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The Emerald Isle

Ireland has seen continued growth within its funds industry but what initiatives are in place to see this success continue?

PIF Insight

Ocorian's Melville Rodrigues provides an overview of the Professional Investor Fund and outlines his hopes for the next steps of the initiative

CSDR Outlook

Derek Coyle of Brown Brothers Harriman discusses the potential impacts that CSDR will have on custody markets

Tax Focus

From the process of reclaiming to the lack of a centralised, coherent and global framework, tax continues to be a complex issue

SIX completes acquisition of controlling stake in BME

SIX Group, the Swiss financial markets infrastructure operator, has completed its all-cash voluntary tender offer for Bolsas y Mercados Españoles (BME), creating the third-largest operator of financial market infrastructure in Europe by revenue.

SIX was granted approval to acquire the Spanish stock exchange BME from the Spanish authorities in March, and now SIX has secured an acceptance level of 93.16 percent of BME's share capital.

A total of 77.9 million shares have been tendered at a price of €33 per share, representing a total of €2.57 billion. Following the settlement, SIX will acquire control of BME, which will become part of SIX.

The combination of BME and SIX is set to create a more diversified group with a strong presence across Europe.

The transaction also aims to bolster both the Spanish and Swiss ecosystems by bringing new capabilities to BME and SIX participants and attracting new global capital pools to Spain.

SIX will continue to fully deliver its core Swiss financial markets infrastructure services, now enhanced by BME's expertise in areas such as fixed income, derivatives and indices.

BME will continue to fully deliver its core services to their customers in Spain and will benefit from new financial information solutions, as well as blockchain and distributed ledger technology solutions.

The combined group will have the flexibility to deploy more capital on new projects and accelerate investments in innovation. SIX said it recognises the different opportunities offered by the Spanish market and intends to preserve and further invest in local infrastructures to attract new investors.

The management team of the enlarged group consists of the board of directors of BME, which will comprise a significant percentage of Spanish representatives and will reflect the new ownership structure, SIX said.

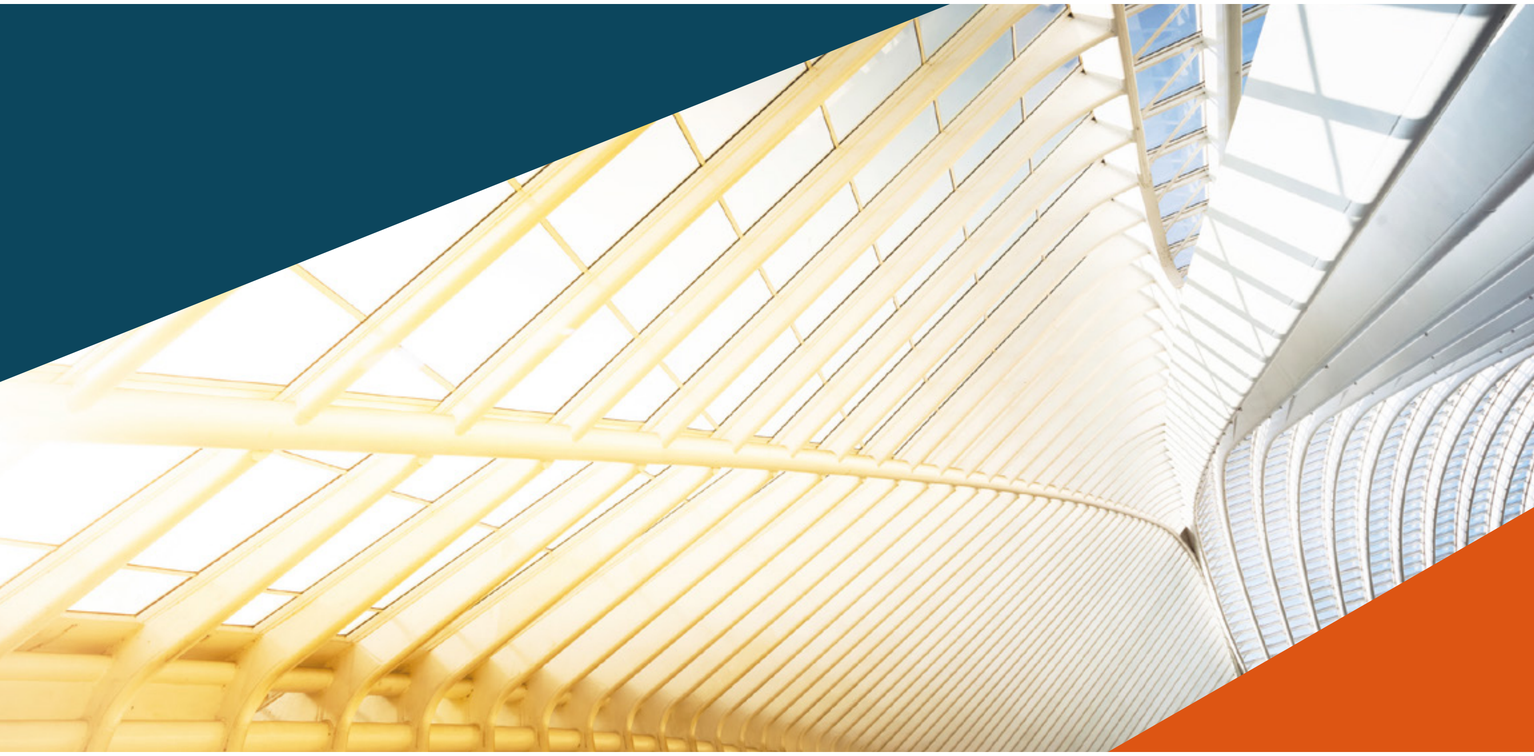
Meanwhile, SIX will propose to give entry to two independent Spanish directors of BME to its own board while Javier Hernani Burzako, CEO of BME, will become a member and join the SIX executive board, effective immediately.

Thomas Wellauer, chair of SIX, said: "The combination of BME and SIX will create a stronger, more diversified group with an enlarged global footprint and a unique capacity to respond to the increasingly sophisticated demands of clients. Today, SIX and BME embark on a new phase of growth that will deliver new opportunities with immediate benefits to the stakeholders of both companies and the wider economies in which they operate."

Jos Dijsselhof, CEO of SIX, commented: "The integration of our products and services will allow us to generate value, grow revenues and compete globally. The combined group will be more ambitious and innovative, investing in opportunities that would have been unavailable to the separate entities. Together, we will succeed in driving the transformation of financial markets, to our own benefit and that of the ecosystem that surrounds us."

Dijsselhof continued: "SIX is committed to preserving and strengthening BME's position in Spain. The combined group will create innovation hubs in Spain and attract new pools of capital to the Spanish market. We look forward to fulfilling the various commitments we have made to the Spanish authorities ahead of the integration process, which we aim to begin as soon as possible."

Javier Hernani, CEO of BME, added: "Joining SIX is fantastic news for BME. Together we have a stronger business model that will enable us to continuously improve our products and services offering as well as significantly grow our client reach. The combined group will now be able to better address the growing needs of the Spanish market and at the same time expand its global footprint. BME will continue to respond to the needs of its clients and its market, as part of a stronger group that is eager to invest and innovate."



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Cayman Islands welcomes new regulatory regime for virtual assets

The Cayman Islands has welcomed a new framework for regulating virtual asset business, which is set to help maintain the jurisdiction's position as an attractive domicile for legitimate virtual asset businesses. Introduced by the Cayman Islands Government on 20 May, the new Virtual Assets (Service Providers) Law (VASP Law) will come into force upon the issue of a commencement order.

The new regime derives from recommendations made by the Financial Action Task Force to provide for the regulation of virtual asset businesses and for the registration and licensing of persons who are providing 'virtual asset services'. According to definitions outlined in the VASP Law, it will likely capture all cryptocurrencies, security tokens, utility tokens or other digital assets that are tradeable or transferable, with the exception of digital fiat currencies.

The framework will apply to any person, service provider or intermediary providing virtual asset services, such as issuing virtual assets, virtual asset trading platforms and custody services.

Under the new law, those who undertake virtual asset services from the Cayman Islands must register and/or receive an appropriate license from the Cayman Islands Monetary Authority (CIMA). Additionally, they will be subject to ongoing requirements, such as providing regular audited accounts and undertaking anti-money laundering audits.

The VASP Law also introduces the concept of a sandbox licence that provides CIMA with the flexibility to regulate relevant businesses that utilise innovative technologies and activities by imposing additional requirements to, or allowing certain exemptions from, the standard requirements within the VASP Law.

Meanwhile, the government has also amended a number of existing laws to extend to virtual assets including amendments to the Mutual Funds Law and the Securities Investment Business Law, which are expected to come into force at the same time as the VASP Law.

Commenting on the new framework, Ogier partner in the Cayman Islands Bradley Kruger said:"The VASP Law, in conjunction with the other legislative amendments, provides a coherent framework that will add a welcome degree of certainty for businesses intending to issue virtual assets and businesses carrying on or intending to carry on virtual asset services."

SimCorp merges European market units

SimCorp has merged its Central Europe, Southern Europe and UK/Northern Europe/Middle East (UNM) market units, into one integrated Europe, Middle East and Africa (EMEA) unit. The move is designed to support SimCorp's growth ambition, by developing closer client relationships across borders and achieving greater scale and agility in key business functions.

With many of SimCorp's clients increasingly spanning across market unit borders, the merger's principle aim is to deliver enhanced customer excellence and operational efficiency, without the previous restraint of market unit borders.

SimCorp highlighted that while local market proficiency remains a continued focus, the new setup strengthens the overall client experience.

According to SimCorp, this will be achieved with a more streamlined engagement process where SimCorp will take on greater responsibility for solving key challenges and driving successful business outcomes for its clients.

SimCorp explained that the integrated unit secures increased scale and expertise to continue to attract and onboard new clients effectively.

The merged unit creates several value-added synergies across key functions, including developing its "fast-growing asset servicing partnerships model", according to SimCorp.

SimCorp said this model sees its front-to-back, multi-asset investment management platform,

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Northern Trust selected by Sancta Capital for global custody services

Northern Trust has been selected by Dubai-based asset manager Sancta Capital Advisors to provide brokerage and global custody services.

Sancta Capital is part of Sancta Capital Group, an alternative investment manager founded in 2013 with a focus on distressed and deep-value investing across the Middle East and Africa.

As part of this new partnership, Northern Trust aims to drive efficiencies across Sancta Capital's business and enable the team to focus more directly on core investment management functions and alpha generation.

This includes supporting Sancta Capital's trading programme through Northern Trust's agency-only brokerage capability, which combines far-reaching trading expertise in equities and fixed income with access to broad liquidity.

Additionally, Northern Trust will provide global custody services for Sancta Capital's local and global mandates delivering process efficiencies for the safekeeping, reporting and administration of its assets.

Guy Gibson, global head of institutional brokerage at Northern Trust Capital Markets, said: "Northern Trust's institutional brokerage services provide asset managers and asset owners with access to intelligent solutions and high-quality liquidity. In turn this enables increased transparency and governance across their trading programme – as well as helping to optimise operational efficiency. Our expertise in these areas compliments both Sancta Capital's investment specialisms and regional focus."

Ahmad Alanani, co-founder and CEO of Sancta Capital, commented: "We are excited to work with Northern Trust, whose brokerage execution and custody offering will provide us with the operational efficiency, market expertise and the innovative solutions required to achieve our long-term investment goals."

SimCorp Dimension, empower some of the largest European and global asset servicers.

The merger also provides SimCorp's employees with enhanced career development and expanded opportunities for mobility across borders.

The new EMEA market unit will be headed by Hans Otto Engkilde, the current managing director of SimCorp UK/Northern Europe/Middle East.

During his 21 years at SimCorp, Engkilde has acted in a variety of management roles within the company, with significant impact. He will now lead best practice throughout the merged market unit, with a focus on growing SimCorp's front office, data management, alternative investments, and client communication offerings.

In a supporting role, Ralf Schmücker, managing director of SimCorp CE since 2012, will take on the new strategic position of senior vice president and head of EMEA customer experience and value advisory.

Christian Kromann, COO at SimCorp, commented: "The merger of our EMEA units comes at a critical time for the buy-side industry, as many increasingly look for external partnerships to address fatigued technologies and ops teams, overwhelmed by today's market complexity."

"By creating a larger, more streamlined unit, we will better serve our clients' long-term goals and provide them a superior client experience. At the same, we are confident that the merging of units will boost our ability to nurture and leverage the talent of our employees, as new opportunities and career paths emerge."

BNP Paribas wins custody mandate for Hong Kong's first retail OFC

BNP Paribas Securities Services has been selected to provide custody services to BEA Union Investment, the first fund manager to use Hong Kong's Open-ended Fund Company (OFC) regime for actively-managed retail funds.

As part of this mandate, BNP Paribas Securities Services will provide BEA Union Investment with a range of custody services such as fiduciary duties, fund administration, as well as transfer agency services.

The OFC regime was introduced by the Securities and Futures Commission in July 2018 and enables Hong Kong domiciled investment funds to be established in the form of a company which offers more flexibility than unit trust structures, according to BNP Paribas.

Eleanor Wan, CEO of BEA Union Investment Management, said: "We are proud to be among the first to launch a fund through the new domestic OFC structure. We are glad to have BNP Paribas Securities Services as our partner in this important milestone, boosting Hong Kong's status as an international asset management centre. The BU APAC Bond Fund, our pilot fund, will offer investors our flagship investment competence in Asian fixed income."

Julien Kasparian, head of Hong Kong at BNP Paribas Securities Services, commented: "We are delighted to have been appointed by BEA Union Investment as its custodian and fund administrator to support its first OFC in the Hong Kong market."

"The introduction of this new regime enhances local market infrastructure, positioning Hong Kong as one of the preferred fund domiciles among all other internationally recognisable jurisdictions. This mandate demonstrates our bank's commitment, expertise and capability to support Asia Pacific's new corporate fund structures and to be a one-stop-shop for asset managers who are looking to grow in the region."

Engkilde added: "The new EMEA unit delivers many exciting opportunities for SimCorp and I'm pleased to be leading such a significant initiative, and to work more closely with our talented and experienced teams across the region. Leveraging the scale of the merged unit and the breadth of rich solutions and services that SimCorp continues to innovate and deliver, we are now optimally placed to serve the European buy-side community. Additionally, the stronger regional footprint delivers us a significant competitive edge to intensify client attraction, as firms seek a trusted vendor to support long-term prosperity."

Bank of England introduces post-trade task force

The Bank of England is set to launch a task force to harness new technologies to improve the resilience and efficiency of post-trade systems.

The task force will be led by the post-trade technology market practitioner panel bringing together a group of experienced, senior decision makers.

The post-trade task force will explore how market participants from across the industry might harness technological innovation to deliver a more efficient and resilient post-trade ecosystem.

The panel met three times in Q2 2019 and built a common understanding of some of the key issues in post-trade today.

According to the panel, post-trade activities, such as accurate reporting and collateral management, still too often rely on a patchwork of manual or outdated technological processes, using systems and data definitions

Seychelles-based digital custodian gets green light for go live

The SECDEX Digital Custodian (SDC) has gone live after being granted a licence under the Seychelles Financial Services Authority (FSA) sandbox to offer digital custody services. SDC is the latest addition to the Seychelles-based SECDEX Group, a licensed, regulated exchange, central counterparty clearing house (CCP) and central securities depository with registry. SECDEX Exchange, which is live with its first members, facilitates the tokenisation, registration, primary issuance and secondary trading of any credible securities with SDC handling safe custody and a well-defined on-boarding and legal process.

SDC caters for a range of digital assets, including security tokens and cryptocurrencies such as Bitcoin for customers choosing to put their digital assets in its safe custody, with robust layers of security to prevent fraud and misappropriation, SECDEX explained. Meanwhile, wallet keys and key backups are stored with strong encryption, according to SECDEX.

SDC services the digital custody needs of both private and institutional clients by handling custody, escrow services, automated transfers, balance confirmations and account related requests.

The SECDEX Group has attracted around $544 million of assets, which it has tokenised, with immutability and transparency on the Ethereum blockchain and held in secure digital custody with SDC.

Hirander Misra, chair of SECDEX Group said: "There is immense interest in the regulated SECDEX ecosystem from issuers, investors, traders and asset holders, as their need for exposure to digital assets in addition to traditional asset classes continues to grow, and we are pleased to welcome our new clients."

Dr Steve Fanny, CEO of the Seychelles FSA, commented: "The FSA is pleased that SECDEX Digital Custodian is now authorised in our Sandbox, which provides a regulated environment within which Seychelles-registered companies carrying out FinTech-related financial services within the securities industry can operate. The Sandbox is instrumental in our strategy of moving the non-bank financial services of Seychelles to the next level, as it will not only attract higher value-added products and services to our financial services sector, but will also demonstrate that the jurisdiction is modern and forward-looking."

Jessica T.Naga, legal and compliance director at SECDEX Group, noted: "Operating as a regulated entity in the FSA Sandbox enables SECDEX Digital Custodian to provide our digital custody solutions across borders, whilst ensuring compliance with stringent regulatory criteria."

that can vary widely between and often even within firms.

It was noted that the complexity in post-trade matters raises the cost of financial services that are used, sometimes materially so.

Additionally, it holds back innovation because post-trade services provide the bedrock and data on which 'front end' services are built, the panel noted.

Additionally, aged, slow or incompatible systems can pose real risks to operational resilience, which the panel said is an issue of great importance to firms and regulators.

According to the panel, enacting meaningful change to address these issues will take a sustained and coordinated effort. As such, the post-trade task force will explore the scope for moving from discussion to action, including a review of the coordination mechanisms available to implement the next steps for the industry.

The panel has also set out a report in the hope to propel a powerful market response that will be the starting point for substantive improvements in the post-trade ecosystem.

Dave Ramsden, deputy governor for markets and banking, Bank of England, commented: "The pressure of technological change is pertinent to the post trade system where industry wide our capabilities are likely lagging our potential."

He added: "There are obvious cost benefits in simplifying. But if you look at the kinds of innovation the sector has seen since it built the systems on which it runs, it is clear that there are also opportunities to take advantage of the benefits of new technologies and functions."

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Galaxy Digital and Bakkt introduce new joint trading and custody service

Galaxy Digital, a financial services and investment management company providing digital asset exposure, has partnered with Bakkt to deliver a service for asset managers looking to acquire, build positions in and store bitcoin (BTC).

Bakkt, a digital asset derivatives trading and custody platform majority-owned by Intercontinental Exchange, will safeguard digital assets for clients via the Bakkt Warehouse, a qualified custodian of bitcoin regulated by the New York State Department of Financial Services.

Meanwhile, Galaxy Digital Trading (GDT), Galaxy Digital's affiliate, will provide market access and trading capabilities.

This direct connectivity between Galaxy Digital and Bakkt enables the two companies to offer clients best-in-class efficiency through the entire process of onboarding, trade execution and storage of their digital assets.

Tim Plakas, head of sales at GDT, explained that the partnership was designed to service the uptick in demand the two firms have received from traditional asset managers seeking access to physical bitcoin.

"These funds expect the same calibre of market knowledge and trade execution expertise in BTC as they would expect from any established traditional finance desk, and Galaxy provides that, while Bakkt delivers the high level of regulatory-compliant security required for storing digital assets," Plakas said.

According to Plakas, together, Galaxy Digital and Bakkt offer a safe, efficient, and well-regulated route into physical bitcoin access, one that has been already proven successful in the macro hedge fund space.

John Conneely, head of custody business development at Bakkt, commented: "Alongside our adoption of safekeeping requirements that are unique to the digital asset class and its infrastructure, the Bakkt Warehouse uses the same best-in-class, trusted enterprise security framework that protects ICE's dozen exchanges around the world, including the New York Stock Exchange."

Conneely continued: "As one of the largest trading operations in the digital asset space, Galaxy Digital's execution expertise and Bakkt's custody solution are highly complementary."

"Asset managers and hedge funds considering this service can be assured by the high standards we hold as a publicly-traded company with audited, public financial statements and an institutional-sized balance sheet," added Plakas.

Members of the post-trade technology market practitioner panel include: Andrew Hauser of Bank of England, Nike Trost of the Financial Conduct Authority, Andrew Kellner of Barclays, Robert Lamb of BlackRock, Jeremy Lewis of Credit Suisse, John Hagon of CLS, Gareth Jones of Euroclear GlobalCollateral, Alex Powell of Euroclear UK & Ireland, Joanne Hannaford of Goldman Sachs, David Hudson of J.P. Morgan, Daniel Maguire of LCH, Siobhan Clarke of M&G Investments, Katherine Wetmur of Morgan Stanley, Akbar Sheriff of State Street, and Mike Irwin of XTX Markets.

WFE issues industry guidance on non-default losses

The World Federation of Exchanges (WFE), the global industry group for exchanges and central clearing counterparties (CCPs), has set out how CCPs ensure that certain non-credit losses that might rarely occur in relation to central clearing are allocated in a transparent, predictable and equitable manner.

WFE guidance addresses the treatment of such 'non-default losses' (NDLs) as part of its 2019-2020 programme of work on incentives in clearing, and in the context of CCPs' mission to manage the timely and effective reduction of counterparty credit risk within the financial system.

The WFE noted in its guidance that: not all operational events lead to financial losses, enterprise-risk management and other lines of defence aim at prevention of incidents, whether financially damaging or not, and NDLs remain rare.

NDLs are of various types, each of which requires distinct analysis, and no top-10 CCP has in practice ever allocated NDLs to users, according to WFE.

Additionally, the WFE highlighted CCPs reserve the right to manage liability in line with industry practice, notably in relation to custodial disruption.

In the case of custody, the third party is itself regulated and the assets may also be 'bankruptcy remote' from the service provider's own balance sheet, it was noted.

It also explained that CCPs work collaboratively with users and supervisors to make derivatives contracts and securities transactions credible and systemically manageable, by minimising the impact of disruption from user default.

WFE said: "Clearinghouses are an integral part of exchange-traded financial markets and also support a large proportion of over the counter derivatives."

According to WFE, clearinghouses have supported markets through recent COVID-19 pandemic volatility.

The WFE observed that clearing houses have continued to perform the crucial role recognised by policy-makers after the global crisis of 2008. In doing so, they require market participants to back the risks they take (by posting margin and other resources).

Nandini Sukumar, CEO of the WFE, said: "Non-default losses may not be the main risk faced by CCPs, but it is still important to have a structured approach to dealing with them. That way, CCPs can devote more time to their day job, ensuring that uncertainty over counterparty credit exposures does not threaten the integrity of the financial system."

"This is why the WFE has taken the initiative to highlight the responsible, constructive practices employed by clearing houses in relation to potential incidents and their financial consequences if any."

A2X Markets implements post-trade system for brokers

A2X Markets, a South African stock exchange, has teamed up with MCI Consultants to introduce a post-trade system called Member Client Record and Allocation System (MeCRAS).

The new system will allow A2X brokers to undertake agency trades on behalf of their clients and easily manage the deal allocation and settlement process.

The system facilitates integration between the brokers' downstream systems allowing for seamless end-to-end processing.

The MeCRAS system is now live and is being rolled out to some brokers.

According to A2X, since the introduction of competition almost three years ago, one of the major challenges that brokers have faced is that their infrastructure was geared for a single exchange environment.

Brett Kotze, head of post trade at A2X, said: "The post-trade environment has been a significant challenge for brokers wanting to trade across markets and get a better deal for their clients."

"We are pleased to be partnering with leading technology company, MCI to help lower the barriers to entry and help our brokers achieve best execution and clear their trades in a seamless, automated, manner."

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The Emerald Isle

Maddie Saghir reports

Ireland boasts a reputation of growth in its funds industry, and despite COVID-19 challenges the Emerald Isle has plans to further bloom in the future

The green lush lands of Ireland has experienced significant growth in recent years in its asset servicing industry. You could say it is down to a bit of Irish luck, however, its robust regulatory regime, multi-skilled workforce and status as an English-language location within the EU, are all factors that have helped it grow from strength to strength.

Ireland's financial services industry has coped remarkably well since the financial crisis. Northern Trust said that it continues to see Ireland as a growth domicile and a location from which clients continue to extend their product ranges and grow their assets under management. On top of this, growth has also been observed in new clients launching funds for the first time.

But amid its successes, how has the Emerald Isle handled unprecedented challenges associated with the global pandemic, and what further challenges are on the horizon? Industry experts from Northern Trust, Irish Funds, and the Asset Management Exchange (AMX) discuss these and how the country has become a dominant force to be reckoned with.

A dominant force

Ireland experienced a significant rise in total fund asset services, funds and sub-funds after the financial crisis in 2008, and this growth has continued to rise making it a dominant player in the industry. Eoin Motherway, country head of AMX Ireland, notes that Ireland has been a resilient and progressive location for funds domicile and funds administration since 2008.

In fact, Motherway highlights that there has been a four-fold increase in funds under administration, now at 16,000 funds, with 14,000 people employed in the industry. While multiple domiciles are administered in Ireland, Irish domiciled fund assets have grown five-fold.

The split of product across that assets under management base of €3 trillion is very diversified with approximately 25 percent each in equity, bond and alternatives and 18 percent in money market funds, according to Motherway.

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He adds: "With 30 years of experience, a diversified product range, a respected regulator and firm focus on institutional investors makes Ireland a dominant force for the future of the funds business. The multi-jurisdictional servicing that can be found in Ireland further enhances the ability of global asset managers to have their various investor and vehicle structuring needs met in one location."

Kieran Fox, director of business development at Irish Funds, observes that exchange-traded funds (ETFs) are another area that has experienced significant growth over recent years.

During 2019, assets in ETFs in Ireland increased by 48 percent, totalling a €540 billion increase, across more than 900 ETFs, with Fox adding that Ireland now accounts for 63 percent of all European ETF assets.

Meanwhile, net sales into Irish domiciled funds have also been strong in recent years, with 2019 seeing net sales of €283 billion across all fund types. Fox highlights: "€252 billion of this was made up of net sales into UCITS, with ETFs disproportionately attracting more net sales. Demand for sustainable finance and environmental, social and governance (ESG) products are strong trends which have continued to increase."

Stormy weather

Ireland's successes have not been without challenges, and the current global pandemic has thrown a spanner in the works in terms of working from home and getting used to the new normal.

While the total of 7,707 Irish domiciled funds with assets more than €3 trillion by year-end 2019, growth continued for the first two months of 2020. This was reversed in March as a result of the impacts from the COVID-19 pandemic.

According to Fox, by the end of March, total assets in Irish domiciled funds stood at €2.7 trillion, representing a decrease of almost 11 percent from the beginning of the year.

Fox notes that the immediate focus of the fund and asset management industry in Ireland was to ensure staff could work effectively and securely from home. "Over the initial few weeks of lockdown, a significant effort was made on ensuring remote access and connectivity across teams and companies was in place to provide uninterrupted service to investors. During this time, there were also significant increases in market volatility and redemptions, which were navigated successfully despite operational stress," he says.

After the initial rush to accommodate the new working environment, Fox explains that the subsequent focus has been on ensuring a sustainable, longer-term approach to effective remote working while carefully considering the needs of staff.

Meliosa O'Caoimh, country head, Northern Trust Ireland, comments: "Our sense is that Ireland from a fund services perspective has had a 'good crisis'; momentum within the Irish funds industry has been stable throughout the pandemic, despite some deferment of new business."

She continues: "As their asset servicer, fund administrator and global custodian, our focus has been on supporting our asset manager clients – helping them progress their businesses plans and communicate with their investors through what have been unprecedented times."

Meanwhile, Motherway stipulates that there is a natural concern on the role of outsourcing in countries like India or the Philippines. "Their ability to move to a work from home environment has varied by country and by the firm that outsourced."

"The industry has seen many servicing firms re-onshore or near-shore work that was outsourced. This has meant staff who had previously worked in an operational role and had progressed to a role outside of operations have had to move back."

"While this reaction by firms is admirable in protecting clients and investors, it is not sustainable in the long-term as staff will want to return to their planned career path," he explains.

On the topic of technology, Motherway adds: "The availability of technology resources has also been a challenge during COVID-19, something we've seen with some managers and investors. In our view, the role that institutional platforms can play in alleviating the burden of operation and governance would help focus on their core areas."

Weighing in on this, O'Caoimh says: "The pandemic has accelerated the take-up of digital technologies and further digitisation across asset management – for example postal volumes have been significantly reduced – and we expect many of these solutions for electronic delivery of investor information to be our 'new normal' post-lockdown."

Brexit taking a backseat?

Although COVID-19 has dominated the news stations recently, with Brexit taking a back seat, industry experts say that Brexit plans are still very much being worked on and developed in the financial services space.

O'Caoimh affirms that at Northern Trust, the long-term focus remains the same – to drive technological innovation that supports the needs of our clients and their investors. She says: "Whatever the outcome of the ongoing dialogue on Brexit, we expect Ireland's long-standing, excellent relationship with the UK and primacy as a European funds domicile to provide continuing opportunities."

Fox also highlights that with the possible exception of a few short weeks at the beginning of the pandemic, the industry's attention on Brexit has never really taken a back seat.

"We remain focused on ensuring there is an ability to manage investments in an efficient way, within fund structures that can continue to be offered, cross border, to investors, ensuring greater choice, competition and ultimately better financial outcomes. For example, we recently engaged with HM Treasury and responded to their consultation on the formulation of a new Overseas Funds Regime to allow funds to continue to be made available to UK investors after the Temporary Marketing Permission Regime ends," he cites.

Irish Funds are also focusing on how the fund and asset management industry can help with the economic recovery post crisis.

Reaching new heights

Like other countries around the world, Ireland's financial services industry has been rattled by COVID-19-related challenges but it has proven itself to be strong and stable to weather through the storm. In terms of future growth, industry experts see environmental, social, and governance (ESG) and sustainable finance initiatives as ways to utilise further opportunities. O'Caoimh remarks that the Irish funds industry has a consistent track record of success and growth. Northern Trust intends to continue playing a role in that story, with particular focus on the automation and digitisation of the industry, as well as playing its role in the ESG debate. She says: "Ireland is well-positioned to play a leading role in the digitisation of the global funds industry. As the industry progressively becomes more efficient, and investors increasingly demand savings and pension information at the touch of a screen, industry participants will need to continue to pivot their operating models to embrace digitisation. We believe our teams in our Irish fund administration centres of excellence have the capability, creativity and passion to be a driving force for this change."

Similarly, Fox notes Irish Fund's commitment to help shape and implement the package of EU sustainable finance initiatives, meeting the expectations of stakeholders and improving outcomes for investors, regulators and society.

He explains: "To this end, Irish Funds has recently launched a new sustainable finance webpage, held a webinar and published an information note on the EU Sustainable Finance Regime. Assisting with rebuilding the national and European economies will also remain a priority for the industry for a considerable time to come."

"Whether by assisting with the efficient deployment of capital to companies and projects, helping individuals save for their future needs or by growing employment and the associated economic contributions that follow, the industry in Ireland remains committed to playing a part in the recovery," Fox adds.

Alongside this, Motherway highlights that Ireland is already internationally renowned for its reputation in processing, administering and distributing funds. In addition, following Brexit, Ireland will be the largest native English-speaking country in the EU, according to Motherway. He says: "There is a highly educated young population and the location and time zone makes it ideal for this industry. The recent period of remote or distributed workforces, combined with emerging centres of excellence around the country (nearly 25 percent) of the funds industry is located outside of Dublin), means Ireland has the skills and capacity to help the asset and fund industry to grow."

Additionally, Motherway says the support of the Irish Government is also noteworthy. They have committed to the industry through a number of approaches and initiatives including: appointment of a dedicated minister for financial services, the published framework for the growth of the industry, Ireland for Finance 2025, focus on sustainable finance by way of policy and the UN accreditation a Financial Centre for Sustainability.

"All of this means that Ireland is leading the way for the new normal of the funds industry," he concludes.

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Coming out on top

Becky Bellamy reports

Find out the results of this year's R&M Investor Services Survey

Every year asset managers and other financial services clients take part in the R&M Investor Services Survey to score their service provider out of seven. Ratings are based on performance in categories such as corporate actions, reporting, settlement and safekeeping, and client service and account management.

The survey, which is normally published in April, was delayed due to the ongoing COVID-19 pandemic, however, it was conducted during the same period of November 2019 and the end of January 2020. Responses came from over 400 asset managers and asset owners globally.

The relationship between the service provider and client is long term and often entered into after much research and evaluation of competing offers. Once the decision is made, each party must commit to the other and changing that relationship does not happen frequently as it is usually too difficult and expensive.

After the initial honeymoon phase, the relationship moves onto a different level where it is all about maintenance. It is important both at the evaluation stage and during the much longer period of general maintenance to monitor service levels.

Overall score

		2020	2019	Change 20/19
1	Pictet (1)	6.43	6.24	0.19
2	RBC I&TS (2)	6.32	6.23	0.09
3	HSBC (3)	6.10	5.99	0.11
4	Northern Trust (4)	5.79	5.91	-0.12
5	BNY Mellon (5)	5.40	5.46	-0.06
6	JP Morgan (6)	5.33	5.45	-0.12
7	State Street (8)	4.79	5.23	-0.44
8	Citi (9)	4.74	5.16	-0.42
	Overall Score	**5.90**	**5.87**	**0.03**

Keeping the top spot on the overall score table was Swiss asset manager Pictet, jumping 0.19 points to 6.43. Clients described the service of Pictet as "excellent" and "consistently the best".

RBC Investor & Treasury Services (I&TS) also kept its position of second place, totalling 6.32. One respondent said: "We have recently transferred to RBC and the service provided is a lot better than our old one. People are available to help with queries and seem to understand our needs."

HSBC came in third place, totalling 6.10, with an increase of 0.11, while Northern Trust came in at fourth with a total score of 5.79. Although Northern Trust kept the same position as last year, it saw a decline of 0.12 points from its 2019 score of 5.91.

BNY Mellon and J.P. Morgan also saw decreases of 0.06 and 0.12, respectively. State Street showed the biggest fall from its 2019 score with a decrease of 0.44, but it did jump from eighth to seventh spot.

Commenting on State Street as a service provider, clients noted: "We find that for our purposes the State Street online platform is the best. They did make some changes that we were not too fond of but once we figured out how to navigate the system, we get the same reports from before."

Citi jumped up a position to eighth but also showed a decrease of 0.42, taking its 2020 total score to 4.74.

Top 200 asset managers

		2020	2019	Change 20/19
1	HSBC (1)	5.87	5.48	0.39
2	Northern Trust (2)	5.58	5.43	0.15
3	BNY Mellon (6)	5.12	5.11	0.01
4	State Street (5)	4.82	5.15	-0.33
5	JP Morgan (3)	4.78	5.32	-0.54
	Overall Score	**5.30**	**5.26**	**0.04**

The survey also looks at how the top 200 global asset managers rank, based on the value of global assets under management. First place was awarded to HSBC, with an increase of 0.39 points from its 2019 score of 5.48.

Last year, HSBC also jumped 0.21 points from fourth place to first. Clients revealed that service levels at HSBC have "remained high during the year across all areas".

Experiencing the biggest loss was J.P. Morgan, who dropped 0.54 points to 4.78 and into fifth place. Although some respondents said over the last 12 months they have experienced "excellent service", others suggested it could be "a bit more proactive" in certain areas.

Although it moved up a place to take the fourth spot, J.P. Morgan saw a loss of 0.33 from its score the previous year.

Elsewhere, Northern Trust came in second place scoring 5.58 and BNY Mellon saw a slight increase of 0.01 taking its total score to 5.12. A client of Northern Trust said it is "by far our number one custodian". The client explained that this is "due to the day-to-day people that we deal with over at the bank. It all comes down to the person on the other side of the phone".

The experts

		2020	2019	Change 20/19
1	BNY Mellon (3)	5.27	5.20	0.07
2	Northern Trust (4)	5.14	5.08	0.06
3	JP Morgan (2)	5.06	5.30	-0.24
4	Citi (5)	4.74	5.08	-0.34
5	State Street (6)	4.62	5.07	-0.45
	Overall Score	**4.99**	**5.03**	**-0.04**

When it comes to 'the experts' results, that is, results from respondents that work with five or more providers, BNY Mellon came out on top, jumping from third spot. Clients said that BNY Mellon has provided "high levels of co-operation and a smooth-running service".

Last year, BNP Paribas took the top spot, however, this year the service provider did not have enough responses to qualify for the tables, according to R&M Surveys. Some comments from respondents included "excellent relationship and dedicated professionals", while another said that "reporting is old school i.e. in excel, delivered by email".

Meanwhile, Northern Trust jumped from fourth spot last year into second, scoring 5.14. The table also showed that J.P. Morgan dropped 0.24 points and Citi saw a decrease of 0.34. State Street witnessed the biggest loss at 0.45 but did move from sixth into fifth. One client explained that State Street "has been ineffective at resolving inquiries".

Geographical analysis

UK

		2020	2019	Change 20/19
1	Pictet (2)	6.36	6.07	0.29
2	RBC I&TS (1)	6.18	6.08	0.10
3	HSBC (3)	5.95	5.97	-0.02
4	Northern Trust (4)	5.59	5.83	-0.24
5	State Street (6)	5.16	5.56	-0.40
6	BNY Mellon (8)	5.06	5.12	-0.06
7	JP Morgan (5)	4.93	5.57	-0.64
8	Citi	4.39		
	Overall	5.63	5.80	-0.17

Mainland Europe

		2020	2019	Change 20/19
1	Pictet (3)	6.45	6.31	0.14
2	Credit Suisse (1)	6.37	6.64	-0.27
3	RBC I&TS (2)	6.27	6.36	-0.09
4	Northern Trust (4)	6.08	6.08	0.00
5	JP Morgan (5)	5.46	5.30	0.16
6	BNY Mellon (6)	5.25	5.30	-0.05
	Overall	6.17	6.24	-0.07

Sitting top of the ranks for the UK and Mainland Europe was Pictet. The service provider saw its score increase by 0.29 in the UK, while in Mainland Europe it increased by 0.14.

In the UK, J.P. Morgan dropped by 0.64 points, taking its total to 4.93, while in Mainland Europe, it saw a small increase of 0.16.

Other results in the UK saw HSBC in third and Northern Trust in fourth. State Street dropped by 0.40 points but did move from sixth to fifth place.

Elsewhere, BNY Mellon's score declined by 0.06 points and was placed in sixth.

In Mainland Europe, RBC I&TS dropped into third with 6.27 after seeing a 0.09 decrease from its score in 2019, Northern Trust came in fourth place scoring 6.08 – the same score as last year.

Finally, BNY Mellon scored 5.25, a 0.05 decrease in its score of 5.30 last year.

North America

		2020	2019	Change 20/19
1	RBC I&TS (1)	6.47	6.26	0.21
2	Pictet (2)	6.44	6.20	0.24
3	Northern Trust (3)	6.12	5.97	0.15
4	BNY Mellon (4)	5.94	5.79	0.15
5	JP Morgan (5)	5.54	5.31	0.23
6	State Street (6)	3.80	4.77	-0.97
	Overall	6.01	5.85	0.16

Meanwhile, in North America, RBC I&TS kept its first-place position, increasing its score by 0.21. However, Pictet closed the gap on RBC I&TS from 0.6 to 0.3, after seeing an increase of 0.24 from its 2019 result. Commenting on RBC I&TS, one respondent said its client service is "definitely one of the best across the industry".

The client noted: "When we need support with queries for specific market practices they always take the time to clearly explain the details to us so that we can make the right decisions related to setups and operational processes. The team is approachable, and you feel that you can reach out to them at any time. They are always available to have a chat and help us with our queries."

Witnessing the biggest decline was State Street, dropping 0.97 points from last year to 3.80.

Northern Trust scored 6.12 and BNY Mellon scored 5.94, both experienced an increase of 0.15 from its score last year and J.P. Morgan jumped 0.23 points to 5.54.

A taxing task

Maddie Saghir reports

From the process of reclaiming to the lack of a centralised, coherent and global framework, tax continues to be a complex issue, industry experts explain more

Tax is something that requires more education in the financial services industry. From the process of reclaiming to the lack of centralised, coherent and global framework, tax continues to be a complex issue.

In terms of what investors need to take into consideration when it comes to tax, consultant and subject matter expert Ross K. McGill highlights that the big question is 'how much tax am I missing out on?'. He says: "If the amount is small, it's probably not worth trying to get it back. If it's large, then it's worth pursuing – as long as you understand what's involved, how long it might take and what it's going to cost you."

Vicky Dean, COO and vice president of sales and relationship management, Americas, at Goal Group, says investors should not only be aware that withholding tax is deducted from their dividend payments, but also that it can be a significant amount, depending on tax treaties between the country of residence and country of investment.

Dean highlights that every investor wants to yield the highest return possible and unfortunately, if they are not knowledgeable in the world of withholding tax and how to reclaim it, they lose out, as they are being taxed twice at a high statutory rate; once by their country of residence and again by the country of investment.

"Based on their domicile, the entity type and the market of investment, there is often a percentage that can be reclaimed from the foreign tax authorities. In addition, as all countries have varying statutes of limitations, once this timeframe has passed, the money is legally no longer recoverable," says Dean.

Goal Group estimates that around $38 billion remains unclaimed each year. Essentially, a percentage of the tax deducted is owed to the investor, as the money is rightfully theirs. Due to complex rules, calculations and submission processes, as well as the fact that it is not widely publicised that this money can be reclaimed, it is often a neglected process.

Tax reclamation

In the securities services industry, there is a mixture of knowledge when it comes to tax reclamation. And even then, when it is understood, reclaiming tax is a tricky, complex process.

Dean observes that custodians will be aware but may only deal with a handful of markets, while investors may be aware but may not understand the processes and/or calculations or want to undertake the laborious process of completing forms.

"Additionally, even though there is awareness, fund managers, custodians, banks and even investors may not have the resources to be able to follow these reclaims through. On the other hand, no. This is not something that is widely advertised, therefore, money that is not reclaimed is essentially lost, once it becomes statute barred," Dean states.

Once it comes to actually reclaiming the tax, Len A. Lipton, managing director, sales at GlobeTax, affirms that the process for reclaiming excess foreign withholding tax is complex, paper-intensive, and ever-changing. "As it is expensive and risky to administer tax services – especially in an environment of fee compression — many asset servicers struggle to provide a comprehensive service to clients. Many financial institutions leave tax reclamation to the investor," Lipton says.

McGill explains that tax relief and quick refunds can only be processed by financial institutions, although they themselves may sometimes use third parties to help them do this.

He says: "Generally, for each country of investment there will be a defined process for reclamation that may vary depending on the nature of the investor (i.e. whether they are an individual, a corporation, a fund etc), the size of the claim (larger claims are audited by tax administrations more frequently), the type of income and the rules about how that claim should be processed."

"The principle, however, is always the same. The investor (or their agent) must file the correct reclaim form for that jurisdiction and provide supporting evidence of who they are (typically a certificate of residence) and what their claim is (proof of income and withholding – usually a tax voucher)."

"Recent fraud cases have meant that tax administrations are increasing their scrutiny of claims and may ask for much more information, including trading history. As the nature of the topic is complex, so are the available services," McGill adds.

Challenges

The biggest challenges around tax, McGill stipulates, is that the cost-benefit equation often doesn't work because the claim value is too small. Indeed, according to McGill, the amount of work required to prepare, submit and follow up a claim, which may take years, is usually not worth the value of the claim returned.

McGill says: "Most financial institutions and third parties apply a 'de minimis' threshold of claim value below which even they don't process a claim. For institutional investors, the claim volumes and values are usually much higher and so its worth filing claims. However, the challenges are still numerous. Investors want to get their money back as fast as possible – and that means relief at source, but not all countries allow it and not all financial institutions support it, even when it's allowed."

Additionally, gathering the necessary documentary evidence is difficult and there is only partial automation and less standardisation in this area, McGill observes.

"The mechanisms for processing claims are generally manual and have lots of contingencies. If your claim is in France, your claim cannot go directly to the French Authority; it must go via a French Agent bank. If your claim is on an American depositary receipt, your claim must go to the sponsoring bank, not the tax authority. The biggest challenge for an investor is having enough information about the issue to make intelligent and informed decisions about their likely entitlements, whether they are worth pursuing and if so, who is best placed to help - if they don't want to do it themselves," comments McGill.

"The biggest challenge for an investor is having enough information about the issue to make intelligent and informed decisions about their likely entitlements, whether they are worth pursuing and if so, who is best placed to help - if they don't want to do it themselves"

Reworking the process

Adding to the challenges is a lack of a centralised, coherent and global framework.

Lipton argues that inconsistency makes sense. "Countries are reluctant to relinquish their sovereign rights to administer their country's tax policy. After all, governments use tax to fund their priorities, so each country naturally maintains a perspective on their needs and the best way to fund them," he says.

According to Lipton, from a withholding tax recovery standpoint, those different perspectives often mean that each taxing authority may require different evidence or data to grant relief. This can be confusing to claimants, frustrating both their efforts and efforts of their custodian to file claims or ensure relief is granted upfront.

Meanwhile, international bodies like the EU and OECD have attempted to remedy the situation by developing multilateral information exchange agreements, the Common Reporting Standard, and Treaty Relief and Compliance Enhancement (TRACE) to enable transparency and tax relief. Countries, however, are hesitant to adopt the provisions, Lipton notes.

Due to the inconsistent knowledge base, investors become disproportionately responsible for identifying opportunities to reclaim excess tax or even lodge documentation ahead of time to mitigate excess withholding up-front

"The winds might be shifting, however, as there is significantly more attention focused on withholding tax than ever before. Both tax authorities and investors recognize the value of withholding tax recovery and new alliances are being regularly forged to develop solutions that account for the needs of all parties in the custody chain," he affirms.

Weighing in on this, Dean points out that with regards to withholding tax, regulations, rates and submission methods are constantly evolving.

"Due to our dedicated research department, a strong network of industry contacts and publications and some high-profile partnerships, globally; we monitor, track and implement these changes on a continual basis. We would expect that eventually there may be a global standard to be followed for all markets, however, this is a long way from happening and until that point, we will continue to monitor all markets and adapt our service offering accordingly," Dean adds.

Education is key

In order to develop a better understanding of this space, further education and guidance around tax in the securities industry is needed.

Reinforcing this point, McGill comments: "When I joined the industry in 1996, I couldn't find a book on withholding tax, so eventually I wrote one, three in fact. I also wrote 22 benchmarks that could be used to comparatively assess service levels either by an asset manager or internally by a financial institution or third party vendor."

"Those benchmarks establish standardised methods for determining the effectiveness of any given part of the tax process and a gap analysis between what's being offered and what the claim opportunities are."

"The EU also noted in its 2013 Tax Barriers Business Advisory Group Report that one of the main obstacles to efficient withholding tax systems in Europe was the lack of standardised, clear guidance from tax administrations about tax recovery processes. That remains the case today."

Responding to this gap in tax education, Lipton says that GlobeTax spends a significant amount of time on market education.

"Many industry professionals do not know about double taxation treaties or the benefits of foreign tax recovery. Due to the inconsistent knowledge base, investors become disproportionately responsible for identifying opportunities to reclaim excess tax or even lodge documentation ahead of time to mitigate excess withholding up-front. Failure to understand these tax rules means losing out on tens of basis points of annual performance and, in some cases, violating fiduciary duty," Lipton affirms.

Over at Goal Group, Dean remarks: "We believe that all investors should be aware of the opportunities available which allow them to maximise their returns and reclaim what is rightfully theirs, but perhaps the opportunity lies in educating and guiding them on both the opportunity and the services available to them to facilitate these reclaims on their behalf."

"Often the opportunity will be ignored, due to the work involved in obtaining the reclaim, time constraints, lack of knowledge or resources or a limited understanding of what is possible. We network through several industry groups to try to increase awareness and knowledge, however, the biggest issue is that often, people believe that if something is too good to be true, there is a catch – in this case, there isn't."

"Unfortunately, due to a lack of understanding, education and promotion, these opportunities are often overlooked, until it's too late," Dean concludes.

A gap in the market

Melville Rodrigues of Ocorian provides an overview of the Professional Investor Fund – a new fund proposal for the UK funds industry – and outlines his hopes for the next steps of the initiative

In its Spring 2020 Budget, the government stated that it will 'undertake a review of the UK's funds regime during 2020. This will cover direct and indirect tax, as well as relevant areas of regulation, with a view to considering the case for policy changes'.

Those involved in lobbying for the Professional Investor Fund (PIF) welcome this statement. We feel there is a gap in the UK's fund offering for professional investors in order to give greater choice alongside other international options. In particular, fund management houses looking for a closed-ended or hybrid fund to hold UK real estate investments (which have the attributes of being unlisted, tax transparent and offering tradeable units) have limited choices for a UK domestic structure. Their onshore fund choice (with these attributes) is restricted to an open-ended authorised fund. An open-ended fund must comply with operational requirements that erode returns and may be inappropriate for holding illiquid assets.

Representatives of HM Treasury and the Financial Conduct Authority (FCA) have constructively engaged with the PIF initiative. Details of the PIF proposal are contained in the Submission Document of the Association of Real Estate Funds (AREF), and the proposal is supported by the Investment Association (IA). The IA has incorporated the PIF within the framework set out by the UK Funds Regime Working Group. Under this framework, the IA suggests the creation of a new Onshore Professional Regime, in which the PIF would play an important role.

How will a PIF be structured?

The PIF is modelled on the Authorised Contractual Scheme (ACS) legislation, with appropriate revisions flowing from the PIF not being an authorised fund. For the purposes of the (current) UK regulatory regime, the PIF would be an alternative investment fund (AIF) and an Unregulated Collective Investment Scheme (UCIS).

It is envisaged that the PIF will be formed by contract—formalised as a deed (PIF Deed)—initially made between the PIF's Alternative Investment Fund Manager (AIFM) and depositary. On admission, investors in the PIF would become parties to the PIF Deed. The legal title to the assets would be held on behalf of the investors, and the investors would be jointly the beneficial owners of the PIF's assets. The beneficial title in the assets will be held as tenants in common under English law, or in Scotland as common property. The AIFM would make decisions on behalf of the investors about the acquisition, management and disposal of the assets as well as risk management, subject to provisions within the PIF Deed, and those decisions would be binding on the investors.

For practical purposes, I envisage that—as the PIF does not have a separate legal personality (like an English Limited Partnership (ELP) and ACS))—equivalent solutions for holding the legal title of assets will be adopted for the PIF as in the case of the ELP and the ACS. These solutions will need to

The tax proposals for the PIF follow that of a co-ownership ACS, modified on account of the PIF not being an authorised fund. As the PIF will not have its own legal personality, it will not be within the charge to direct tax

take into account the regulatory responsibilities of the AIFM and depositary. For instance, the PIF may need to hold:

- Real estate in England and Wales via two nominee companies (and one in Scotland) that is companies holding the asset on trust for the benefit of investors

- Listed securities and other financial instruments, via a custodian

There will be relevant regulatory controls for the AIFM and depositary.

What regulatory issues need to be addressed?

The PIF proposal suggests that key regulatory issues are addressed by the PIF:

- Investor status - Having the same category of investors as are permitted to invest in an ACS. For example, direct investment in a PIF would be restricted to investors who either invest a minimum of £1 million or are professional institutional investors. Other investors can only access the PIF through feeder funds that satisfy the professional institutional investor status

- Fund status - Being an AIF for the purposes of the Alternative Investment Fund Managers Directive, managed by an AIFM, and having a depositary. In the case of listed securities and other financial instruments, the depositary appoints a custodian

- Marketing - Being a UCIS for UK regulatory purposes, which means being marketed under the UCIS regime

- Registration - Being established and operated via a registration of the PIF and its investors at a registry (PIF Registry) similar to that which applies in the case of an ELP UK Limited Partnership. The AIFM will be required to register with the PIF Registry details about the PIF including its principal place of business, investors and any changes in the investors. I envisage that the PIF Registry will be administered by Companies House, and Companies House will issue on completion of the registration process a PIF Certificate of Registration. The PIF Certificate of Registration will be conclusive evidence that the PIF came into existence on the date of its registration—equivalent to section 8C of the Limited Partnerships Act 1907 (as amended)). It is envisaged that certain information at the PIF Registry (such as its principal place of business) will be publicly available. However, other information (such as details of the Inves-tors) will only be available to HMRC and the FCA, respectively for registration, tax collection issues and addressing concerns about harms/risks

How will the PIF be treated for tax purposes?

The tax proposals for the PIF follow that of a co-ownership ACS, modified on account of the PIF not being an authorised fund. As the PIF will not have its own legal personality, it will not be within the charge to direct tax.

The PIF will be tax transparent with tax liability applying to the investors:

Income and capital gains

- Income will be taxed on the share attributable to each investor

- Capital gains will be taxed on each investor disposing its PIF units, but not on gains realised at the PIF portfolio level

In the case of non-UK investors, the fiscal transparency of the PIF means that it will not be treated as resident for the purposes of double taxation conventions.

Assuming that the overseas jurisdiction recognises the PIF as a transparent entity, investors should be entitled to the same treaty benefits as though they had made the PIF's investments directly.

Where the PIF meets the non-resident Capital Gains Tax (CGT) property richness condition, non-resident investors will be subject to non-resident CGT legislation.

Stamp duty

The Stamp Duty proposals for the PIF are modelled on the provisions that apply to the ACS—for instance, in the case of PIFs holding UK real estate:

- No transaction tax, including Stamp Duty Land Tax (SDLT) would apply on the transfer of units in a PIF
- As is the case with the co-ownership ACS and Property Authorised Investment Funds (PAIFs), SDLT seeding relief applies to the PIF. This will assist in launching new PIF projects with a similar clawback mechanism as applies for co-ownership ACSs and PAIFs to limit the scope for tax avoidance

Melville Rodrigues
Senior fund services consultant
Ocorian

VAT

The government helpfully announced in the Spring 2020 Budget that it will undertake a review to consider the VAT treatment of fund management fees. I hope that this treatment will take into account the PIF.

Tax anti-avoidance

The PIF proposal contains suggested tax anti-avoidance rules to prevent PIFs being used in a way which is not intended. The proposal also suggests that further technical points are addressed through working groups in government and industry—for instance, the treatment of holdings of PIF units for inheritance tax purposes or in addressing other avoidance issues.

Next steps for the PIF initiative

Many UK fund management houses support the PIF. As and when any PIF legislation is enacted, fund management houses will be able to utilise the PIF as an onshore fund structure to pursue real estate, infrastructure and other investment strategies related to the UK and elsewhere. In addition, the PIF is designed to be attractive to domestic as well as to international pension funds and other institutional investors. The PIF will reduce barriers for new funds, and enhance the UK's brand for fund and asset management. The PIF will also enable the fund management houses to facilitate the UK government's goals for COVID-19 reconstruction, infrastructure revolution and 'levelling up' the nation, as well as to respond to the opportunities presented by Brexit.

I hope that the government progresses its review of the UK's funds regime with a consultation that considers the gap with the current UK fund offering, and the merits of legislating for the PIF to address the gap.

Get in touch

If you have any questions regarding the PIF proposal or how Ocorian could support your fund throughout its life cycle with their one-stop-shop fund services solutions, please contact them here. You can also view their full range of fund services here.

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CSDR: how market participants can best prepare

Maddie Saghir reports

Derek Coyle of Brown Brothers Harriman discusses the potential impacts that CSDR will have on custody markets and how firms can best prepare themselves for the upcoming regulation

What impact will CSDR have on custody markets?

The regulation aims to improve on settlement rates for securities settled in European central securities depositories (CSDs) and bring those settlement rates to the highest levels possible. While the initial focus of the regulation seems to be on the negative measures being applied, the Central Securities Depositories Regulation (CSDR) also ensures that trading parties consider preventative measures and perhaps re-consider riskier investment strategies and approaches which might be leading to trade failures. The regulation should gradually apply more best-practice behaviours where trading parties will see and feel the punitive measures of not settling on time. Firms can look to influence their settlement success both directly through internal improvements and developments, and then externally by working with their providers and counter-parties for best results.

Finally, it continues the approach for harmonisation across European markets, following on from the T2S (Target2 Securities) efforts in the past years. CSDR should apply standard approaches to settlement timing, communication and the resulting outcomes such as buy-ins, which has not tended to be aligned across European markets so far.

How are CSD participants preparing for CSDR?

Priorities focus on two areas at this stage – the Settlement Discipline Regime (SDR) and then preventative measures associated with avoidance of the impacts of the SDR. The SDR covers the cash penalties associated with not settling a trade on the Intended Settlement Date (ISD) and also buy-ins becoming mandatory for the markets in scope after a number of business days where a trade fails to settle. Preventative measures look at where proactive steps can be taken to avoid penalties or buy-ins, where possible. The focus of preventative measures looks at stronger partial settlements, indicative reporting and improvement of procedural and communication chains to allow for best settlement rates. Ancillary services such as securities lending and exchange-traded funds (ETFs) also need an investigation to fully understand the CSDR impacts.

Is it important for firms to continue working on preparations around CSDR implementation, even with the deadline push back?

Absolutely – it's expected that big efforts will be needed ahead of the implementation date. While the push back of the deadline to February 2021 is welcomed, it's expected that the next six or more months will need much work to be ready. Firms should already have a good sense of their likely impact of the regulation for them, which would combine a view of historical data and trends and then estimating the project effort required to be compliant from the go-live date. Because of the impact across trading functions, back-office, engagement with custodians and other providers – it's clear that much will need to be done to be fully ready.

Why are there particular concerns around the mandatory buy-ins process?

Indeed, there seem to be more questions than answers at the moment when it comes to the buy-in process becoming mandatory for the markets in scope of CSDR. From one perspective, the role of the third-party buy-in agent seems to need further clarification, with only one confirmed buy-in agent in place, and perhaps one or two others in consideration. The scope coverage which buy-in agents can support is also to be determined, both in terms of operational needs and time-zone coverage, and then also when it comes to supporting buy-ins of various instrument types and asset classes.

Furthermore, there are open questions regarding how buy-ins will flow operationally, in order for securities to be successfully bought in and settled. There are industry discussions ongoing over how the buy-in would be triggered, how the original transaction should be put on hold, what this can mean for responsibility of associated CSDR penalties and buy-in charges, and finally how buy-ins would be reported. The need to potentially trigger multiple buy-ins when there can be a security failing in the middle of a chain of transaction is also being assessed, with a consideration to use a "pass-on" mechanism to avoid needing to trigger multiple buy-ins being proposed.

Finally, there are some debates over 'downstream' impacts of buy-ins, such as what would happen in the case of securities price changes from the time of the original trade being agreed to when the buy-in would finally settle. The implications here on fund accounting, net asset value (NAV) calculations, cash availability projections and corporate actions events are being reviewed.

And how will this impact fund liquidity?

Fund liquidity can have a number of impacts as a result of buy-ins becoming mandatory. First off, there is the scenario where a firm would need to fund for both the original transaction which failed to settle on the ISD, and then also for the buy-in which was triggered. This would naturally limit the availability of funding for other requirements, such as securities lending programmes.

There is potential for two buy-ins to be attempted for a failing security, and if neither of those are successful, then a cash compensation scenario is triggered where a cash equivalent should be provided to allow for the failing trade to settle. This cash compensation option can also impact on fund liquidity as it may require adjustment of a firm's strategy and available liquidity to allow for such settlement.

Do you think asset managers are still struggling to understand the implications of CSDR and the compliance measures they should implement?

Firms are gathering momentum when it comes to understanding CSDR and the impacts for their organisations. Over the past years, there have been many regulations applied to the post-trade world – such as the European Market Infrastructure Regulation, Markets in Financial Instruments Directive, Securities Financing Transactions Regulation, the second Shareholder

Rights Directive – and if a sequential view of regulations and go-live dates is taken, then CSDR starts to get more attention as 2020 progresses.

Another challenge can be where the impact of the regulations is vast across an organisation – potentially hitting front office trading operations, back-office support, legal and compliance teams, technology efforts and project work managing the associated resource and budget needs. Bringing all of these efforts together and progressing with defined CSDR focus can take time to get going.

What do you make of ECSDA's letter to the European Commission asking for a further one-year delay on top of February 2021? Is this extra time needed?

The letter from the CSD community is interesting as it shows where the industry as a whole feels that more time would be required to be fully ready. This shows that it is an industry-wide understanding of readiness rather than a request coming from individual firms or industry associations representing the buy-side, sell-side or custodians. Recent conversations with the European Central Securities Depositories Association (ECSDA) show that they are also working towards harmonisation across their members when it comes to the Settlement Discipline Regime – in particular when it comes to penalty reporting and settlement, message formatting and buy-in handling.

There is recognition that the broad-ranging impacts of the regulation will need time to be fully ready. The European Commission has taken the general approach that there has been plenty of time available to work towards readiness, after the initial publication of CSDR legislative documents in 2014. However, recent events such as the COVID-19 pandemic and the availability of people to continue working on such regulatory efforts would indicate that more work will be needed across the whole industry for infrastructure, messaging and operational alignment. Thus, we await the response from the European Commission to this proposal from ECSDA.

What would your advice be for firms to ensure they are fully prepared in time for the extended deadline?

I would summarise these into the below items:

- Understand the regulatory aim and what it expects to achieve, and this will help shape the intended impact for your position in the trading chain.
- Assess your instrument types, asset classes and current services which are being traded and settled in European locations – and where possible, use the opportunity to assess historical data trends for likely future impacts. This can allow the chance to view where there may be challenges in certain markets or when working with certain counter-parties when the regulation goes live.
- Work with your providers and vendors to confirm likely impacts and assess where you can work together on readiness. Providers may be able to provide certain additional data or reporting which can show your projected CSDR impact. They can also provide market updates, both from their own work to be ready and from what is discussed in industry forums and workshops.
- Have a timeline to 'work back' from – meaning looking at the go-live date and applying what needs to be in place before then. Keep in mind that with the implementation date scheduled for February 2021, this would likely mean needing to have more efforts in place by the middle of Q4 2020, allowing for some time for any testing, while also considering the year-end freezes that are usually applied for any "change" activities.
- Understand the impact on fund accounting and NAV calculations.
- Monitor for industry updates when it comes to topics such as the expected implementation date, and other open items of interest such as buy-ins.

Derek Coyle
Vice president, global custody product
Brown Brothers Harriman

BNP Paribas Securities Services has appointed Franck Dubois, the current head of France and Belgium, as regional head of Asia Pacific (APAC).

In his new role, Dubois will continue to expand the business in APAC, where BNP Paribas Securities Services has seen an average yearly increase of 18 percent in assets under custody over the last six years.

Based in Hong Kong, Dubois will report regionally to Paul Yang, CEO of corporate and institutional banking (CIB) APAC, while reporting globally to Alessandro Gioffreda, global head of territory management.

Dubois has held a number of senior roles within the bank's CIB and securities services business in APAC and Europe.

Yang commented: "Dubois brings with him direct experience from our biggest markets in Europe, as well as knowledge of the local environment having previously worked in Hong Kong."

Gioffreda said: "Under [Dubois'] leadership, we intend to continue to grow our business in APAC, positioning ourselves as a long-term partner to our clients and accompanying them in their domestic and international development."

Meanwhile, Pierre Jond replaces Franck Dubois as head of France and Belgium, effective 1 August. Jond will also report to Gioffreda.

Jond, who joined in 1994, is currently the chief of staff for Patrick Colle, CEO of BNP Paribas Securities Services. His previous roles include head of corporate trust services and head of Australia and New Zealand.

BNY Mellon has appointed Caroline Butler as the global head of custody.

Based in New York, Butler will report to Roman Regelman, senior executive vice president, head of asset servicing and digital. In her new role, Butler will lead the product strategy and will work with the key stakeholders across asset servicing and the entire firm.

According to BNY Mellon, Butler inherits an outstanding global team, who will work with her to drive the company's efforts to transform its global custody offering, embrace new realities and markets, and modernise custody platforms.

In addition to her new role, Butler will also become a member of the asset servicing and digital executive council at BNY Mellon. Prior to BNY Mellon, Butler spent nearly two decades at J.P. Morgan, where she was most recently head of global custody product for the Americas.

In this role, Butler was responsible for leading the development of the exchange-traded funds servicing product.

Her experience includes roles across a range of investment services and trading businesses primarily centred on product management and development.

Butler began her career in Europe as a fund accountant for AIB/BNY Securities Services, a Dublin-based joint venture between the AIB Group and BNY Mellon. She also worked in Australia for two years as a portfolio analyst for Bankers Trust.

Commenting on the appointment, Regelman said: "Custody is core to our business and what we are best known for by many of our clients. As such, a strong global custody platform is absolutely essential to our competitive position."

"We are extremely pleased to have Caroline Butler join BNY Mellon to lead our custody team and help drive the transformation taking place as digital and new operating models play increasingly important roles in how we meet client needs," he added.

Elsewhere, BNY Mellon recently appointed Daron Pearce to a newly created global role as head of asset servicing strategic growth.

Jond's responsibilities will be to continue to develop BNP Paribas Securities Services' commercial offering, most notably towards institutional investors, and implement our strategy to be the leading positive impact custodian.

The International Securities Services Association (ISSA) has revealed a number of personnel changes, including the departures of Josef Landolt and Urs Stähli, who are both retiring.

Landolt stepped down as CEO of ISSA last year to become programme manager to prepare and organise the 20th ISSA Symposium that was due to take place this month in Wolfsberg, while Colin Parry was appointed as the new CEO.

In an ISSA newsletter, Landolt said: "As we all hoped to celebrate our 20th Symposium this June at Wolfsberg, COVID-19 forced us to postpone our get-together to May 2021. I can assure you that the agenda was well prepared and we all are convinced that the topics chosen would have given us an excellent opportunity to talk about current key challenges in the securities services industry and to influence next tasks."

He added: "I just want to say again to all of you, that I was really proud and grateful for having had the opportunity to be involved with ISSA activities, first as their chairman from 1989 to 2014, as their CEO from 2014 to 2019 and until now as the programme manager of the 20th Symposium. I say thank you to all of you for your professional support granted and I wish you all the best in your business and private life."

Stähli will also cease any direct involvement related to ISSA activities at the end of June after 40 years of affiliation with the association.

Commenting on his departure, Stähli said: "I am proud and extremely grateful for having had the opportunity to be a part of ISSA during the last 25 years, which saw significant growth in ISSA's stature, membership and attendance at its biennial Symposia. It has also enabled me to make good friends within the industry whom I could rely on whenever needed. I wish ISSA all the best for its future activities and above all a successful Symposium 2021. I will certainly access ISSA's social media channels once in a while to keep in touch – although remote."

Elsewhere, Lee Waite will step down as the association chair, with Phil Brown, CEO of Clearstream taking on the role.

Waite commented: "I thank the membership for their support, suggestions, and enthusiasm for ISSA and myself. I am grateful to Josef Landolt, Urs Stähli, Colin Parry and the rest of the team for keeping the wheels turning and I hope to see many of you over the coming years."

Brown said he is "delighted" to take on the role as chair, which will last for the next two years. Meanwhile, Vicky Kyproglou, of UBS, will act as the vice chair of the association.

Brown cited: "I have been a lifelong supporter, not only of Liverpool FC, but also of firms joining forces to solve the big problems that the industry faces. It is my firm conviction that collective intelligence is so much more powerful than that within individual firms and, as I take over the reins from Lee Waite, I would encourage the whole membership to continue to contribute to the working groups and let Colin Parry and myself know of any issues that you feel can best be addressed through ISSA."

Torstone Technology has hired David Pearson to help strengthen the firm's product focus and delivery.

Pearson brings more than 30 years of experience working in technology solutions for financial markets, focusing on workflow and automation in the front office and post-trade space.

Previously, he worked at Genesis Global, where he was responsible for post-trade workflow solutions.

Prior to that, Pearson spent 25 years at Fidessa, initially working with sell-side brokers and dealers to build and implement front and middle-office workflow solutions for equities, and more recently, with buy-side firms.

Additionally, he has also served as the co-chair of the FIX Trading Community's global post-trade working group.

Commenting on the appointment, Brian Collings, CEO of Torstone Technology, said: "We are delighted to have David Pearson join our team. As we continue to invest in building our global leadership team and extending our platform capabilities into new markets, Pearson's deep post-trade product and industry experience, and specific expertise in middle-office solutions, will be an asset."

Pearson, who will be based in Torstone's London office, added: "Market volatility has recently become a key characteristic of capital markets, and there has arguably never been a more interesting time to bring new digital solutions to the post-trade industry. I am excited to join Torstone and its talented team to help further evolve its leading cloud platform, helping firms to move away from legacy systems and future-proof their operations."


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