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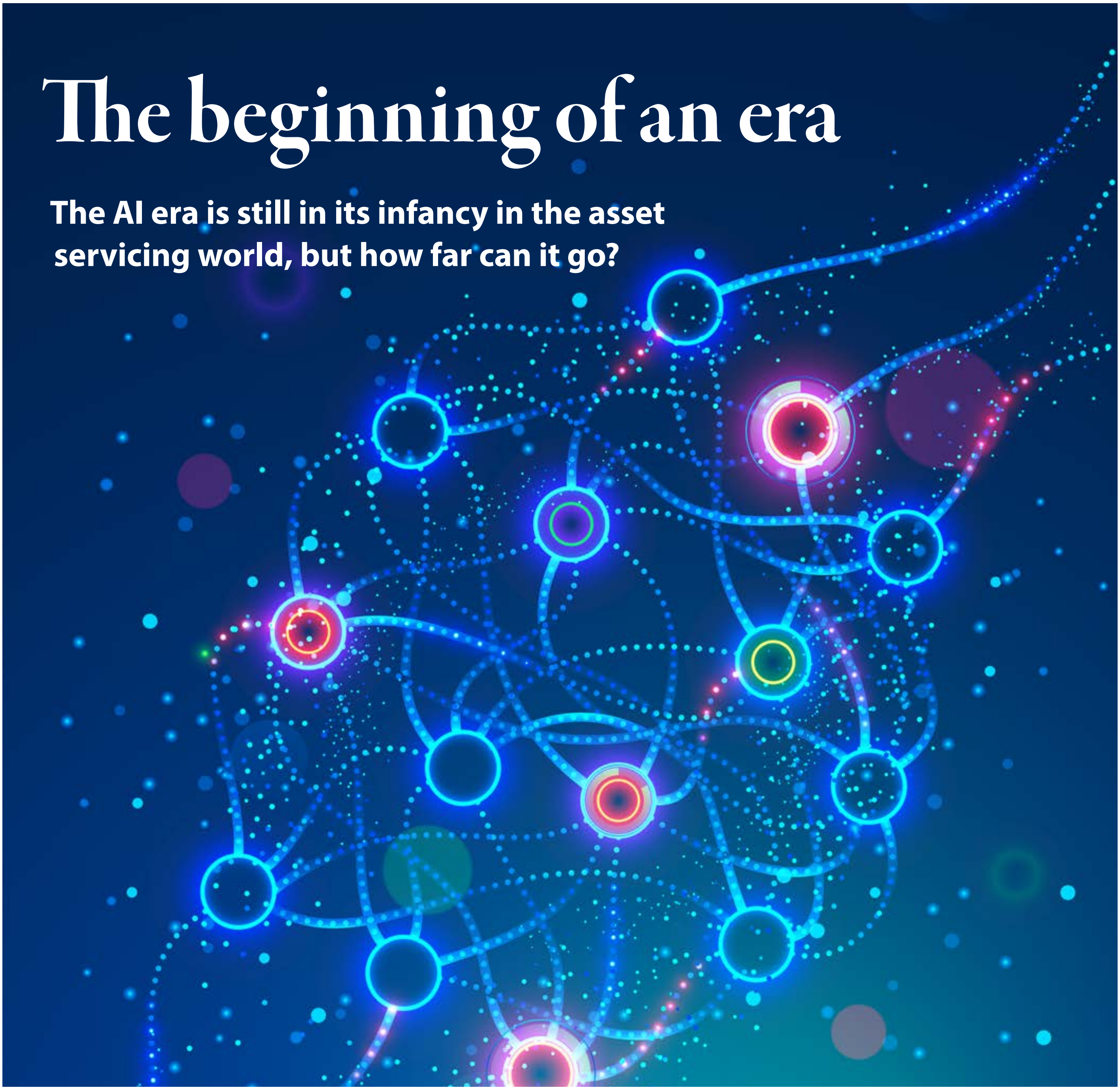


The beginning of an era

The AI era is still in its infancy in the asset servicing world, but how far can it go?

HSBC to combine markets and securities services

HSBC is set to combine its global markets and securities services (excluding issuer services) divisions, which is due to be completed in May.

As part of the restructure, co-heads of securities services Allegra Berman and Richard Godfrey will report to Greg Guyett, co-head of global banking and markets, for an interim period only.

Upon completion in May, the combination of securities services and global markets will be formed into a new unit named 'markets and securities services'.

From this point, Berman and Godfrey will report to Georges Elhedery and take on newly expanded positions in addition to their current roles.

Berman will become head of institutional sales for markets and securities services, while Godfrey will lead a new product area, named securities financing.

Godfrey will do this alongside Hossein Zaimi, global head of equities, which will comprise of equity prime financing, rates and credit repo activities and collateral treasury.

The restructure will also see derivatives clearing services will move under securities services, and Najib Lamhaouar, global head of over-the-counter clearing and exchange-traded derivatives, will report to Berman and Godfrey, and join the securities services executive committee.

Issuer services will remain a private side activity and become part of capital markets to align with other issuer client activities.

Under the issuer services division, Giovanni Fenocchi, head of issuer services, will report to Alexi Chan and Ray Doody, co-heads of capital markets, effective in Q2 following completion of "all necessary due diligence".

In a joint statement, Guyett and Elhedery, said: "This combined entity will provide a number of significant opportunities, including enhancing our institutional client relationships and expanding our prime financing business."

Additionally, a joint statement from Berman and Godfrey stated: "We are delighted and excited to be brought together with global markets in the creation of the new markets and securities services unit".

"Recognising increasing client demand for comprehensive and seamless solutions and services, this alignment of products and capabilities under one umbrella will help improve the client experience and better position us to capture increased market share and client revenue growth."

"This unit will enable global banking and markets to focus on supporting our institutional clients across the entire investment value chain – from research, market analysis, financing and execution to investor servicing, valuation, reporting, custody and clearing."

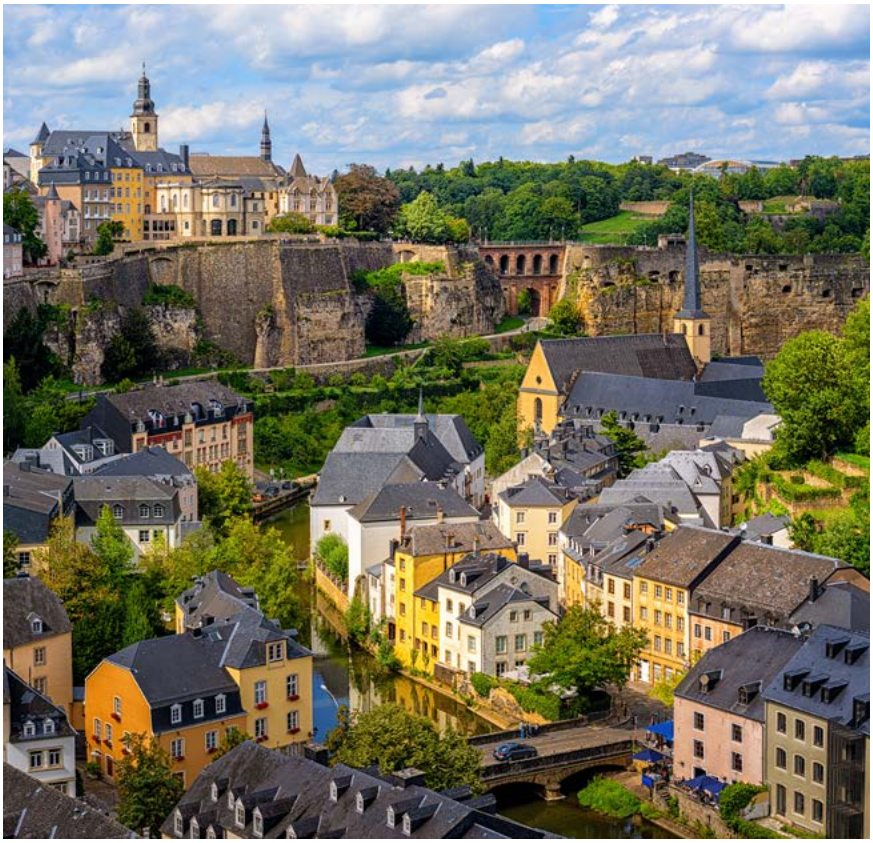
Discussing issuer services, it was outlined that "the issuer services business is ideally positioned to provide solutions for both client groups and by putting this business alongside the origination teams in global banking, it will only help increase client cross-product and cross-business referrals, which is the key for growing our revenues in this client sector".

Berman and Godfrey added: "Aligning issuer services with global banking, and securities services with global markets will create a clear separation between the private and public side divisions of global banking and markets respectively."

The recent plans to change the structure follows the announcement by HSBC's group executive, Noel Quinn, who indicated that HSBC will adjust its headcount in line with how the business is progressing as well as factors relating to the economic environment.

As part of its 2019 results, the bank revealed it could face 35,000 job cuts by 2022, taking the headcount from 235,000 closer to 200,000.

At the time of the announcement, Quinn said: "We have already begun to implement this plan, which my management team and I are committed to executing at pace."



Link Group launches new UCITS platform in Luxembourg

Link Group has launched a new UCITS platform, Elevation Fund SICAV, domiciled in Luxembourg. The new platform will enable investment managers to launch sub-funds in a faster and more cost-effective way.

The move follows Link Group's expansion into Luxembourg having provided management company (ManCo) and authorised fund manager (AFM) services in the UK and Ireland for over 30 years.

Link Group received approval from the Luxembourg regulator in 2018 to provide UCITS ManCo and alternative investment fund management services.

Last year, Link Group launched a similar platform in Ireland, Elevation UCITS Funds (Ireland) ICAV. The new umbrella fund will operate its first sub-fund for Stewart Asset Management, a US manager based in New York, with additional sub-funds due to be launched in the future.

Jean-Luc Neyens, managing director, Link Fund Solutions (Luxembourg) S.A., said: "We are pleased to be in a position to offer our clients structuring solutions in the leading European fund centre. This comes from the deep experience and top-class infrastructure we have built in the funds industry, and we are looking forward to serving new clients with the Elevation platform in Luxembourg."

AFME publishes CSDR recommendations

The Association for Financial Markets in Europe (AFME) has published recommendations for partial settlement under the upcoming Central Securities Depository Regulation (CSDR).

CSDR's settlement discipline regime (SDR), which includes mandatory buy-ins for failed trades, as well as cash penalties, is due to come into force in February 2021.

AFME's recommendations aim to encourage greater and more harmonised use of partial settlement across the industry as a way of improving settlement rates.

The recommendations cover three key areas including partial hold and release, auto-partial settlement, and manual partials.

Partial hold and release

On partial hold and release, AFME recommended that settlement intermediaries are to provide support for the effective use of partial hold and release for their clients; communication and messaging to be automated using ISO/SMPG standards; and trading parties and market participants should agree and opt-in for the use of partial hold and release.

In addition, to promote settlement efficiency, AFME suggested that parties instruct with a minimum partial threshold, which should be no less than the minimum tradable amount and no greater than the respective T2S/CSD defaults.

Auto-partial settlement

AFME suggested that under auto-partial settlement, trading parties and market participants are to agree to the use of auto-partial. Additionally, settlement intermediaries provide support for automated instruction and confirmation using ISO/SMPG standards.

The association also noted that regardless of account structure, all receipt instructions should be auto-partial enabled.

Manual partials

According to AFME, manual partials should be considered the least preferred option due to the inefficiencies it creates with cancelling, resending and re-matching settlement instructions.

However, AFME highlighted that this may be unavoidable in cases where the CSD is not obligated to offer the auto-partial or partial hold and release functionality under CSDR. For manual partials, trading and settlement parties should communicate providing sufficient time for the agreement of the manual partial and subsequent instruction and matching process without undue delay.

Other considerations

As part of its recommendations, AFME suggested that trading and settlement parties should ensure partial settlement processing takes place in the most efficient manner from a communication, operational and risk perspective without undue delay.

It also noted that certain products such as securities lending will require significant changes to the post-trade landscape, to ensure matching, collateral and contract management are not adversely impacted.

Finally, the association explained that for CSDR mandates on the last business day of

Cappitech collaborates with AccessFintech

Cappitech has partnered with the financial technology company AccessFintech, to deliver greater governance and risk controls for market participants by providing their combined solution to clients across the market.

According to AccessFintech, one of the key enhanced services is its exception management solution across trading workflows, as well as Cappitech's platform which offers multi-jurisdiction transaction reporting and analytics.

The new partnership will cover the regulatory evolution from the European Market Infrastructure Regulation through North America and Asian governance, to the second Markets in Financial Instruments Directive (MiFID II) and the Securities Financing Transactions Regulation.

The data distribution capabilities of AccessFintech will help to drive the regulatory processing provided by Cappitech, which will offer banks a "seamless way of accessing new technologies" using the same workflow engine.

AccessFintech recently launched its Global Exception Network with a settlement workflow solution with Citi, Credit Suisse, Goldman Sachs and J.P. Morgan. Cappitech highlighted that it is addressing regulatory challenges to help reduce operational risk and costs while simultaneously providing instant intelligence on business operations for users.

Roy Saadon, CEO of AccessFintech, commented: "I am excited by our alliance – the technology delivery of our products with those of Cappitech's is seamless across the whole lifecycle. We want to eliminate context switching: the industry has too many screens, too much switching. We want to provide a much smoother interaction and a frictionless flow of data. I believe there is a huge appetite for this new type of collaboration, with shared domain and knowledge transfer."

Ronen Kertis, CEO of Cappitech, added: "We have a similar approach, and moreover a similar user experience, making it attractive for our clients to be able to access both suites of solutions."

The collaboration is an extension of the firms' existing partnership to deliver MiFID II solutions to the market, announced in 2017.

TRAction rolls out MiFID II reporting solution

TRAction, a regulatory reporting services provider, has introduced a new solution to help UK and European investment managers with the second Markets in Financial Instruments Directive (MiFID II) obligations.

The product, Best Execution Monitor, compares transaction reporting data against Refinitiv data from the relevant time a trade has been executed.

TRAction explained that the software then displays statistics about the quality and pricing of execution.

Quinn Perrott, co-CEO of TRAction, commented: "With numerous firms still not getting their transaction reporting up to scratch two years on from MiFID II, there has never been a more pressing need to understand the quality of trades being executed."

Perrott added: "Our new solution leaves no stone unturned for investment managers. All trades will be required to be monitored, not just the ones required under the transaction reporting rules, but those trading on non-MiFID II trading venues."

MiFID II is a legislative framework instituted by the EU to regulate financial markets in the bloc and improve protections for investors with the aim of standardising practices across the EU and restore confidence in the industry.

the extension period, the receiving party must accept any partial delivery offered by the delivering party.

AFME said that in cases where a partial delivery is offered but declined by the receiving party, and the failing settlement instruction results in a buy-in, the delivering party should only be responsible for buy-in liability, claims or failure costs on the residual quantity for which a partial delivery was not offered.

Stephen Burton, managing director, post trade at AFME, said: "The increased adoption of partial settlement is one example of how the industry can improve settlement efficiency. Particularly, at a time when the mandatory buy-in regime under CSDR is due to be implemented later this year, improving settlement rates will help to mitigate the possible negative impacts, including reduced liquidity and greater volatility, when investing in European securities."

ACSA assets under custody reach 'record high'

The Australian Custodial Services Association (ACSA) has revealed that total assets under custody for Australian investors jumped by 8 percent over the last six months of 2019 to 4.06 trillion. Robert J Brown, chief executive of ACSA, explained that the figures [for total assets under custody for Australian investors] are a composite from ACSA's custody members.

Brown said: "Key underlying client segments include superannuation funds, fund managers, insurance companies, wealth platforms, government entities plus major charities and endowments. Accordingly, the statistics represent net flows and market valuation movements across the institutional investment sector."

ACSA's total assets under custody for Australian investors showed that J.P. Morgan ranked top with AUD 866.7 billion in six months ending 31 December, representing a 7 percent increase compared to June 2019.

NAB Asset Servicing, Northern Trust, Citigroup, State Street, BNP Paribas, HSBC Bank, RBC Investor & Treasury Services, Ausmaq, Netwealth and BNY Mellon, also featured in the top 11 for total assets under custody for Australian investors.

Netwealth showed the biggest increase with 22.3 percent from its June figure of AUD 23.3 billion to AUD 28.5 billion at the end of December.

BNY Mellon took the largest hit with a decrease of 12.3 percent from AUD 28 billion in June to AUD 24.6 billion at the end of the year.

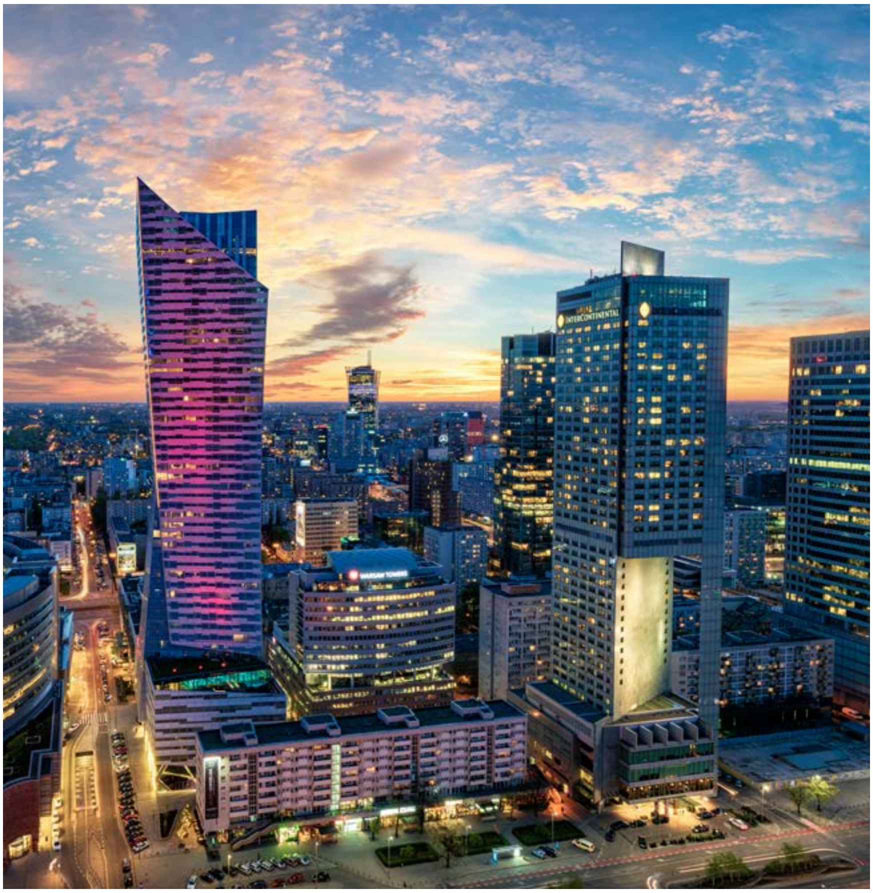
Assets held in Australia for foreign investors (sub-custody) increased by 3.9 percent to $1.80 trillion at the end of December 2019.

The total for sub-custody includes an additional ACSA member, and prior totals have been restated to reflect the change.

HSBC Bank topped the rankings for sub custody with AUD 1.2 trillion, followed by J.P. Morgan with AUD 243 billion, Citigroup with AUD 163 billion, BNY Mellon with AUD 70 billion, BNP Paribas with AUD 21 billion and NAB Asset Servicing with AUD 8 billion.

BNP Paribas saw the largest increase with 10.1 percent from June to December, while NAB Asset Servicing decreased 11.1 percent.

Commenting on the data, Brown said: "The bulk of total assets remains invested in Australia, although $1.23 trillion (just over 30 percent) is invested offshore. The data shows that increased



KDPW receives CSDR authorisation

The Polish Financial Supervision Authority (PFSA) has authorised KDPW, the Polish central security depository (CSD), under the Central Securities Depositories Regulation (CSDR). Under the single passport system, the authorisation confirms that KDPW meets the EU's legal requirements for central securities depositories.

It will allow KDPW to provide services under EU standards across the EU, including recording and safe-keeping of financial instruments as well as settlement of transactions.

Maciej Trybuchowski, CEO of KDPW, commented: "PFSA's decision is essential for entities active on the Polish capital market, including banks, brokers and trading venues for whom KDPW is a key service provider in securities registration and settlement."

"To meet the CSDR requirements, KDPW has developed and implemented a range of system modifications in its key areas including IT systems, operating links with other CSDs, and corporate affairs," Trybuchowski added.

CSDR aims to provide common European requirements for CSD services and to improve securities settlement, including harmonisation of settlement rules on the European markets.

exposure to offshore markets is a long-term trend for Australian institutions. The corresponding figure at December 2009 was $396 billion or 22 percent."

Brown also highlighted that another trend is the appetite in some sectors for increased allocations to unlisted (private) assets, including equity, debt and infrastructure.

For example, for funds that disclose their allocation benchmarks, the APRA Quarterly MySuper Statistics for 31 December 2019 show unlisted equity allocation targets range from zero to 12 percent, Brown revealed.

He noted that the asset-weighted average was 3.5 percent as at the end of December last year.

He added: "Unlisted assets can be bespoke in the way they trade, settle, are valued and taxed. ACSA has work underway to better engage the broader market to improve systemic efficiency in custody and investment administration in response to these changing allocation patterns."

Trustology launches new solution for crypto funds

Trustology has revealed its new credentials wallet for crypto funds to manage on-exchange risks, which will be available on Trustology's TrustVault platform.

The new solution will provide advanced controls for managing on-exchange assets to help meet emerging investor and regulatory demands on funds who are expected to secure assets both on-chain, as well as on-exchange.

The new exchange credentials wallet offers "advanced controls across application programming interfaces and time-based one-time password secret keys to build trust with investors, evidence compliance, reduce operating risks and conveniently manage asset transfers across exchange and custody accounts", according to Trustology.

Additionally, it will allow investment managers to demonstrate to investors and regulators mitigation of holding and fiduciary risks.

Trustology explained that fund managers will be able to use the TrustVault Web app and transfer funds between approved exchange, custody or counterparty addresses, as opposed to logging in to multiple exchanges to transfer funds.

Alex Batlin, Trustology's founder and CEO, commented: "Crypto institutionalisation has arrived. Regulators, such as Hong Kong's Securities and Futures Commission who last year published the Virtual Asset Guidelines, have made it clear that investment managers must safeguard assets on-chains and on-exchanges."

Krypton Fund Services receives management license in Mauritius

Krypton Fund Services has been granted a management company license by the Financial Service Commission Mauritius.

According to Krypton Fund Services, the approval marks a "significant milestone" for the group.

The fund services platform offers regulatory reporting, fund administration, registrar and transfer agent, project management and setup, to a wide range of family office investment portfolios, investment funds, private and special purpose vehicles operating predominantly in the alternative investment arena.

Krypton Fund Services explained that Mauritius is always at the forefront in adhering to international standards. The firm said: "It is an international financial centre of choice and repute, which provides an excellent platform to our fund's clients who structure their investments in Africa and India."

This new approval means that Krypton Group now has three locations worldwide, including Singapore and Bermuda.

In December, Krypton Fund Services revealed that its assets under administration had reached over $2 billion at the end of Q3.

FundRock expands footprint into France

FundRock has expanded into France for new operations that will assist international investors in accessing alternative asset classes including private equity and real estate.

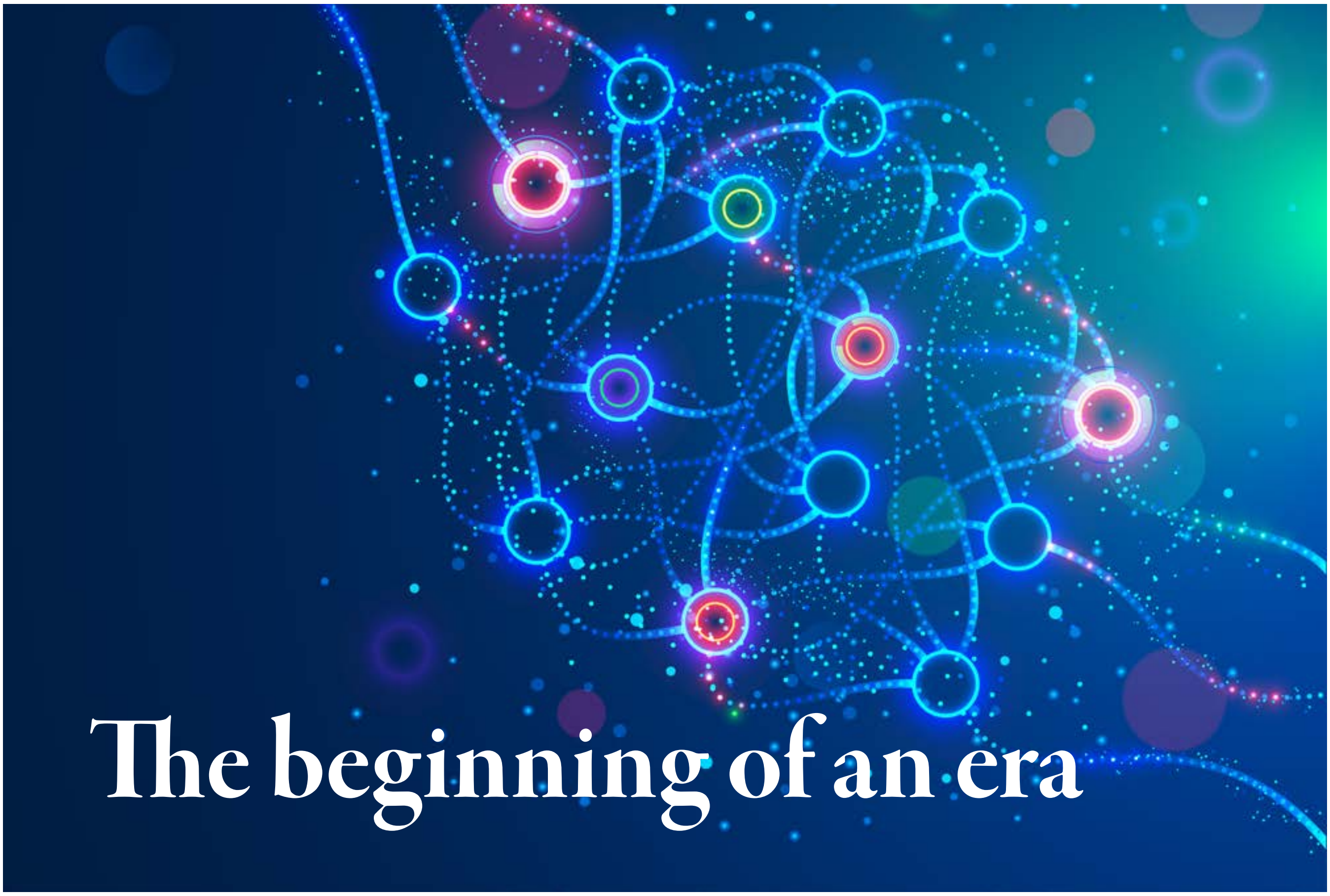
Based in Paris, the newly created alternative investment fund manager has been named FundRock France AM, subject to authorisation from the Autorité des marchés financiers (AMF)

FundRock's recent hire Jean Edouard Mazery will help spearhead this expansion in France.

According to FundRock, Mazery is a highly experienced executive and will relocate from Luxembourg to Paris once regulatory approval from the AMF has been obtained.

Mazery was previously managing director and head of real estate at Twenty First Capital and helped to create and develop the asset manager's real estate fund management business.

Xavier Parain, CEO of FundRock, commented: "We are excited about our expansion into France, which underlines our strategy of offering pan-European solutions to our clients"



The beginning of an era

Maddie Saghir reports

The AI era is still in its infancy in the asset servicing world, but how far can it go?

The world we live on, according to scientists is around 4.543 billion years old. Our world history teaches us about the stone age, bronze age, ancient Egypt, early Islamic civilisation, and more. Each era is interesting in its own way but given the age of the Earth, the pace of change in development from the Victorian era until today is truly remarkable.

Today, a vast majority of industries are heavily reliant on technology and it is crucial to the way we conduct business, particularly in the financial services industry. Technology has soared since the start of the 20th century and it is involved in our everyday lives today in the 21st century, with technology only expected to accelerate and evolve at lightning pace.

Looking back at how quickly technology has advanced over the last 200 years, you can only wonder what the world will look like within the next 200 years. Technology is vital in the financial services world, especially within the asset servicing industry, where enhanced technology is key. How do firms prepare for the future when the change is occurring so rapidly?

Within the asset servicing industry, Andreas Burner, chief innovation officer of SmartStream Technologies, observes that there is a large number of people who understand the potential of artificial intelligence (AI) and have started utilising it within their firm. However, Burner says that the industry is still very much at the beginning of the AI era.

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A new way to work

Discussing whether AI poses a threat to jobs, Andreas Burner, chief innovation officer of SmartStream Technologies, emphasises that people have always been afraid of redundancy.

Burner says the world is constantly developing, using the example of newspapers moving to digital content, he notes that people were worried that automation would mean loss of jobs. However, he explains "all these things have in fact created more jobs. Certain roles will need to adapt and develop to meet the demands of new technology".

Reinforcing this, Davide Zilli of Mind Foundry, explains that humans will always have a role to play, "algorithms need to be fully transparent in their decisions, easily validated and monitored by a human expert".

A treasure trove of technology

Although concerns will remain, the consensus suggests that technology is more abundant in its opportunities than its downfalls, and is seen to be more useful as opposed to threatening. With AI providing the ability to remove manual, mundane processes, the human workforce will have more time to take on creative tasks, enabling greater efficiency in the workflow.

"AI should accelerate the process of automating manual activities, which will enable the industry to deliver end-to-end solutions more quickly"

Echoing this, Alastair McGill, general manager data control solutions at Broadridge, comments that AI is not something we should be scared of but something we should embrace. McGill highlights that we should not assume right away that intelligent automation will lead to massive job losses.

According to McGill, Gartner research indicates that more jobs will be created by AI rather than will be lost to it.

He says: "One of the factors is the adoption and use of AI to augment human tasks rather than to replace them. New types of jobs will grow as new technology is adopted. The analogy used often is the Industrial Revolution – even though agricultural jobs went away, new jobs (and new types of jobs) were created."

Additionally, McGill stipulates that in a heavily regulated industry like financial services, human oversight of intelligent automation will "remain critical" well into the future. However, McGill suggests we are still many years away from creating the kind of artificial general intelligence that outperforms humans when it comes to critical thinking about relationships between certain types of information.

Richard Street, global head of client coverage for RBC Investor & Treasury Services (RBC I&TS), indicates that "AI should accelerate the process of automating manual activities, which will enable the industry to deliver end-to-end solutions more quickly".

Street comments: "If you look at the private capital and real assets space, deploying capital is a complex activity involving the engagement of lawyers, investment bankers and advisers, which is very different from the automation of execution and settlement in the traditional asset world."

He explains that there is a role for AI to play in evolving and perfecting this process, more so than focusing on perfecting the mature real money investment management processes.

McGill also weighs in discussing Broadridge's experience with implementing the latest technology. He says: "Replacing a traditional rules-based matching engine with a self-learning machine learning model can provide significant efficiency benefits by giving the system the ability to automatically build and improve its matching schemes based on new activity."

McGill adds: "IT projects to onboard or maintain matching schemes are no longer required as the solution analyses historical matched data and suggests a matching scheme that will process new data with very high levels of accuracy. As the training dataset grows, the model improves, keeping straight-through-processing rates high without the need for constant development and testing."

"Overall performance also improves significantly as machine learning-based solutions take advantage of in-memory distributed computing platforms designed to process huge amounts of data efficiently."

Reflecting on the opportunities of AI, Street identifies that it enables it to increase the quality of the services that our industry provides, and thereby drive client demand for faster service and better insights based on the high-quality data which can be derived from those automated tools.

Technical issues

Although AI does have plenty of advantages, AI projects can suffer from a "cold start", which is one of the key challenges. McGill explains that this is where predictions are initially low quality as sufficient training data is not available to generate an accurate model.

McGill explains: "A solution with the ability to generate models from historic training data can mitigate the cold start problem, leading to shorter project timelines and a faster return on investment by providing high-quality predictions from the start."

According to McGill, self-service and transparency are critically important to the industry as firms are cost sensitive in regard to change processes.

He also states that auditing requirements are of paramount importance. "Many AI-based solutions available to the market operate on a 'black box' basis, requiring vendor data science staff to handle the generation of new models or optimisation of existing ones at significant cost", he adds.

Weighing in on this, Zilli from Mind Foundry, says: "Machine learning tools must introduce this full accountability to evolve beyond unexplainable 'black box' solutions and eliminate the easy excuse of 'the algorithm made me do it'."

RBC I&TS' Street also warns that it is important to recognise that AI is not a 'fix-all' solution. He stresses that anyone who is building an operation on AI alone has got it wrong.

He adds: "You have to put a process in place and automate it as best you can. AI can evolve that process faster and better because it's learning and remembering things more efficiently."

To infinity and beyond

Although technology is evolving at a rapid pace, industry experts suggest that it is moving more slowly in the asset servicing industry. But arguably, never before has technology been so crucial amidst increased velocity of regulation.

McGill suggests that the asset servicing industry "has been under consistent financial pressure for the last five years". He notes: "Rising asset prices have largely masked underlying declines in assets under custody/assets under administration fees."

"Restoring profitable growth amidst these pressures will require more innovative solutions to improve operational efficiency. There are a number of areas in which the industry can benefit from the adoption of AI."

"Leading firms will rapidly innovate using AI which will form the basis of leaner, more efficient operational functions," he adds.

Also looking to the future of the asset servicing sector, Burner notes that tomorrows' applications will continuously support the users in their needs and will deliver answers to questions before a user is asking.

Burner explains that AI applications "will provide excellent user interfaces that will deliver condensed and relevant information to the user in the right moment".

He believes that in a few years, "the financial services industry should operate in a similar function to weather forecasts, which are easy to access and they will be something you can look at daily and is automatically delivered to you in terms of information."

"Although we are a long way off from this at the moment it is something that could be possible in the future", he concludes.

Raising the game

Maddie Saghir reports

With Brexit uncertainty challenges in the fund space, and large asset managers and owners consolidating the number of custodians they work with, and fewer regional or UK-specific mandates in the custody arena, players in the asset servicing industry have an opportunity to raise their game across the board

Making its name as being one of the most advanced players in Europe, the time is now for the UK's custody markets to up its game; with industry experts observing that larger asset managers and owners have been consolidating the number of custodians they work with, with fewer regional or UK-specific mandates.

Additionally, as the UK makes its preparations to negotiate Brexit agreements, the time is also of the essence for the UK's fund industry, as Brexit will likely to impact this area too.

Speaking on 24 January, IQ-EQ's Justin Partington, group head of funds, noted that "with alternative fund assets forecast to reach $14 trillion by 2023, the industry's alternative investment fund managers are facing complex decisions about their fund domiciliation, and the stakes are high".

With much to ponder over the next 12 months, industry experts walk us through the UK's fund and custody markets; experts from IQ-EQ, Maitland and Crestbridge discuss Brexit and how it will impact the funds industry, while BNY Mellon's Ileana Sodani, head of international business development, talks us through the UK's custody market.

Brexit

The last day of January 2020 marked the end of an era as the UK left the EU. We now sit in the transition period until the end of 2020 while the UK and the EU negotiate additional agreements. Prior to 31 January, industry experts observed that the impact of Brexit on UK asset managers had been "relatively minimal amid ongoing political certainty".

But now, the time is ripe for asset managers to adapt to the post-Brexit world. Robert Ophele, chair of the Autorité des Marchés Financiers (AMF), recently predicted that the EU's fund industry would be "profoundly transformed" by Brexit.

Previously, Partington stated that it remains possible that funds domiciled in the UK could lose their EU passport; "although UK asset managers should be able to make use of national private placement regimes or reverse solicitation as is the case in the Channel Islands".

Speaking more recently, post-Brexit, Partington adds that although it is still possible that the EU might not allow the UK to use the passport, "it

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would be a wholly political move given that the UK rules today are fully harmonised with the EU". Adding to the uncertainty, Partington observes that until we have further clarity on the regimes that will be available to alternative fund managers post Brexit, "those running a close-ended alternative fund as a UK manager will likely have three choices: they can appoint an AIFM in Europe, relocate the fund, or restrict their customer base by cutting back on European investors and simply marketing their fund to UK investors".

> *At the end of this year, industry-defining questions such as whether the UK remains 'equivalent' with EU rules or diverges will need to be answered*

Meanwhile, Luxembourg's financial regulator Commission de Surveillance du Secteur Financier (CSSF), has introduced enhanced substance requirements. Partington explains that this is set to prevent the setting up of 'letter-box' entities, with just a handful of back-office staff, in EU jurisdictions, while driving investment processes back in London. Brexit, therefore, means more substance in EU jurisdictions where funds are domiciled, according to Partington.

Patric Foley-Brickley, managing director, funds services at Maitland, says that "UK asset managers intending to passport the services of UK management companies to support investment funds in key EU domiciles like Luxembourg will need to establish management companies themselves in these jurisdictions, or more likely, seek the services of independent management companies".

Discussing the future horizon for the UK's industry in terms of Brexit, Foley-Brickley suggests that at the end of this year, "industry-defining questions" such as whether the UK remains 'equivalent' with EU rules or diverges will need to be answered".

He says: "In the meantime, asset managers must remain compliant with the EU rules already in force under the Alternative Investment Fund Managers Directive UCITS and second Markets in Financial Instruments Directive (MiFID II)".

According to Foley-Brickley, during this period, alongside the necessary due diligence – carrying out strategic, structural and business assessments to determine a Brexit roadmap or contingency plan – UK asset managers are looking at their product suite and relocating to jurisdictions that can provide access to the continent.

"Even if firms do not relocate any of their operations (from or to the UK), they will need an advisory partner to navigate complex contract law, employment law and tax law challenges," he adds.

Meanwhile, Michael Johnson, global head of fund services at Crestbridge, comments: "Brexit has had limited impact on servicing given most credible players, like Crestbridge, are global service agents and can host fund structures in the main fund domiciles, should the managers switch."

Johnson adds: "The longer-term horizon poses the most challenges from a servicing perspective, but it's difficult to opine on those until more details emerge of the exact form of Brexit."

The custody scene

Over in the UK's custody market, industry experts have identified that the market is working well in pricing bundled services, despite the small number of providers.

BNY Mellon's Sodani observes that the barbell of investment strategies has continued apace.

She says: "An ever-clearer demarcation between obtaining low-cost beta and finding sources of positive alpha is encouraging investors and asset managers towards higher concentrations of assets in both passive and alternative investment products."

According to Sodani, to remain competitive, asset servicers have been investing in services and technology solutions to support these areas – integrating key growth segments, including exchange-traded funds, credit and loans, and real estate and private equity.

Adding further to the challenges, Sodani says that client expectations are rising. She explains: "The investment industry is highly competitive and transparent, with an intense focus on performance, pricing, distribution and client service. Our clients are increasingly focused on their core competencies – the areas where they can add genuine value."

"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. Our role is to help clients deal with these challenges through delivering solutions that provide them with the tools and efficiencies that enable them to survive and thrive within this competitive environment."

Meanwhile, with asset managers' fees under pressure, Sodani suggests that they are looking to reduce costs by passing some of that margin compression on to their providers.

"This is an opportunity to show how we can bring extra value – supporting clients with solutions that make them more efficient and effective," Sodani comments.

Looking to the next five years, she predicts that we will see competition around data delivery, data quality, data accessibility and the organisation of data.

According to Sodani, this is down to increased commoditisation of core products, which makes it hard for asset servicers to differentiate themselves on pure custody, and so fund accounting, transfer agency, delivery and performance data are getting increasingly commoditised and standardised. She also suggests that the ability to organise data and make it more consistent and accessible through APIs, for example, will become the key area of competition in the future.

Elsewhere on the custody industry's horizon, Sodani outlines that there has been a noticeable uptick in conversations BNY Mellon has been having with asset managers about the direct-to-customer market.

"The knock-on effect for asset servicers is in building global service models that cater for both institutional investors and retail investors – with online portals, enabled with consumer-friendly tools," Sodani adds.

Keep calm and carry on

Further looming challenges in the UK, in line with global trends, is regulation. With upcoming regulations such as the Securities Financing Transactions Regulation (SFTR), which is set to go live in April this year, the asset servicing industry must also keep on top and already have preparations in place at this stage.

In addition to SFTR, asset managers, pension funds and insurance companies are scheduled to start posting initial margin (IM) for non-centrally cleared derivatives under Uncleared Margin Rules based on their volume thresholds either with phase 5 on 1 September 2020 or phase 6 on 1 September 2021.

Tim Keady, head of DTCC Solutions, DTCC, highlights the pressures firms face, against this backdrop, as market participants are also preparing for the Libor transition and Brexit adjustments.

Keady states: "All of these regulations will impact the operating models of buy-side firms and introduce new costs as well as regulatory reporting requirements. For example, UMR's waves five and six, which take effect in 2020 and 2021, respectively, will predominantly impact funds and institutional investors, requiring some companies to acquire new skills and competencies in order to undertake functions which they've never performed before."

But despite regulatory challenges, Brexit uncertainty challenges in the fund space, and large asset managers and owners consolidating the number of custodians they work with, with fewer regional or UK-specific mandates in the custody arena, players in the asset servicing industry have an opportunity to raise their game across the board.

Industry experts suggest that London will continue to carry its title as a centre of excellence, and upping the stakes will only encourage further enhancements of innovation in the asset servicing world.

Partington reminds us that in the past, fund domiciliation decision-making has been predominantly influenced by factors such as the reputation of a jurisdiction, investor sentiment, set-up timelines and processes, regulations, costs and the quality of the service providers.

However, Partington suggests that there are three additional factors currently dominating the thinking, including the advent of Brexit, the Organisation for Economic Co-operation and Development's base erosion and profit shifting, and the drive to introduce local economic substance requirements for companies' tax residency to prevent fund managers setting up 'letter-box' entities.

He adds: "Domicile decision-making for the alternative fund industry has entered a new era of geographic challenges and opportunities."

A regulatory minefield

Maddie Saghir reports

Navigating regulation has been a top priority for many of those in financial institutions. Find out why firms continue to feel the pressure to stay ahead of the game in 2020

Navigating the regulatory minefield has been challenging for many participants in the financial services industry. Since the financial crisis of 2007 and 2008, regulators have been paving the way for an industry that will be more transparent - with no skeletons lurking in the closet.

The European Market Infrastructure Regulation (EMIR), the first and second Markets in Financial Instruments Directive (MiFID I and MiFID II), and the upcoming Securities Financing Transactions Regulation (SFTR), are just some of the new regulations that have been introduced over the past few years, with SFTR set to go live in April this year.

SFTR will require banks and investment firms to report their securities finance transactions to a registered trade repository for the first time. And while SFTR has good intentions and objectives, there are 155 fields that need to be filled in for data reporting, which could pose a challenge.

In addition to SFTR, the uncleared margin rules (UMR) is another regulation that is set to be implemented this year, with the Settlement Discipline Regime (SDR) – the final phase under the Central Securities Depositories Regulation (CSDR) – and the Shareholder Rights Directive (SRD II), expected to come into force in February next year.

So with stringent regulations in place for the next 12 months, the pressure is on for the industry to make sure they are compliant as failing to do so could potentially lead to crippling fines. The main hurdles that are associated with regulation tend to be around data. The technology needed to extract the data for regulations such as SFTR come at a cost, but it would be impossible to comply without enhanced, heavyweight technology.

However, data can enable firms to have better insights into their business performances, it can also encourage opportunities in revenue for software vendors, for example.

For the year ahead, industry experts from Fenergo, Torstone Technology, DTCC, and Cappitech discuss the regulatory environment by highlighting where we can expect to bump into the biggest challenges and opportunities, as well as the trends we can expect to see in this space.

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Under pressure

The pressure is on to be compliant with upcoming technologies, but as Fenergo's Laura Glynn, director, global regulatory compliance, points out, some regulations for the year ahead will be more impactful than others.

Discussing SFTR, SDR under CSDR and SRD2, Brian Collings, CEO of Torstone Technology, explains that reaching compliance for these regulations is creating "a significant burden on sell-side participants, especially because many of the implementation details remain unresolved or industry standards and processes are not ready".

According to Collings, there is pressure from trade bodies to delay the go-live dates, with the SDR implementation deadline already pushed back to February 2021. He says: "Ultimately there is a risk that the cost of compliance will push smaller participants out of the market, thereby reducing competition."

Meanwhile, Glynn outlines that the EU fifth Anti-Money Laundering Directive amends and enhances provisions contained within the Fourth Anti-Money Laundering Directive, as well as introducing new requirements.

"Implementation challenges remain as many countries have yet to transpose the legislation and there has been little published in the way of sectoral guidance, overall. We're unlikely to see many companies meet the deadline soon, which could force the EU to ramp up the pressure on member states to issue specific guidance", Glynn said.

Adding to the pressure, Tim Keady, head of DTCC Solutions, notes that against this backdrop, market participants are also preparing for the Libor transition and Brexit adjustments.

Keady explains: "All of these regulations will impact the operating models of buy-side firms and introduce new costs as well as regulatory reporting requirements. For example, UMR's phases 5 and 6, which take effect in 2020 and 2021, respectively, will predominantly impact funds and institutional investors, requiring some companies to acquire new skills and competencies in order to undertake functions which they've never performed before."

The UMR initial margin (IM) requirements seek to establish international standards for non-centrally cleared derivatives. Asset managers, pension funds and insurance companies are scheduled to come in-scope of UMR based on their volume thresholds either with phase 5 on 1 September 2020 or phase 6 on 1 September 2021.

Some further observations that Ronen Kertis, CEO of Cappitech, has made are that many firms are not fully complying with monitoring best execution requirements as they should be and also face far-reaching challenges such as reconciliation.

The pressure that firms will face for the year ahead will be focused on the emphasis on improving data quality for reported data. Kertis also indicates that the governance framework and controls to improve the feedback loop and processes to rectify errors could also be a challenge for the year ahead.

Also bubbling in the pressure pot, is the looming threat of fines if a firm fails to comply. A recent report conducted by the software company Fenergo found that global financial institutions have tallied up fines of as much as $36 billion since the financial crisis.

Marc Murphy, CEO of Fenergo, highlighted that the rise in financial crime and increasing regulation is creating a 'tough battleground' for financial institutions trying to stay on top of a multitude of regulatory rules across different jurisdictions.

According to the survey, 2019 brought an additional $10 billion in fines for non-compliance with anti-money laundering, know your customer and sanctions regulations, and financial institutions were fined a further $82.7 million for data privacy and MiFID II violations.

In terms of the fines for errors and mistakes, the regulatory oversight and scrutiny by the regulator are expected to increase given that MiFID is now two years old. Kertis warns: "While none of those who received feedback from regulators on the transaction reporting have been fined for the errors, leniency is unlikely to continue indefinitely and firms should not rely on the relaxed approach from authorities so far."

A new way to navigate

Like most things in life, preparation is key, and by being an early adopter of regulation technology, people will be in better shape to reap the rewards from regulation.

Enhanced next-generation technology is a crucial part of being compliant. Cappitech's Kertis explains that by employing next-generation technology, compliance managers can also start to use their regulatory reporting to gain business insights and make data-driven decisions. Indeed, there are lots of shiny new technology solutions out there but allocating it takes up lots of time and resources.

DTCC's Jennifer Peve, managing director of business innovation, believes that the optimal approach is to look at the challenge and the business case, and then determine how best to address it.

"At times this may be best achieved through new technology, while in other instances optimising existing processes or using current technology may be the ideal solution," Peve says.

Once the technology is in place to help you comply with regulation, opportunities will become more apparent. Torstone Technology's Collings outlines that for software vendors, the opportunities are "always going to be that regulation requires technology changes and the more agile the development organisation, the better prepared the broker/bank. With any new regulation, there are always clear revenue opportunities".

For sell-side, Collings sees that the opportunities will generally be that the larger players have the advantage over their smaller/local competitors of economies of scale.

Meanwhile, smaller participants need to be nimble and be able to vary their offering to capture gaps in the marketplace or exploit opportunities with new legislation, according to Collings.

Discussing the impact for both the middle- and back-office functions for buy and sell-side firms, Keady says he is hearing from clients that in order to prepare for their implementation, they're analysing current inefficiencies and adopting a best practice approach.

"For example, because SDR requires timely settlement, the industry will need to analyse the cause of failed trades and then address those weaknesses by creating greater automation in the middle and back office. This best practice approach to post-trade processing will not only help with compliance to SDR, but it will also reduce operational risk, increase operational efficiency and better position firms to comply with future regulations," Keady says.

Cappitech's Kertis adds that compliance managers who have the right technical solutions can capitalise on their trading data required for compliance in order to gain unique insights into their business performance.

In this way, Kertis explains, compliance officers and other decision makers can move from a tactical to a strategic approach that drives value directly back into the business.

Keeping eyes on the prize

Although regulations such as MiFID have been in place for over two years now, there's no time to take the foot off the gas or breathe a sigh of relief. Keady from DTCC notes that the slew of forthcoming regulations is requiring the buy-side to evolve their operating models as they contend with new costs and regulatory reporting requirements.

Glynn predicts that in 2020, we can expect to see continued geopolitical uncertainty, fee pressures, increasing regulatory scrutiny and market disruption.

Collings expects to see more consolidation and investment in technology for 2020. He muses: "Technology is becoming the differentiating factor. People move between organisations much faster than technology, and technology is a much longer-term play for institutional memory."

Meanwhile, Kertis summarises that the main industry trends for 2020 will be: outsourcing regulatory reporting, a focus on data quality, delegated reporting, and reconciliation.

On delegated reporting, Kertis comments that it has "always been an issue for the market. As a solution, delegating brokers are not big proponents of it due to the additional effort and liability it places on them, and the regulators don't like it either. Even those firms that have their reporting delegated on their behalf by their brokers, have come to realise that it is not a sustainable and robust solution".

Also on the horizon for 2020, Kertis says: "The relatively low compliance to best execution monitoring is a real concern as is the fact that firms are not yet gaining additional benefits from the public RTS 27/28 best execution. The regulators have made it clear that this is central to ensuring best practice in trading execution on behalf of clients, and ultimately individuals' savings and pensions. We already see a few EU regulators approaching their member firms with a request for more details or auditing their best execution monitoring practices."

BNY Mellon's Pershing has appointed Ben Harrison as the new head of its registered investment advisor (RIA) custody business, succeeding Mark Tibergien, effective 1 June.

Tibergien who has led Pershing's RIA custody business since 2008, will retire from corporate life on 31 May.

Harrison currently serves as head of business development and relationship management for the advisory segment.

Both Tibergien and Harrison will work closely over the next few months to ensure a smooth transition, according to Pershing.

As of 1 June, Harrison will report to Jim Crowley, CEO of Pershing, and will become a member of the firm's executive committee.

Crowley commented: "We are tremendously grateful to Mark Tibergien for all his contributions. Tibergien's unique vision and humble leadership has helped build our advisory business from the ground up and made Pershing one of the top players in the RIA custody space."

Elsewhere, BNY Mellon's Pershing has also revealed that RIA's on its custody platform will now be able to choose from monthly subscription and zero-transaction-fee pricing.

The three pricing packages include subscription-based pricing, zero-transaction fee pricing and variable pricing.

Commenting on the new subscription pricing, Crowley said: "Our new pricing approach offers the choice to align with client preferences and deliver greater value."

Harrison added: "Our new pricing strategy is designed for advisors, in consultation with advisors, taking into consideration some of the long-term trends we see in the industry."

Guernsey Finance has named Rupert Pleasant as its new chief executive, replacing Dominic Wheatley, who in December announced he would be stepping down from his role on 30 June.

Pleasant joins from Beauvoir Group, where he served as acting group managing director.

He has a background in private wealth with nearly 30 years working in the sector both in Guernsey and abroad for firms such as Lloyds Bank, Barclays Wealth, Credit Suisse, Investec and PraxisIFM among others.

In addition, he has worked in Hong Kong and South Africa, two of Guernsey's key markets.

Guernsey Finance chairman, Lyndon Trott said: "Rupert Pleasant's considerable international finance and marketing experience will be instrumental in continuing the contribution that the Guernsey Finance team make in promoting the island as a leading finance centre."

He added: "This is a key time for Guernsey as we look to innovate and create fresh opportunities to promote the island and the finance industry across current and emerging markets. Pleasant is passionate about the island and I am delighted that he has accepted the role of chief executive".

Commenting on his new role, Pleasant said: "We live in challenging but also exciting times, and Guernsey is in an enviable position offering innovation, substance, stability, security and expertise."

"However, we cannot rest on our laurels and so we need to work hard to both maintain and enhance our reputation on the international stage and so I look forward to leading the excellent team at Guernsey Finance into new territory over the coming years."

Brane, a digital asset custody company, has appointed Thomas Gerginis as the new president and CEO.

Gerginis will succeed founder and past-CEO Patrick Mclaughlin, who will join the firm's board of directors and serve as chief strategy officer.

Based in Toronto, Gerginis is a senior corporate executive, portfolio manager, and corporate securities lawyer.

He brings with him leadership experience having served in senior executive leadership roles ranging from a leading global investment/brokerage firm, a national trust company, a boutique hedge fund company, a North American private bank and two Canadian-based investment/brokerage firms.

Commenting on the new CEO appointment, Mclaughlin said: "We are thrilled to be welcoming someone with Thomas Gerginis' experience and industry knowledge to lead Brane to the next level."

Adam Miron, chairman of the board, added: "Over the last three years Brane has quietly been building some of the most impressive proprietary technology, including secure asset recovery, now protected by provisional patent claims and Gerginis is the perfect executive to lead Brane to global commercialisation."

"The board would like to thank Patrick Mclaughlin for having the confidence to pass the torch of the company he started and for continuing to play an integral role in the company's future."

Founded in 2017, Brane is a Canadian fintech company focused on offering institutions digital asset custody solutions.

INTL FCStone, a New-York based financial services organisation, has hired Annabelle Bexiga as a non-executive director.

Bexiga who is based in Greater Boston takes on her new role this month after serving as a non-executive director at DWS Group in Germany.

She has also held positions as chief information officer of Global Commercial Insurance at AIG until 2017. Previous to that, she has served in leadership positions at J.P. Morgan and Deutsche Bank.

In addition, Bexiga was chief information officer at JPMorgan Invest, Bain Capital, and the Teachers Insurance and Annuity Association (TIAA).

Bexiga has almost 30 years of experience and expertise in the financial industry.

Elsewhere, Bexiga serves on the supervisory board of DWS Group on the remuneration committee. In addition, she formally served on the boards of Selective Insurance Group and Nuveen Investments.

Sean O'Connor, CEO of INTL FCStone, said: "Annabelle brings to the board deep expertise and experience in technology as it relates to the financial services industry, both domestically and internationally. In adding her to the board, we will benefit from her vast experience as we work to expand our network of services globally."

Chairperson, John Radziwill added: "We are extremely pleased to welcome Annabelle to the INTL FCStone Board. Her deep technology expertise in the financial services sector, acquired on a global scale, will be an invaluable addition to our company."

INTL FCStone has acquired IFCM Commodities, GIROXX and most recently GAIN Capital earlier this year.

Mark Torossian has joined OnDeck as senior vice president of finance from BNY Mellon.

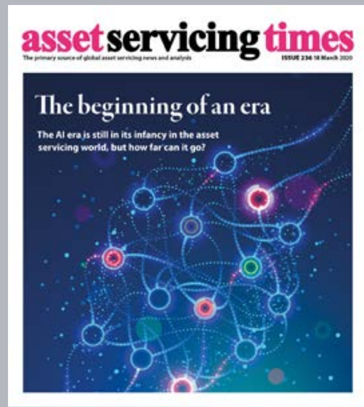
At BNY Mellon, Torossian worked as chief financial officer within the bank's asset servicing business in the Americas.

In addition, he was a business line controller for several divisions and head of the infrastructure cost allocation team at BNY Mellon.

He started his career at Merrill Lynch, where he served in a variety of accounting and financial planning and analysis roles.

In his new role at OnDeck, Torossian will oversee the company's accounting, financial planning and analysis functions.

Ken Brause, chief financial officer of OnDeck, said: "I am pleased to welcome Mark Torossian to OnDeck in this important leadership role for the organisation. Torossian's technical expertise and financial acumen, experience in banking and financial services, technology knowledge and proven track record as a dynamic leader will be instrumental to OnDeck as we execute against our strategic priorities."



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