers have moved to Direct Registration System or 'DRS' statements, which electronically reflect a position and carry significantly less risk in case of loss, compared to a traditional issuer physical certificate," Sheikh states.

Meanwhile the Toronto Stock Exchange implemented the Special Purpose Acquisition Corporation programme to offer companies flexibility in accessing capital.

Every year, SWIFT, the global provider of secure financial messaging services, collects the changes requested by its users, prepares and evaluates them with the technical and business consultants, and then publishes them in their SWIFT Standards Release Guide.

Sheikh explains that the changes documented in the SWIFT Standards Release Guide are mandatory for all financial institutions.

"Since these changes will be active in the SWIFT Alliance from the second week of November every year, all participating bank systems need to be aligned with these changes", he says.

The ripple effect

Despite its challenges in keeping up with the pace of change, Canada has lots of strengths and much to celebrate. One such strength is that Canada's talent pool is growing within the asset servicing industry.

In Canada, asset services are well-placed among large institutional banks as well as niche providers, according to Howes.

Broadridge's Howes says: "The majority of these firms are only serving Canada and tend not to be global in nature. But through strong talent pools with tenure and expertise in the space, Canadian asset servicing firms are able to create a superior experience."

In addition to the amount of talent present in both services and technology, Howes argues that Canadian firms are set apart by their employees' tenure, which "tends to be much more established than in the US or EU markets".

Reinforcing this, Sheikh says: "A stable financial sector, effective regulatory environment, and an experienced workforce support Canada's future – with more than 60 percent of the population between the ages of 25 to 34 having a tertiary level education, the second-highest level among the Organisation for Economic Cooperation and Development (OECD) nations."

Meanwhile, Linds observes that one of Canada's greatest strengths is that clients are well-served by serious providers who offer strong credentials. He says: "We are seeing high satisfaction levels."

Rocky river ahead

Looking out onto Canada's asset servicing horizon for 2020, there is a rocky ride ahead, particularly within the regulatory space, but flowing alongside this, opportunities are expected to emerge.

Sheikh outlines that Canada remains "well-regarded globally for the strength of our financial and regulatory environment – in particular around the open dialogue with which various regulatory bodies engage with the industry around policy and procedure updates – yet areas of challenge and complexity remain".

Data is one such area of challenge; companies complying with Canada's data privacy laws, the Personal Information Protection and Electronic Documents Act (PIPEDA) are partly complying with the General Data Protection Regulation (GDPR).

According to Sheikh, PIPEDA has enabled Canada to be one of the 12 countries recognised by the EU for maintaining 'adequate' privacy laws relative to GDPR.

"Complying with the GDPR will require the Canadian financial services industry to strengthen its user data management and document all processes involving how it collects and manages the user data of EU citizens. In effect, companies must proactively design a GDPR-compliant privacy strategy accounting for all risks and requirements outlined by the EU," Sheikh highlights.

Also emphasising this challenge around data, SimCorp's survey in January last year found that some 79 percent of North American buy-side heads of operations stated their top strategic priority for 2019 was to decrease operating cost and improve operating leverage.

Discussing this, Sheikh says that clients want to leverage data and analytics to improve investment and earnings outcomes.

He explains that this requires access to timely data in the manner they want to receive it.

"Finding efficiencies and reducing costs are significant factors, though clients are also looking for ways to improve their operating models that add value and are sustainable," he notes.

Also reflecting on this survey and whether this was indeed prioritised in 2019, RBC I&TS's Linds, observes that Canada has finally caught up to other regions around the world with the middle office trend.

He continues: "We already service global clients in Canada, and we have just imported a robust middle office capability to assist our asset managers and large pension plan clients. It's being driven by the volumes of data these clients have to process, the cost of managing that data and of managing counterparty risk."

"We're now equipped to improve asset managers' middle and back office efficiencies, transform their front office decisions through data transparency and mitigate the risks of regulatory breaches. This will be a large focus for us in 2020," Linds adds.

Elsewhere on the horizon, Broadridge's Howes, muses: "We believe that AI will play a significant role to assist in the journey to improve asset servicing while reducing the expense."

Howes concludes: "We will also see a move towards more ethical investing and more alternative asset classes. Lastly, the current regulatory landscape in Canada will continue to evolve and become more complex. 2020 will see increased steps to harmonise regulators and increase collaboration."

Members of the Eurex Exchange Council of Eurex Deutschland have re-elected Carola von Schmettow, CEO of HSBC Germany, as chairperson.

Meanwhile, Lutz Johanning, WHU – Otto Beisheim School of Management, was re-elected as deputy chair.

The constituent meeting was preceded by the regular elections at the end of November. Newly elected to the exchange council were Jonathan Aucamp of OSTC, Robbert Booij of ABN AMRO Clearing Bank N.V., Jörg Hessenmüller of Commerzbank AG and Hans-Dieter Kemler of Landesbank Hessen-Thüringen.

The Exchange Council of Eurex Deutschland consists of 18 members who are elected for a term of three years.

According to Eurex, it is an important control and supervisory body of Eurex, and primary duties include appointing and monitoring the management of the exchange as well as issuing the exchange rules, fee regulations and the conditions for trading at the exchange.

Roland Chai will join Nasdaq's executive leadership team as global chief risk officer, effective 1 June 2020.

In this role, Chai will be responsible for developing, reviewing and maintaining Nasdaq's global risk programme.

Based in Stockholm, Sweden, he will report to Adena Friedman, president and CEO of Nasdaq. Most recently, Chai served as head of post trade at Hong Kong Exchange, where he supervised clearing and risk management functions across equities and fixed income, currencies and commodities, as well as the exchange's market surveillance.

During his tenure, Chai re-established risk frameworks across exchange, listings, mainland commodities, trading, and clearing departments, amongst other accomplishments. Chai also worked as group risk officer and head of clearing also at HKEX.

Chai commented: "Within the capital markets, Nasdaq has demonstrated its commitment to globalising its business and building an advanced technology company. Nasdaq also is recognised as a leader in providing risk management solutions for its own markets, regulators and other industries. I'm thrilled to be joining the company to continue bolstering its global, enterprise-wide risk culture."

Friedman added: "Chai brings extensive experience in establishing and implementing risk frameworks across functions as well as strong management capabilities that will further strengthen and enhance our decision making and business operating processes. We look forward to welcoming Chai to the Nasdaq team."

Citi has appointed Mark Ersser as head of client reporting product for Europe, the Middle East, and Africa (EMEA) within the firm's custody and fund services business.

In this role, Ersser will drive product expansion of Citi's middle office client reporting solution for its asset manager clients. Based in London, Ersser will report to Paul Kilcullen, head of custody and fund services in Ireland.

Ersser joins Citi from Legal and General Investment Management, where he led a large-scale reporting platform as the head of client reporting.

Prior to that, he was head of European client reporting at J.P. Morgan asset management.

In total he has around 24 years of industry experience. Pervaiz Panjwani, EMEA head of custody and fund services, Citi, said: "This appointment underscores our commitment to building out a world-class middle office platform."

Panjwani added: "Enhancing our clients' experience utilising new technology is a priority for us, and we are fortunate to have Ersser join the team. His leadership will be instrumental to the successful delivery of this new reporting solution for our clients."

Transcend, a collateral and liquidity optimisation technology provider, has added former ENSO Financial CTO Kayur Parekh to its technology leadership team.

In his new role, Parekh will focus on accelerating Transcend solutions and capabilities on the cloud and refining the solutions for the buy-side.

Prior to Transcend, Parekh took lead in technology transformation on the next generation of ENSO solutions focused on cloud and microservices based architecture.

In total, Parekh has more than 18 years of technology and financial markets experience and held a number of roles before ENSO Financial, including senior technology director at NEX. Additionally, he worked as senior vice president at Citi, where he implemented and managed trade captured straight-through processing systems.

Bimal Kadikar, CEO and founder of Transcend, commented: "Transcend is experiencing explosive growth for our analytics, optimisation and regulatory solutions. I have known Kayur Parekh for years and his expertise in developing advanced, scalable systems on the cloud and for the buy-side will accelerate our strong technology capabilities and momentum."

Parekh added: "I look forward to joining Transcend and leveraging my extensive experience in delivering state-of-the-art technology for cross-asset collateral, funding and liquidity management. I am excited to work with the talented Transcend team to help solve our clients' complex challenges."

HSBC Securities Services (HSS) has appointed Frederic Van Ingelgom as head of business development and client management Luxembourg, asset owners and managers, effective 15 February 2020.

Van Ingelgom will be responsible for the strategic development of HSS' existing client base in Luxembourg as well as leading new business activities. In his new role, he will report to Paul Heffernan, head of business development and client management, asset manager sector, HSS Europe and Niccolo Polli, CEO, HSBC Luxembourg. Prior to HSS, Van Ingelgom worked at Brown Brothers Harriman (BBH) for a total of 11 years, most recently serving as a business relationship manager.

During his career, Van Ingelgom has also worked at PwC and Caceis.

Commenting on the appointment, Polli said: "Luxembourg is a key growth market for HSS. As the world's second-largest investment fund market, we have a significant opportunity to further grow our market share locally. Frederic Van Ingelgom will lead our growth ambition with the support of local colleagues and across the group."

Former IQ-EQ client director Joe Greenwell has joined Aztec Group associate director of business development.

Based in London, Greenwell will be responsible for identifying and developing business opportunities in both the real assets and private debt sectors.

In this role, Greenwell will work closely with client-facing teams and product specialists across the group, playing a 'central role in determining strategy and commercial focus in these sectors'.

Greenwell brings with him 10 years of experience from supporting private debt, infrastructure, real estate and private equity clients.

According to Aztec Group, the appointment of Greenwell comes amidst continued growth in its provision of fund, corporate and depositary services across all offices.

Commenting on his appointment, Greenwell said: "I am delighted to have joined the Aztec Group and am thoroughly enjoying working with the team."

"The group displays a clear commitment to its clients, with a tailored service model that continues to provide consistent value to those clients", Greenwell added.

James Duffield, head of business development at the Aztec Group, added: "His extensive experience of fund administration across these asset classes is already proving extremely valuable, and he will play a central role in further raising our profile in key markets."

Societe Generale Securities Services has appointed Roberto Pecora to take on the role of CEO and country head of SGSS S.p.A. (SGSS in Italy).

Based in Milan, Pecora will work in alignment with David Abitol, chairperson of the board of directors of SGSS S.p.A., and head of SGSS. Additionally, Pecora will work in alignment with Alessandro Gumier, head of global banking and investor solutions in Italy, in his new role.

Pecora has replaced Frédéric Barroyer, who was recently appointed as head of group retirement and employee savings within Societe Generale assurances.

Commenting on the appointment, David Abitbol said: "I would like to warmly thank Barroyer for his commitment and his leading role in the expansion of the bank's securities services activities in Italy."

Abitbol continued: "Pecora's long-lasting experience of market activities and deep knowledge of local financial institutions will be key assets to further develop our business in Italy, a strategic market for us, leveraging on our innovation, efficiency and technology capabilities."

JTC has made two new senior appointments within its institutional client services (ISC) division.

As part of these hires, Fiona Wild has been named as the new JTC group director, head of operations, ICS, while Marie Fitzpatrick has joined as senior director in ICS. In her new role, Wild will be responsible for leading and creating operational efficiency within the ICS network of offices to support the consistent delivery of the division's business plan and to ensure an efficient and effective working environment.

Based in JTC's Jersey headquarters office, Wild will be a member of ICS Division's management team, which is led by Jon Jennings, JTC's global head of ICS.

Wild has over 17 years of funds experience and joins JTC from IQ-EQ, where she headed up the fund services division for Jersey.

JTC noted that Wild also has extensive experience in all major alternative asset classes, including real estate, private equity, venture capital and renewable energy.

Meanwhile, Fitzpatrick joins JTC's London office and will have a particular mandate on developing JTC's global private equity offering in her new role.

She will build and maintain intermediary relationships and grow new business in the fund and corporate services markets.

Most recently, Fitzpatrick worked at Langham Hall, a provider of private equity fund administration, and depositary services to fund managers in the debt, infrastructure and real estate sectors, where she was responsible for growing new business across Europe.

Diginex has appointed Shane Edwards as head of investment products, based in London.

In his new role, Edwards will report to Richard Byworth, CEO at Diginex, and will also join the firm's executive committee.As head of investment products, Edwards will help to drive the transformation of the traditional financial industry into the digital era utilising the full capabilities of Diginex.

He will be responsible for overseeing the design and delivery of 'innovative' investment products within a regulated environment.

Edwards will focus on improving investor accessibility to digital assets including via traditional exchanges. He will also work towards integrating Diginex's own digital asset exchange with strategic distribution partners seeking to evolve their existing offering.

He joins Diginex from UBS Investment Bank where he held various senior roles including global head of solutions and structuring as well as global head of equity derivatives.

Previously, Edwards has also worked at Deutsche Bank, RBS/ABN Amro and Macquarie Bank.

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Options Industry Conference

22-24 April 2020

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The Network Forum Annual Meeting

30 June - 02 July 2020

Berlin, Germany

The Network Forum Americas Meeting

27 October 2020

New York, USA

The Network Forum Asia Meeting

16-17 November 2020

Singapore

Trade and Transaction Reporting - Nordics

5-6 December 2020

Stockholm, Sweden

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